

**PROBE RESOURCES LTD.**  
(A Development and Production Stage Company)

REPORT AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS

February 29, 2008

(Unaudited)

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
**CONSOLIDATED BALANCE SHEETS**

	February 29, <u>2008</u>	August 31, <u>2007</u>
<b><u>ASSETS</u></b>		
Current		
Cash and cash equivalents	\$ 425,172	\$ 68,854
Accounts receivable	1,172,160	12,608
Prepaid expenses	<u>21,339</u>	<u>1,250</u>
	1,618,671	82,712
Equipment – notes 2 and 3	26,585	-
Oil and natural gas properties – notes 4, 8, and 9	<u>10,436,622</u>	<u>8,112,625</u>
	<u>\$ 12,081,878</u>	<u>\$ 8,195,337</u>
<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities – notes 9 and 12	\$ 1,077,428	\$ 742,691
Advances payable – notes 5, 9 and 12	1,235,771	1,012,814
Note payable – notes 6 and 12	<u>256,196</u>	<u>-</u>
	2,569,395	1,755,505
Asset retirement obligation – note 7	<u>690,888</u>	<u>531,632</u>
	<u>3,260,283</u>	<u>2,287,137</u>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital – notes 8 and 12	11,115,584	7,691,846
Contributed surplus – note 8	2,135,295	1,090,364
Deficit	<u>( 4,429,284)</u>	<u>(2,874,010)</u>
	<u>8,821,595</u>	<u>5,908,200</u>
	<u>\$ 12,081,878</u>	<u>\$ 8,195,337</u>

PREPARED BY MANAGEMENT  
(Unaudited)

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
**CONSOLIDATED INTERIM STATEMENTS OF LOSS AND DEFICIT**  
for the three and six months ended February 29, 2008

	3 months ended February 29, <u>2008</u>	3 months ended February 28, <u>2007</u>	6 months ended February 29, <u>2008</u>	6 months ended February 28, <u>2007</u>
Revenue				
Oil and natural gas	<u>\$1,244,025</u>	<u>\$ -</u>	<u>\$1,244,025</u>	<u>\$ -</u>
Production expenses				
Operating expenses	424,689	-	424,689	-
Depreciation, depletion and amortization	556,353	-	556,353	-
Accretion	<u>26,582</u>	<u>-</u>	<u>26,582</u>	<u>-</u>
	<u>1,007,624</u>	<u>-</u>	<u>1,007,624</u>	<u>-</u>
Net production revenue	<u>236,401</u>	<u>-</u>	<u>236,401</u>	<u>-</u>
General and administrative expense				
Amortization	1,177	-	1,177	-
Auditing & accounting	51,018	5,113	69,886	6,113
Administration fees – note 9	-	9,075	-	18,150
Bank charges and interest expense	4,771	168	4,865	266
Consulting fees – note 9	195,234	-	253,234	-
Corporate development – note 9	-	-	12,000	-
Directors' fees – note 9	15,000	1,125	23,000	2,250
Foreign exchange loss (gain)	13,141	-	980	-
Filing fees	6,355	954	9,619	954
Furniture rental and telephone rental – note 9	-	3,267	7,188	6,534
Investor relations	22,500	-	37,500	-
Legal fees – note 9	80,644	-	130,951	-
Office and miscellaneous – note 9	17,083	12,333	18,420	23,953
Promotion and travel	44,374	1,320	92,096	2,495
Rent – note 9	25,558	6,534	32,173	13,068
Regulatory and compliance services – note 9	5,334	9,000	5,334	18,000
Stock-based compensation	-	-	983,138	-
Transfer agent fees	3,410	710	6,529	1,453
Wages and benefits – note 9	<u>87,506</u>	<u>339</u>	<u>104,506</u>	<u>1,273</u>
	<u>573,105</u>	<u>49,938</u>	<u>1,792,596</u>	<u>94,509</u>
Income (Loss) for the period before other item	(336,704)	( 49,938)	(1,556,195)	( 94,509)
Other items				
Loss on investments	-	( 16,673)	-	( 16,673)
Interest income	<u>774</u>	<u>1,528</u>	<u>921</u>	<u>2,740</u>
Net income (loss) for the period	(335,930)	( 65,083)	(1,555,274)	( 108,442)
Deficit, beginning of the period	<u>( 4,093,354)</u>	<u>(1,832,767)</u>	<u>(2,874,010)</u>	<u>(1,789,408)</u>
Deficit, end of the period	<u>\$(4,429,284)</u>	<u>\$(1,897,850)</u>	<u>\$(4,429,284)</u>	<u>\$(1,897,850)</u>
Basic and diluted loss per share	<u>\$ ( 0.02)</u>	<u>\$ ( 0.00)</u>	<u>\$ ( 0.06)</u>	<u>\$ ( 0.01)</u>

PREPARED BY MANAGEMENT  
(Unaudited)

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
for the three and six months ended February 29, 2008

	3 months ended February 29, <u>2008</u>	3 months ended February 28, <u>2007</u>	6 months ended February 29, <u>2008</u>	6 months ended February 28, <u>2007</u>
<b>Operating activities</b>				
Net income (loss) for the period	\$( 335,930)	\$( 65,083)	\$(1,555,274)	\$( 108,442)
Add item not affecting cash				
Accretion	26,582	-	26,582	-
Amortization	1,177	-	1,177	-
Depletion	556,353	-	556,353	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>983,138</u>	<u>-</u>
	248,182	( 65,083)	11,976	( 108,442)
<b>Changes in non-cash working capital balances</b>				
Accounts receivable	( 632,570)	( 676)	( 661,034)	2,045
Prepaid expenses	( 13,839)	-	(20,089)	-
Accounts payable and accrued liabilities	313,974	( 160)	334,739	( 12,459)
Advances payable	<u>( 117,822)</u>	<u>-</u>	<u>( 636,710)</u>	<u>-</u>
	<u>( 202,075)</u>	<u>( 65,919)</u>	<u>(971,118)</u>	<u>( 118,856)</u>
<b>Financing activity</b>				
Note payable	256,196	-	256,196	-
Net proceeds from issuance of common shares	<u>140,330</u>	<u>-</u>	<u>2,150,530</u>	<u>-</u>
	<u>396,526</u>	<u>-</u>	<u>2,406,726</u>	<u>-</u>
<b>Investing activities</b>				
Decrease (Increase) in capital assets	( 27,763)	-	( 27,763)	-
Decrease (Increase) in oil and natural gas properties	<u>( 341,801)</u>	<u>67,277</u>	<u>(1,051,527)</u>	<u>67,277</u>
	<u>( 369,564)</u>	<u>67,277</u>	<u>(1,079,290)</u>	<u>67,277</u>
Increase (decrease) in cash during the period	( 175,113)	1,358	356,318	( 51,579)
Cash and cash equivalents, beginning of the period	<u>600,285</u>	<u>120,081</u>	<u>68,854</u>	<u>173,018</u>
Cash and cash equivalents, end of the period	<u>\$ 425,712</u>	<u>\$ 121,439</u>	<u>\$ 425,712</u>	<u>\$ 121,439</u>

PREPARED BY MANAGEMENT  
(Unaudited)

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 1 Nature and Continuance of Operations

Probe Resources Ltd. (the "Company") is a public company listed on the TSX Venture Exchange, incorporated under the British Columbia Business Corporations Act on November 15, 1988. At February 29, 2008, the Company was in the development stage, owning an interest in an oil and natural gas property located in the Gulf of Mexico.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At February 29, 2008, the Company had a working capital deficiency of \$950,724, had not yet achieved profitable operations and expects to incur further losses in the development of its business, all of which cast substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates.

The financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Probe Resources US Ltd. and Probe Resources Energy Marketing US Ltd., incorporated in the State of Nevada, USA. All inter-company transactions and balances have been eliminated.

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 2 Significant Accounting Policies – (cont'd)

b) Equipment and Amortization

Equipment includes computer equipment, and office furniture and fixtures. Computer equipment is recorded at cost. Amortization is charged to operations on a declining balance basis at an annual rate of 30%; Office furniture and fixtures are recorded at cost. Amortization is charged to operations on a declining balance basis at an annual rate of 20%.

c) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property.

d) Oil and Natural Gas Properties

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs of exploring for and developing oil and natural gas reserves are initially capitalized on a country-by-country basis. Such costs include land acquisition costs, lease rentals, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment and pipeline, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 6 MCF of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 2 Significant Accounting Policies – (cont'd)

d) Oil and Natural Gas Properties – (cont'd)

Proceeds from a sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and amortization.

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of oil and natural gas properties is compared to the sum of the undiscounted cash flows expected to result from the proved reserves and the lower of cost or market of unproved properties. Cash flows used in the ceiling test are based on independent third party quoted forward prices, adjusted for contracted prices and quality differentials. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of petroleum and natural gas properties to an amount equal to the estimated net present value of unproved properties. A risk-free interest rate is used to arrive at the net present value of future cash flows. Carrying values in excess of the estimated discounted future cash flows would be recorded as a permanent impairment.

The recoverability of amounts shown for unproven properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

e) Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

f) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period in which it is incurred and a reasonable estimate of the fair value can be made, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion. The costs capitalized to the related assets are amortized in a manner consistent with the depreciation, depletion and amortization of the related asset.

**PROBE RESOURCES LTD.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 2 Significant Accounting Policies – (cont'd)

g) Impairment of Long-Lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at February 29, 2008.

h) Stock-based Compensation

The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

i) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. Resulting exchange gains or losses are included in operations when incurred.

j) Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be antidilutive. Basic and diluted loss per share are the same for the periods presented.

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(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 2 Significant Accounting Policies – (cont'd)

j) Basic and Diluted Loss per Share – (cont'd)

At February 29, 2008, 2,377,410 options and 15,343,350 warrants were outstanding. For the years ended August 31, 2007 and 2006, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totaled 12,040,910 (2006: Nil). These warrants and options were not included in the computation of loss per share because their effect was antidilutive.

k) Financial Instruments

The carrying values of cash and cash equivalents, accounts payable and accrued liabilities and advances payable approximate their fair value. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

l) Income Taxes

The Company has adopted the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of the losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

m) Marketable Securities

Marketable securities are carried at the lower of cost and market value.

n) Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash and have maturities of one year or less when purchased.

Note 3 Equipment

	Cost	Feb 29, 2008 Accumulated Amortization	Net Book Value	Aug 31, 2007 Net Book Value
Computer equipment	\$ 24,478	\$ 1,123	\$ 23,355	\$ -
Office furniture and fixtures	<u>3,285</u>	<u>55</u>	<u>3,230</u>	<u>-</u>
	<u>\$ 27,763</u>	<u>\$ 1,178</u>	<u>\$ 26,585</u>	<u>\$ -</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 4 Oil and Natural Gas Properties

	<u>Feb 29, 2008</u>	<u>Aug 31, 2007</u>
Acquisition costs	\$ 2,127,237	\$ 647,379
Drilling, completion and other costs – Note 10	7,308,856	6,180,278
Flowline	<u>1,556,882</u>	<u>1,284,968</u>
	10,992,975	8,112,625
Accumulated depletion and amortization	<u>( 556,353)</u>	<u>-</u>
	<u>\$10,436,622</u>	<u>\$ 8,112,625</u>

Gulf of Mexico – High Island

By a Farmout Agreement dated June 1, 2007 and amended July 16, 2007, the Company acquired a 33.574% working interest (25.1875% net revenue interest) in an oil and natural gas lease and well located in the High Island area of the Gulf of Mexico. Consideration for the acquisition was \$583,495 (US\$550,000) payable the earlier of July 15, 2008 or the date by which sufficient funds have been received from the net revenue interest to pay the fee and 33.574% of all costs except for certain well costs of which the Company's share to be paid is 46.30896%. The Company has also agreed to a 72.5% share of the flowline costs.

In December 2007, the Company purchased an additional 13.4291% working interest (10.075% net revenue interest) in the lease and a 7.97087% working interest (5.73113% net revenue interest) in the well. Consideration for the additional interest is the issue of 3,000,000 common shares at a deemed price of \$0.445 per share. Legal fees of \$208,742 were incurred in connection with these acquisitions.

As at February 29, 2008, the well had been completed with production having commenced in late November of 2007. Accordingly, depletion has been recorded since December 1, 2007. Management has evaluated the carrying value and has determined that no impairment provision is required at February 29, 2008. The future prices used in the impairment test evaluation of the Company's oil and natural gas properties were as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Oil - \$/Barrel	<u>\$ 69.88</u>	<u>\$ 69.94</u>	<u>\$ 67.94</u>	<u>\$ 67.68</u>	<u>\$ 67.64</u>
Natural gas - \$/MBTU	<u>\$ 7.78</u>	<u>\$ 8.22</u>	<u>\$ 8.06</u>	<u>\$ 7.83</u>	<u>\$ 8.11</u>

Other Interests – Seismic Data

During the year ended August 31, 2007, the Company obtained access to seismic data related to certain properties located in onshore South Texas, South Louisiana and South Mississippi, U.S.A. for consideration of \$233,644 (US\$200,000). The Company also engaged another company to review and evaluate the data for a fee of US\$40,000 per month. Subsequent to the consulting arrangement, a director of the other company became a director of the Company. During the quarter ended February 29, 2008, the Company also paid \$208,467 (US\$210,000) for High Island block seismic data. Total seismic data costs incurred to February 29, 2008 are \$816,360 (US\$770,000).

**PROBE RESOURCES LTD.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 5 Advances Payable

During the period ended February 29, 2008, payments on oil and natural gas expenditures were made directly to the operator on behalf of the Company. These advances payable do not bear interest, are unsecured and have no fixed terms of repayment.

Note 6 Note Payable

During the period ended February 29, 2008, the Company issued a promissory note ("Promissory Note") in the amount of \$251,814 payable to a company with a director in common (the "Holder") in exchange for an advance payable to the Holder. The Company promises to pay to or to the order of the Holder the principal sum of \$251,814 (the "Principal") in lawful money of Canada, payable on or before March 1, 2008; and

Without demand, interest at the rate of 7% per annum compounded semi-annually and applied to the unpaid principal balance. Interest shall be calculated daily, payable each year on the 30th day of June and 31st day of December, commencing the 31st day of December, 2007 and overdue interest shall bear interest at the same rate.

A director, officer, employee, incorporator or shareholder of the Company shall not have any liability for any obligations of the Company under this Promissory Note or for any claim in connection with such obligation or its creation. The Holder, by accepting the Promissory Note, waives and releases all such liability and such waiver and release are part of the consideration for the issuance of the Promissory Note.

The Company may prepay all or any part of the Principal at any time and from time to time without penalty or bonus.

As at February 29, 2008, the note payable included accrued interest of \$4,382 (Note 12).

Note 7 Asset Retirement Obligation

The Company has estimated the total future asset retirement obligation based on the Company's net ownership interest in oil and natural gas wells and facilities. This includes all estimated costs to dismantle, remove, reclaim and abandon the wells and facilities and the estimated time period during which these costs will be incurred in the future. The Company has estimated the total undiscounted cash flows required to settle the asset retirement obligations to be \$1,036,000 (2007: \$Nil). A credit-adjusted risk free rate of 10% was used to calculate the fair value of the asset retirement obligations.

**PROBE RESOURCES LTD.**  
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for the six months ended February 29, 2008

Note 7 Asset Retirement Obligation – (cont'd)

The following table reconciles the asset retirement obligations associated with the retirement of oil and natural gas properties.

	The period ended	
	<u>Feb 29, 08</u>	<u>Aug 31, 07</u>
Balance, beginning of the period	\$ 531,632	\$ -
Liabilities incurred	132,674	531,632
Accretion expense	<u>26,582</u>	<u>-</u>
Balance, end of the period	<u>\$ 690,888</u>	<u>\$ 531,632</u>

Note 8 Share Capital

Authorized:

Unlimited common shares without par value

Issued:

	<u>Share Capital</u>		<u>Contributed Surplus Amount</u>
	<u>Number of Shares</u>	<u>Amount</u>	
Balance, August 31, 2007	24,109,101	\$ 7,691,846	\$ 1,090,364
Issued for acquisition of oil and natural gas properties	3,000,000	1,335,000	-
Issued for cash pursuant to			
- private placement agreements - at \$0.50	4,200,000	2,100,000	-
- private placement agreements - at \$0.60	275,000	165,000	-
Issued for finder's fees - at \$0.50	168,350	84,175	-
Less: finder's fees	-	( 52,500)	-
Less: share issue costs	-	(207,937)	61,793
Share purchase options	<u>-</u>	<u>-</u>	<u>983,138</u>
Balance, February 29, 2008	<u>31,752,451</u>	<u>\$11,115,584</u>	<u>\$ 2,135,295</u>

**PROBE RESOURCES LTD.**  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 8 Share Capital – (cont'd)

Issued: – (cont'd)

During the quarter ended November 30, 2007, the Company issued 4,200,000 units at \$0.50 per unit pursuant to a private placement for gross proceeds of \$2,100,000. Each unit consisted of one common share and one share purchase warrant entitling the holder thereof the right to purchase an additional common share for each warrant held at \$0.60 per share for one year. The Company incurred legal and filing fees of \$37,300 and finders' fees of \$52,500. In addition, the Company issued 168,350 units as finders' fees with the same terms as the private placement units. All proceeds on the issue of units have been allocated to share capital and none to warrants.

During the quarter ended February 29, 2008, the Company issued 275,000 units at \$0.60 per unit pursuant to a private placement for gross proceeds of \$165,000. Each unit consists of one common share and one share purchase warrant entitling the holder thereof the right to purchase an additional common share for each warrant held at \$0.70 per share for one year. The Company also issued 3,000,000 common shares pursuant to an assignment agreement in which the Company acquired an additional 13.4291% working interest (10.0751% net revenue interest) in the High Island oil and natural gas lease and a 7.97087% working interest (5.73113% net revenue interest) in the well. The Company incurred legal and filing fees of \$16,267 for share issue costs.

Escrow:

At February 29, 2008, 601,125 common shares were held in escrow by the Company's transfer agent. The release of these shares is subject to regulatory approval.

Commitments:

Stock-Based Compensation Plan

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX). Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company. Unless otherwise stated, share purchase options vest when granted.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended February 29, 2008

Note 8 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-Based Compensation Plan – (cont'd)

Information regarding the Company's outstanding share purchase options is summarized as follows:

	Feb 29, 2008		Aug 31, 2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of period	1,340,910	\$ 0.67	-	\$ 0.00
Granted	1,550,000	\$ 0.58	1,340,910	\$ 0.67
Cancelled	( 513,500)	\$ 0.63	-	-
Outstanding and exercisable, end of period	<u>2,377,410</u>	<u>\$ 0.62</u>	<u>1,340,910</u>	<u>\$ 0.67</u>

During the period ended February 29, 2008, 413,500 share purchase options exercisable at \$0.67 until July 26, 2012 were cancelled due to directors' resignations.

On February 29, 2008, the Company exercised its right to terminate the service agreement (the "Agreement") with its investor relation consultant. In connection with the termination, 100,000 share purchase options unvested were cancelled and the vested 100,000 share purchase options exercisable at \$0.47 until September 20, 2009 will expire on April 30, 2008 (30 days after the termination of the Agreement).

Share purchase options outstanding at February 29, 2008 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
927,410	\$0.67	July 26, 2012
100,000	\$0.47	September 20, 2009
100,000	\$0.49	October 26, 2012
<u>1,250,000</u>	\$0.60	November 22, 2012
<u>2,377,410</u>		

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Note 8 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-Based Compensation Plan – (cont'd)

The fair value of the share purchase options granted during the period ended February 29, 2008 of \$983,138 (2006: \$Nil) was estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>February 29, 2008</u>			<u>2007</u>
Risk-free interest rate	4.22%	3.45%	3.72%	-
Dividend yield	0.00%	0.00%	0.00%	-
Expected stock price volatility	177.00%	232.36%	262.75%	-
Weighted average expected stock option life	2 years	5 years	5 years	-

Share Purchase Warrants

Information regarding the Company's outstanding share purchase warrants is summarized below:

	<u>Feb 29, 2008</u>		<u>Aug 31, 2007</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Beginning of the period	10,700,000	\$ 0.75	-	-
Issued	<u>4,643,350</u>	<u>\$ 0.61</u>	<u>10,700,000</u>	<u>\$ 0.75</u>
End of the period	<u>15,343,350</u>	<u>\$ 0.71</u>	<u>10,700,000</u>	<u>\$ 0.75</u>

Share purchase warrants outstanding at February 29, 2008 are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
*10,700,000	*\$0.75	August 9, 2008
4,368,350	\$0.60	November 16, 2008
<u>275,000</u>	\$0.70	February 14, 2009
<u>15,343,350</u>		

\*Subject to an acceleration provision whereby, if the Company's shares trade above \$0.75 for 20 consecutive trading days after the expiration of their hold period, the Company may give notice that the warrants will expire in 30 days if unexercised.

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Note 8 Share Capital – (cont'd)

Commitments: – (cont'd)

Finders' Warrants

Share issue costs of \$61,793 with respect to 168,350 share purchase warrants issued for finders' fees during the period ended February 29, 2008 and included in the share purchase warrants outstanding above, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>Feb 29, 2008</u>	<u>2007</u>
Risk-free interest rate	3.91%	-
Dividend yield	0%	-
Expected stock price volatility	142.71%	-
Weighted average expected stock option life	1 year	-

Note 9 Related Party Transactions

a) The Company incurred the following fees charged by directors and former directors of the Company or by entities of which a director is a partner or entities with directors in common with the Company:

	<u>Feb 29, 2008</u>	<u>Feb 28, 2007</u>
Administration fees	\$ -	\$ 18,150
Consulting fees	10,000	-
Corporate development	12,000	-
Directors' fees	23,000	2,250
Drilling, completion and other costs	328,467	-
Furniture and equipment rental	-	6,534
Legal fees	304,628	-
Office and miscellaneous	-	21,558
Regulatory Compliance services	-	18,000
Rent	-	13,068
Salaries	<u>57,708</u>	<u>-</u>
	<u>\$ 735,803</u>	<u>\$ 79,560</u>

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

b) At February 29, 2008, accounts payable and accrued liabilities include \$189,790 (2007: \$3,062) due to directors of the Company or to private companies with directors in common with the Company and \$418,495 (2007: \$Nil) due to a private company controlled by a significant shareholder of the Company.

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Note 9 Related Party Transactions – (cont'd)

- c) At February 29, 2008, advances payable include \$115,679 (2007: \$Nil) due to a director or to a company with a director in common and \$248,859 (2007: \$Nil) due to a significant shareholder of the Company.
- d) At February 29, 2008, an officer of the Company was indebted to the Company for \$8,487 (2007: \$Nil) from payroll advances.

Note 10 Non-Cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the period ended February 29, 2008, the following transactions were excluded from the statement of cash flows:

- a) The Company issued 168,350 common shares valued at \$84,175 as finders fees on a private placement.
- b) The Company issued 168,350 brokers warrants valued at \$61,793 as finders fees on a private placement.
- c) The Company included \$26,582 in operation expenses and asset retirement obligation pursuant to the provision of an asset retirement obligation.
- d) Oil and natural gas property costs include \$493,824 of advances payable outstanding at February 29, 2008.
- e) The Company issued 3,000,000 common shares at a deemed price of \$0.445 per share for the additional interest in oil and natural gas property.

Note 11 Income Taxes

As at February 29, 2008, the Company has accumulated Canadian exploration and development expenses totaling \$93,906 (2007: \$93,906), non-capital losses in Canada totaling \$2,273,294 (2007: \$1,025,940) and net operating losses in the United States of \$9,841,481 (2007: \$7,580,993), which may be applied against future years' taxable income. The non-capital losses expire as follows:

	<u>U.S.</u>	<u>Canada</u>
2009	\$ -	\$ 99,354
2010		125,475
2014		112,758
2015		104,294
2026		125,678
2027	7,580,993	384,118
2028	2,260,488	1,321,617
	<u>\$9,841,481</u>	<u>\$ 2,273,294</u>

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Note 11 Income Taxes – (cont'd)

A reconciliation of income taxes at statutory rates is as follows:

	29-Feb-08	31-Aug-07
Loss before income taxes	<u>\$ 1,555,274</u>	<u>\$ 1,084,602</u>
Statutory tax rates	34.12%	34.12%
Computed income tax recovery	530,659	370,066
Non-deductible stock-based compensation	(335,447)	(83,661)
Other non-deductible items for tax purposes	(204,432)	(5,988)
Share issue costs not deducted	35,315	23,287
Net change in valuation allowance	<u>(26,095)</u>	<u>(103,704)</u>
Total income taxes (recovery)	<u>\$ -</u>	<u>\$ -</u>

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	29-Feb-08	31-Aug-07
Future income tax assets		
Non-capital loss carried forward	\$ 4,220,166	\$ 3,003,398
Exploration and development costs	(3,629,429)	(2,621,307)
Equipment	1,297	896
Capital losses	(5,988)	(5,988)
Share issue costs remaining	<u>117,973</u>	<u>93,146</u>
	704,019	470,145
Valuation allowance	<u>(704,019)</u>	<u>(470,145)</u>
Future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has recorded a valuation allowance against its future income tax assets based on the extent that it is more likely-than-not that sufficient taxable income will not be realized during the carry-forward periods to utilize all the future tax assets.

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Note 12 Subsequent Events

Subsequent to February 29, 2008:

- a) L. Scott Broussard, Bradley Culver, Bruce L. Ganer, and Desmond Balakrishnan were elected directors of the Company at the adjourned and reconvened annual and special meeting of shareholders of the Company held on March 26, 2008. In addition, Kent Couillard has been appointed a director of the Company and Chairman of board of directors.
- b) Subject to the approval of TSX Venture Exchange and the shareholders and of a new share option plan, the Company has granted incentive stock options to certain directors, officers and employees of the Company to purchase up to 3,799,000 common shares in the capital stock of the Company. The options have a term of five years and are exercisable at an exercise price of \$0.40 per share.
- c) The Company paid off its note payable to a company with a director in common on March 31, 2008 (Note 6). The total payment including the Principal and interest is \$255,250 (US\$250,000).

On April the 16, 2008, the Company issued another promissory note (“Promissory Note”) in the amount of US\$250,000 payable to the same company (the “Holder”). The Company promises to pay to or to the order of the Holder the principal sum of \$250,000 (the “Principal”) in lawful money of the United States of America, payable on or before June 30, 2008; and

Without demand, interest at the rate of 8% per annum compounded semi-annually and applied to the unpaid principal balance. Interest shall be calculated daily, payable each year on the 30th day of June and 31st day of December, commencing the 30th day of June, 2008 and overdue interest shall bear interest at the same rate.

A director, officer, employee, incorporator or shareholder of the Company shall not have any liability for any obligations of the Company under this Promissory Note or for any claim in connection with such obligation or its creation. The Holder, by accepting the Promissory Note, waives and releases all such liability and such waiver and release are part of the consideration for the issuance of this Promissory Note.

The Company may prepay all or any part of the Principal at any time and from time to time without penalty or bonus.

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Note 12 Subsequent Events – (cont'd)

- d) The Company issued a promissory note (“Promissory Note”) in the amount of \$51,107 payable to a company controlled by a former director (the “Holder”). The Company promises to pay to or to the order of the Holder the principal sum of \$51,107 (the “Principal”) in lawful money of Canada, payable on or before the earliest of June 30, 2008 and such time as the Company completes a financing; and

Without demand, interest at the rate of 12% per annum compounded semi-annually and applied to the unpaid principal balance. Interest shall be calculated daily, payable each year on the 30th day of June and 31st day of December, commencing the 30th day of March, 2008 and overdue interest shall bear interest at the same rate.

A director, officer, employee, incorporator or shareholder of the Company shall not have any liability for any obligations of the Company under this Promissory Note or for any claim in connection with such obligation or its creation. The Holder, by accepting the Promissory Note, waives and releases all such liability and such waiver and release are part of the consideration for the issuance of the Promissory Note.

The Company may prepay all or any part of the Principal at any time and from time to time without penalty or bonus. The Company may assign all of its right title, and interest in, to and under this Promissory Note.

- e) The Company announced a best efforts private placement of up to 40,000,000 units (each, a “Unit”) of the Company at a price of \$0.50 per Unit for gross proceeds of up to \$20,000,000 (the “Offering”). Canaccord Capital Corporation (the “Agent”) will act as an agent on this financing; provided that the Company may arrange for the placement of up to 2,000,000 Units (the “Non-Brokered Units”) on a non-brokered basis and for which Non-Brokered Units the Agent will not act as Agent and the Agent will not receive commission.

Each Unit will consist of one common share (a “Common Share”) of the Company and one common share purchase warrant (a “Warrant”). Each Warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.75 per Common Share for a period of 12 months following the closing of the private placement; provided that, on the published closing price of the Common Shares on the TSX Venture Exchange being greater than \$1.00 for ten consecutive trading days after the hold period has expired, the Company may give 30 days notice by news release of an accelerated expiry of the Warrants.

The net proceeds from the Offering will be used by the Company to finance exploration expenditures and for working capital and general corporate expenditures.

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Note 12 Subsequent Events – (cont'd)

The Company will pay the Agent in cash a fee of 6.5% of the gross proceeds from the Offering other than proceeds from the Non-Brokered Units. The Company will also issue warrants (the “Agent Warrants”) to the Agent to purchase that number of Common Shares equal to 5% of the total number of Units issued under the Offering other than Non-Brokered Warrants, where each such Agent Warrant will entitle the holder thereof to purchase one Common Share at a price of \$0.50 per Common Share for a period of 12 months following the closing of the Offering.

The Offering and the Agent’s fees payable thereunder are subject to regulatory approval.

Note 13 Comparative Figures

Certain comparative figures as at February 28, 2007 and for the period then ended have been reclassified to conform with the financial statement presentation adopted for the current period.