

PROBE RESOURCES LTD.

REPORT AND FINANCIAL STATEMENTS

August 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders,
Probe Resources Ltd.

We have audited the balance sheets of Probe Resources Ltd. as at August 31, 2006 and 2005 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
December 8, 2006

"AMISANO HANSON"
Chartered Accountants

PROBE RESOURCES LTD.
BALANCE SHEETS
August 31, 2006 and 2005

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current			
Cash and cash equivalents		\$ 113,035	\$ 200,105
Marketable securities – Notes 3 and 10		59,983	73,787
GST receivable		<u>5,682</u>	<u>2,480</u>
		178,700	276,372
Long-term investment – Note 4		101,680	-
Advances receivable – Note 9		-	204,509
Capital assets – Note 5		592	846
Resource property – Note 6		<u>1</u>	<u>84,952</u>
		<u>\$ 280,973</u>	<u>\$ 566,679</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities		\$ <u>37,289</u>	\$ <u>16,430</u>

SHAREHOLDERS' EQUITY

Share capital – Note 7		2,033,092	2,033,092
Deficit		<u>(1,789,408)</u>	<u>(1,482,843)</u>
		<u>243,684</u>	<u>550,249</u>
		<u>\$ 280,973</u>	<u>\$ 566,679</u>

Nature and Continuance of Operations – Note 1

APPROVED BY THE DIRECTORS:

<u>“Brian Gracey”</u> Brian Gracey	Director	<u>“Donald Pepper”</u> Donald Pepper	Director
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SEE ACCOMPANYING NOTES

PROBE RESOURCES LTD.
STATEMENTS OF LOSS AND DEFICIT
for the years ended August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Administrative expenses		
Accounting fees	\$ 9,587	\$ 4,975
Administration and other fees – Note 9	42,325	30,000
Amortization	254	362
Bank charges and interest	456	550
Directors' fees – Note 9	4,500	4,500
Filing fees	6,028	6,204
Furniture and telephone rental – Note 9	25,611	22,870
Office fees – Note 9	30,928	28,580
Promotion and travel	2,567	5,533
Rent – Note 9	23,994	21,600
Transfer agent fees	3,605	2,050
Wages and benefits	<u>3,004</u>	<u>3,650</u>
Loss before the following items:	(152,859)	(130,874)
Gain on disposal of marketable securities	26,996	-
Foreign exchange loss	-	(5,990)
Interest income – Note 9	13,429	29,441
Write-down of resource property – Note 6	(92,451)	-
Write-down of long-term investment	<u>(101,680)</u>	<u>-</u>
Net loss for the year	(306,565)	(107,423)
Deficit, beginning of the year	<u>(1,482,843)</u>	<u>(1,375,420)</u>
Deficit, end of the year	<u>\$ (1,789,408)</u>	<u>\$ (1,482,843)</u>
Basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>12,807,976</u>	<u>12,807,976</u>

SEE ACCOMPANYING NOTES

PROBE RESOURCES LTD.
STATEMENTS OF CASH FLOWS
for the years ended August 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Activities		
Net loss for the year	\$ (306,565)	\$ (107,423)
Add (deduct) items not affecting cash:		
Amortization	254	362
Write-down of resource property	92,451	-
Gain on disposal of marketable securities	(26,996)	-
Write-down of long-term investment	<u>101,680</u>	<u>-</u>
	(139,176)	(107,061)
Changes in non-cash working capital items related to operations:		
Accounts receivable	(3,202)	1,868
Accounts payable and accrued liabilities	<u>20,859</u>	<u>5,323</u>
	<u>(121,519)</u>	<u>(99,870)</u>
Investing Activities		
Proceeds from disposal of marketable securities	40,800	-
(Increase) decrease in resource property	(7,500)	11,491
(Increase) decrease in advances receivable	<u>1,149</u>	<u>(13,914)</u>
	<u>34,449</u>	<u>(2,423)</u>
Decrease in cash during the year	(87,070)	(102,293)
Cash and cash equivalents, beginning of the year	<u>200,105</u>	<u>302,398</u>
Cash and cash equivalents, end of the year	<u>\$ 113,035</u>	<u>\$ 200,105</u>
Cash and cash equivalents consists of:		
Cash	\$ 16,292	\$ 13,742
Short-term investments	<u>96,743</u>	<u>186,363</u>
	<u>\$ 113,035</u>	<u>\$ 200,105</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

Non-cash Transaction – Note 11

SEE ACCOMPANYING NOTES

PROBE RESOURCES LTD.
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2006 and 2005

Note 1 Nature and Continuance of Operations

The Company is in the business of acquiring, exploring and evaluating mineral properties and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. As at August 31, 2006, the Company did not have any mineral properties being currently developed. The Company is listed on the TSX Venture Exchange ("TSX") and is in the development stage.

The Company was incorporated under the British Columbia Company Act on November 15, 1988.

These financial statements have been prepared in accordance with 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 August 31, 2006, the Company had not yet achieved profitable operations, had working capital of \$141,411 which may not be sufficient to sustain operations over the next twelve months and expects to incur further losses in the development of its business, all of which casts 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 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. 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 judgement. Actual results may vary from these estimates.

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

Note 2 Summary of Significant Accounting Policies – (cont'd)

a) Resource 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.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. 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. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

b) Capital Assets

Capital assets are recorded at cost. The Company provides for amortization using the declining balance method at the following annual rate:

Computer equipment	30%
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Current year additions are amortized at one-half the current rate.

c) Basic and Diluted Loss per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations is anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

d) Cash and Cash Equivalents

The Company considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents.

Note 2 Summary of Significant Accounting Policies – (cont'd)

e) Financial Instruments

The carrying value of cash and cash equivalents, marketable securities, advances receivable and accounts payable and accrued liabilities approximate their fair value because of the short-term maturity of those instruments. The carrying value of long-term investments also approximates fair value. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

f) Foreign Currency Translation

Monetary assets and liabilities expressed in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the end of the year. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the rates in effect at the dates on which such items are recognized during the year. Exchange gains and losses arising from translation are included in income during the year.

g) 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 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.

h) Marketable Securities

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

i) Government Assistance

Refundable mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to receive the credits. The mining credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related exploration expenditures.

Note 3 Marketable Securities

Marketable securities consist of Sherrit International 7% convertible unsecured subordinate debentures due December 15, 2013 with a face value of \$31,700 (2005: \$61,700) and 4,362 common shares of Sherritt International. These marketable securities were purchased for \$59,983 (2005: \$73,787). As at August 31, 2006, their quoted market value was \$105,631 (2005: \$146,554).

Note 4 Long-term Investment

	<u>2006</u>	<u>2005</u>
Rose Marie Resources Ltd.	\$ <u>101,680</u>	\$ <u>-</u>

The Company acquired 4,067,186 common shares of Rose Marie Resources Ltd. (formerly Previa Resources Ltd.), a public company with directors in common, for payment on advances and accrued interest receivable of \$203,359. Subsequent to August 31, 2006, the common shares were consolidated on the basis of one new share for every eight issued. The investment represents an approximate 13.25% interest in Rose Marie and is valued at its closing price at August 31, 2006. Management does not intend to trade these shares in the foreseeable future and accordingly they have been classified as long-term.

Note 5 Capital Assets

	<u>2006</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ <u>2,625</u>	\$ <u>2,033</u>	\$ <u>592</u>
	<u>2005</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ <u>2,625</u>	\$ <u>1,779</u>	\$ <u>846</u>

Note 6 Resource Property

	<u>2006</u>	<u>2005</u>
Larry Claim Group		
Balance, beginning of the year	\$ 84,952	\$ 96,443
Consulting fees	7,500	-
Mineral tax credit received	<u>-</u>	<u>(11,491)</u>
	92,452	84,952
Less: amount written off	<u>(92,451)</u>	<u>-</u>
Balance, end of year	<u>\$ 1</u>	<u>\$ 84,952</u>

The Company has a 100% undivided interest in the Larry Claim Group comprised of 24 claims located in the Greenwood Mining District, Province of British Columbia. Management does not intend to carry out additional work on this property and accordingly during the year ended August 31, 2006 wrote the carrying value down to a nominal value of \$1.

Note 7 Share Capital

a) Authorized:

20,000,000 common shares without par value

b) Issued and fully paid:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, August 31, 2004 and 2005 and 2006	<u>13,409,101</u>	<u>\$ 2,033,092</u>

c) Escrow Shares:

At August 31, 2006, 601,125 shares are held in escrow by the Company's transfer agent. The release of these shares is subject regulatory approval.

Note 8 Future Income Taxes

At August 31, 2006, the Company has accumulated Canadian exploration and development expenses of \$90,553 and non-capital losses totalling \$749,192 which may be applied against future years' taxable income. The non-capital losses expire as follows:

2007	\$ 107,858
2008	74,263
2009	99,354
2010	125,475
2014	112,758
2015	104,295
2016	<u>125,189</u>
	<u>\$ 749,192</u>

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

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Non-capital losses	\$ 266,862	\$ 252,314
Exploration and development costs	32,255	-
Equipment	<u>634</u>	<u>-</u>
	299,751	252,314
Less: valuation allowance	<u>(299,751)</u>	<u>(252,314)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

Note 9 Related Party Transactions

a) The Company incurred the following fees and expenses charged by directors and private companies controlled by a common director of the Company:

	Year ended August 31,	
	<u>2006</u>	<u>2005</u>
Administration and other fees	\$ 42,325	\$ 30,000
Directors' fees	4,500	4,500
Furniture and telephone rental	24,925	22,440
Office fees	26,660	24,000
Rent	<u>23,994</u>	<u>21,600</u>
	<u>\$ 122,404</u>	<u>\$ 102,540</u>

Note 9 Related Party Transactions – (cont'd)

a) – (cont'd)

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

- b) As at August 31, 2006, \$Nil (2005: \$199,706) of advances receivable are due from a public company with common directors. The advances are unsecured, bear interest at 10% per annum compounded quarterly and have no specific terms for repayment. During the year ended August 31, 2006, the Company recorded interest income of \$3,653 (2005: \$18,782) in respect to these advances and received shares of the public company in settlement of advances receivable of \$203,359 (Note 4).

Note 10 Financial Instruments

Market risk:

Management believes that quoted prices for marketable securities are readily attainable and accordingly approximate fair value, however, marketable securities are subject to interest rate and equity market risks.

Note 11 Non-Cash Transaction

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 year ended August 31, 2006, the Company received 4,067,187 common shares of a public company as settlement of the principal and accrued interest owing on a loan receivable totalling \$203,359. This transaction has been excluded from the statements of cash flows.