

**PROBE RESOURCES LTD.**

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2008 and 2007



**BDO Dunwoody LLP**  
Chartered Accountants

#604 – 750 West Pender Street  
Vancouver, BC, Canada V6C 2T7  
Telephone: (604) 689-0188  
Fax: (604) 689-9773

## **AUDITORS' REPORT**

To the Shareholders,  
Probe Resources Ltd.

We have audited the consolidated balance sheets of Probe Resources Ltd. as at August 31, 2008 and 2007 and the consolidated statements of operations 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada  
December 15, 2008

**PROBE RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
August 31, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current		
Cash and cash equivalents – Note 2	\$ 16,532,434	\$ 68,854
Accounts receivable	509,636	12,608
Prepaid expenses and deposits – Note 11	<u>698,091</u>	<u>1,250</u>
	17,740,161	82,712
Restricted cash – Note 3	245,962	-
Reclamation and performance deposits – Note 6	4,000,196	-
Equipment – Notes 2 and 4	412,817	-
Oil and natural gas properties – Notes 5, 10 and 11	<u>24,162,999</u>	<u>8,112,625</u>
	<u>\$ 46,562,135</u>	<u>\$ 8,195,337</u>

**LIABILITIES**

Current		
Accounts payable and accrued liabilities – Note 11	\$ 6,068,238	\$ 116,760
Due to related parties – Note 11	54,411	625,931
Advances payable – Note 7	-	1,012,814
Note payable – Note 8	<u>115,262</u>	<u>-</u>
	6,237,911	1,755,505
Asset retirement obligation – Note 9	706,435	531,632
Asset retirement obligation in escrow – Note 9	<u>155,075</u>	<u>-</u>
	<u>7,099,421</u>	<u>2,287,137</u>

**SHAREHOLDERS' EQUITY**

Share capital – Note 10	42,623,302	7,691,846
Contributed surplus – Note 10	3,789,693	1,090,364
Deficit	<u>(6,950,281)</u>	<u>(2,874,010)</u>
	<u>39,462,714</u>	<u>5,908,200</u>
	<u>\$ 46,562,135</u>	<u>\$ 8,195,337</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1  
Subsequent Events – Note 17  
Commitments and Contingent Liability – Note 18

APPROVED BY THE DIRECTORS:

“L. Scott Broussard” Director

“Desmond Balakrishnan” Director

**PROBE RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the years ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue		
Oil and natural gas	\$ 5,110,861	\$ -
Production expenses		
Operating expenses	1,272,789	-
Depletion and accretion	<u>2,732,732</u>	<u>-</u>
	<u>4,005,521</u>	<u>-</u>
Net production revenue	<u>1,105,340</u>	<u>-</u>
General and administrative expense		
Amortization	29,800	-
Administrative expenses – Note 11	978,084	212,742
Bank charges and interest expense	72,262	542
Consulting fees – Note 11	1,090,449	12,000
Directors' fees – Note 11	59,000	28,500
Legal and professional fees – Note 11	575,892	18,917
Stock-based compensation	1,548,622	831,364
Wages and benefits – Note 11	<u>1,214,388</u>	<u>3,867</u>
	<u>5,568,497</u>	<u>1,107,932</u>
Loss for the year before other items	(4,463,157)	(1,107,932)
Other items:		
Write-down of mineral property	-	(3,354)
Gain on investments	-	66,577
Foreign exchange gain (loss)	375,346	(46,320)
Interest income	<u>11,540</u>	<u>6,427</u>
Net loss and comprehensive loss for the year	(4,076,271)	(1,084,602)
Deficit, beginning of the year	<u>(2,874,010)</u>	<u>(1,789,408)</u>
Deficit, end of the year	\$ <u>(6,950,281)</u>	\$ <u>(2,874,010)</u>
Basic and diluted loss per share	\$ <u>(0.10)</u>	\$ <u>(0.04)</u>
Weighted average number of shares outstanding	<u>43,410,035</u>	<u>13,396,158</u>

**PROBE RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash provided by (used in):		
Operating Activities		
Net loss for the year	\$ (4,076,271)	\$ (1,084,602)
Add items not affecting cash:		
Depletion and accretion	2,732,732	-
Amortization	29,800	-
Gain on disposal of marketable securities	-	(66,577)
Write-off of equipment	-	592
Write-down of mineral property	-	3,354
Stock-based compensation	<u>1,548,622</u>	<u>831,364</u>
	234,883	(315,869)
Changes in non-cash working capital balances:		
Accounts receivable	(497,028)	(6,926)
Prepaid expenses	(696,841)	(1,250)
Accounts payable and accrued liabilities	1,293,480	79,471
Note payable	115,262	-
Advances payable	(1,012,814)	-
Due to related parties	<u>(571,520)</u>	<u>-</u>
	<u>(1,134,578)</u>	<u>(244,574)</u>
Financing Activity		
Net proceeds from asset retirement obligation in escrow	115,262	-
Net proceeds from issuance of common shares	<u>33,747,163</u>	<u>5,917,754</u>
	<u>33,862,425</u>	<u>5,917,754</u>
Investing Activities		
Restricted cash	(245,962)	-
Reclamation and performance deposits	(4,000,196)	-
Proceeds from disposal of marketable securities	-	228,240
Mineral property costs	-	(3,353)
Additions to equipment	(442,617)	-
Additions to oil and natural gas properties	<u>(11,575,492)</u>	<u>(5,942,248)</u>
	<u>(16,264,267)</u>	<u>(5,717,361)</u>
Increase (decrease) in cash during the year	16,463,580	(44,181)
Cash and cash equivalents, beginning of the year	<u>68,854</u>	<u>113,035</u>
Cash and cash equivalents, end of the year	<u>\$ 16,532,434</u>	<u>\$ 68,854</u>

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**PROBE RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents consist of:		
Cash	\$ 16,286,473	\$ 68,854
Term deposits/guaranteed income deposits	<u>245,961</u>	<u>-</u>
	<u>\$ 16,532,434</u>	<u>\$ 68,854</u>
Cash paid for interest	<u>\$ 17,676</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplementary Information with Respect to Non-cash Transactions – Note 12

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended August 31, 2008

Note 1 Nature of Operations and Ability to Continue as a Going Concern

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 August 31, 2008, the Company owned an interest in an oil and natural gas producing property and interest in six (6) Federal oil and natural gas blocks located in the United States 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 August 31, 2008, the Company had working capital of \$11,502,250; however, it had not yet achieved profitable operations and expects to incur further losses in the development of its business, 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., both incorporated in the State of Nevada, USA. All inter-company transactions and balances have been eliminated.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended August 31, 2008

Note 2      Significant Accounting Policies – (cont'd)

b) Equipment and Amortization

Equipment includes computer equipment, and office furniture and fixtures. All equipment is recorded at cost. Amortization of computer equipment is charged to operations on a declining balance basis at an annual rate of 30%; office furniture and fixtures amortization is charged to operations on a declining balance basis at an annual rate of 20%. Leasehold improvement is amortized on a straight-line basis over five years.

c) 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.

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.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended August 31, 2008

Note 2     Significant Accounting Policies – (cont'd)

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

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.

d)     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.

e)     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.

f)     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 August 31, 2008 and 2007.

g)     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.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended August 31, 2008

Note 2           The Company uses the Black-Scholes option valuation model to calculate the fair  
Significant Accounting Policies – (cont'd)

g) Stock-based Compensation – (cont'd)

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.

h) 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.

i) 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 anti-dilutive. Basic and diluted loss per share are the same for the periods presented.

For the years ended August 31, 2008 and 2007, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totaled 93,544,134 (2007: 12,040,910). These warrants and options were not included in the computation of loss per share because their effect was anti-dilutive.

j) 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.

k) 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.

l) Revenue Recognition

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended August 31, 2008

Revenue from the production of oil and natural gas is recognized when title passes to the customer, delivery has taken place and collection is reasonably assured. The Company assesses customer creditworthiness, both before entering into contracts and throughout the revenue recognition process. Oil and gas revenues, net of royalties and production related taxes, represent the Company's share after royalty payments and government taxes.

Note 2     Significant Accounting Policies – (cont'd)

m) Adoption of New Accounting Standards

On September 1, 2007, the Company adopted the following new accounting standards related to accounting changes, financial instruments, comprehensive income and hedges that were issued by the CICA.

*Section 1506, Accounting Changes*

This Section establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this Section has no other effects on the financial statements for the year ended August 31, 2008.

*Section 3855, Financial Instruments - Recognition and Measurement*

This Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under this Section, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. The adoption of these policies has not had a significant impact on the financial statement presentation or disclosure.

*Section 3861, Financial Instruments - Presentation and Disclosure*

This Section establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated.

These standards have been applied prospectively. The adoption of these standards has not resulted in any adjustments to the carrying amounts of financial assets and financial liabilities at September 1, 2007.

m) Adoption of New Accounting Standards

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended August 31, 2008

Under adoption of these standards, the Company designated its cash and cash equivalents and reclamation and performance deposits as held-for-trading, which are measured at fair value. Accounts receivables were designated as loans and receivables, which are measured at fair value. The Company designated its accounts payable and accrued liabilities, due to related parties and note payable as other liabilities, which are

Note 2 Significant Accounting Policies – (cont'd)

m) Adoption of New Accounting Standards – (cont'd)

measured at amortized cost using the effective interest rate method. The adoption of this standard had no impact upon the Company's financial statements as of August 31, 2008.

The Company currently does not have any derivatives or embedded derivatives.

*Section 1530, Comprehensive Income*

This Section establishes standards for reporting and presenting of comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings. The Company currently does not have any comprehensive income to disclose, and therefore this standard has no impact on the financial statements.

*Section 3865, Hedges*

This Section establishes standards for how hedge accounting may be applied. The Company currently does not have any hedges in place, and therefore this standard has no impact on the financial statements.

*Section 1400, General Standards of Financial Statement Presentation*

In June 2007, the CICA amended this Section to include additional requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. This new requirement will be adopted by the Company effective September 1, 2008. The adoption of this Section may have an impact on future financial statements.

*Section 1535, Capital Disclosures*

In December 2006, the CICA issued this Section which specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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requirements and, if it has not complied, the consequences on non-compliance. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007, however, the Company has adopted effective August 31, 2008.

*Section 3862, Financial Instruments Disclosures*  
*Section 3863, Financial Instruments Presentation*

Note 2     Significant Accounting Policies – (cont'd)

m) Adoption of New Accounting Standards – (cont'd)

These Sections will replace Section 3861, Financial Instruments Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new Sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007, however the Company has adopted effective August 31, 2008. The adoption of these new accounting standards did not impact the amounts reported in the Company's financial statements as they related primarily to disclosure.

*Section 3031, Inventories*

In June 2007, the CICA issued this Section which prescribes the accounting treatment for inventories. In particular, this Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This Section does not apply to the measurement of inventories held by producers of minerals and mineral products to the extent that they are measured at net realizable value. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. This new requirement will be adopted by the Company effective September 1, 2008.

*International Financial Reporting Standards*

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards ("IFRS") over a transition period ending January 1, 2011. The impact of the transition to IFRS on the Company's financial statements has yet to be determined.

Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants' ("CICA") issued Abstract No. 166, Accounting Policy Choice for Transaction Costs ("EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 and is expensing these costs, where applicable, and determined that no adjustments are currently required.

Note 3 Restricted Cash

As at August 31, 2008, \$245,962 (US\$231,603) (2007: \$Nil) of certificate deposits is held as security for a US\$230,000 bank letter of credit. As at August 31, 2008, the amount outstanding on the bank line of credit was \$Nil (2007: \$Nil).

Note 4 Equipment

	2008		2007	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 76,601	\$ 6,119	\$ 70,482	\$ -
Office furniture and fixtures	313,318	20,436	292,882	-
Leasehold improvement	<u>51,184</u>	<u>1,731</u>	<u>49,453</u>	<u>-</u>
	<u>\$ 441,103</u>	<u>\$ 28,286</u>	<u>\$ 412,817</u>	<u>\$ -</u>

Note 5 Oil and Natural Gas Properties

The asset categories of petroleum and natural gas interests at August 31, 2008 and 2007 were as follows:

	2008		
	<u>Cost</u>	<u>Accumulated Depletion</u>	<u>Net Book Value</u>
Proved properties including lease and well equipment	\$ 10,173,859	\$ 2,684,300	\$ 7,489,559
Unproved properties			
Undeveloped	7,546,040	-	7,546,040
In process of development	<u>9,127,400</u>	<u>-</u>	<u>9,127,400</u>
	<u>\$ 26,847,299</u>	<u>\$ 2,684,300</u>	<u>\$ 24,162,999</u>
	2007		

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	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Proved properties including lease and well equipment	\$ -	\$ -	\$ -
Unproved properties			
Undeveloped	519,764	-	519,764
In process of development	7,592,861	-	7,592,861
	\$ 8,112,625	\$ -	\$ 8,112,625

Note 5 Oil and Natural Gas Properties – (cont'd)

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) which was paid in full and 33.574% of all costs except for certain well costs of which the Company's share paid was 46.30896%. The Company 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 was the issue of 3,000,000 common shares valued at a price of \$0.445 per share.

As at August 31, 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 August 31, 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>115.21</u>	\$ <u>125.28</u>	\$ <u>138.21</u>	\$ <u>150.59</u>	\$ <u>130.11</u>
Natural gas - \$/MBTU	\$ <u>8.03</u>	\$ <u>8.88</u>	\$ <u>8.99</u>	\$ <u>8.76</u>	\$ <u>8.55</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

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month. Subsequent to the consulting arrangement, a director of the other company became a director of the Company. For High Island block seismic data, total seismic data costs incurred to August 31, 2008 are \$773,951 (US\$730,000).

Agreement to Purchase Oil and Gas Rights

On May 26, 2008, the Company's wholly-owned subsidiary Probe Resources US Ltd. ("Probe US") entered into an agreement (the "Agreement in Principle") with certain arm's length parties (the "Vendors") to purchase 75% working interest rights associated with approximately 26,500 acres on six (6) Federal oil and natural gas lease blocks located in the United States Gulf of Mexico (collectively, the "Concessions"). After completion of the Cutter transaction, as described below, the Company became the Operator of the Concessions on a 100% working interest basis.

On June 6, 2008, the Company agreed to acquire the remaining 25% working interest rights from Cutter Energy on the Concessions noted above. Cutter Energy is owned by Scott Broussard (President, CEO, and Chairman of Probe) and the acquisition is, therefore,  
Oil and Natural Gas Properties – (cont'd)

Note 5

Gulf of Mexico – High Island - (cont'd)

considered to be a non-arm's-length transaction. Total consideration for the Cutter interest rights is USD\$829,594 cash, and the issue of up to 4,000,000 Common Shares. The Company issued 2,000,000 Common Shares upon closing of the transaction. The Company will issue to Cutter the remaining 2,000,000 Common Shares as to 666,666 common shares for each occurrence of up to three successful wells at distinct leases within 24 months from the date of the agreement.

Pursuant to the terms of the Agreements, the Vendors along with Cutter have delivered to Probe US not less than a 69.5% net revenue interest in each of the Concessions. Probe US paid an aggregate amount of US\$4,250,000 as consideration to the Vendors and USD\$829,524 and issued 2,000,000 common shares valued at \$0.50 per share to Cutter. The Agreement provides Probe US the opportunity to conduct a drilling program on the Concessions.

Note 6

Reclamation and Performance Deposits

The reclamation and performance deposits consist of non-interest bearing cash deposits provided to the insurers as collateral to secure certain performance and plugging and abandonment bonds for the following properties:

	Balance as of August 31,	
Well	<u>2008</u>	<u>2007</u>
High Island 115 Sidetrack B-2	\$ 419,132	\$ -
East Cameron 246 #2	435,420	-
South Timbalier 198 Platform	2,442,600	-
South Timbalier 214	<u>703,044</u>	<u>-</u>

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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\$ 4,000,196    \$           -

Note 7    Advances Payable

During the year ended August 31, 2007, 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, were unsecured and had no fixed terms of repayment.

Note 8    Note Payable

During the year ended August 31, 2008, the Company obtained insurance financing by way of unsecured short term notes payable in the amounts of \$121,509 (US\$114,415) and \$47,931 (US\$45,133), bearing interest at 3.26%, repayable in monthly installments of \$11,227 (US\$10,572) and \$5,418 (US\$5,102) respectively, both maturing on April 8, 2009. At August 31, 2008, the amount outstanding is \$115,262.

Note 9    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 \$767,849 (2007: \$1,036,000). A credit-adjusted risk free rate of 10% was used to calculate the fair value of the asset retirement obligations.

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

	August 31,	
	<u>2008</u>	<u>2007</u>
Balance, beginning of the year	\$ 531,632	\$ -
Liabilities incurred	320,000	531,632
Revisions	(193,297)	-
Accretion expense	<u>48,100</u>	<u>-</u>
Balance, end of the year	<u>\$ 706,435</u>	<u>\$ 531,632</u>

Asset Retirement Obligation in Escrow

The asset retirement obligation in escrow consists of amounts that the Company has withheld from revenue payments to its partners on the High Island 115 Sidetrack B-2 well. The Company will disburse the withheld funds to the operator of the well in satisfaction of future joint interest billings from the operator for plugging and abandonment costs.

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Note 10 Share Capital

Authorized:

Unlimited common shares without par value

Issued:

	<u>Share Capital</u>		<u>Contributed Surplus</u>
	<u>Number of Shares</u>	<u>Amount</u>	
Balance, August 31, 2006	13,409,101	\$ 2,033,092	\$ -
Issued for cash pursuant to			
-private placement agreements – at \$0.60	10,000,000	6,000,000	-
Issued for			
- finder's fees – at \$0.60	700,000	420,000	-
Less share issue costs	-	(761,246)	259,000
Share purchase options	-	-	<u>831,364</u>
Balance, August 31, 2007	24,109,101	7,691,846	1,090,364

	<u>Share Capital</u>		<u>Contributed Surplus</u>
	<u>Number of Shares</u>	<u>Amount</u>	
Issued for acquisition of			
-oil and natural gas properties – at \$0.445	3,000,000	1,335,000	-
-oil and natural gas properties – at \$0.50	2,000,000	1,000,000	-
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	-
-private placement agreements – at \$0.40	15,999,999	6,400,000	-
-private placement agreements – at \$0.50	54,720,000	27,360,000	-
Issued for			
-finder's fees – at \$0.50	168,350	84,175	-
-finder's fees – at \$0.40	511,875	204,750	-
Less: share issue costs	-	(3,717,469)	1,150,706
Share purchase options	-	-	1,548,822
Cancelled escrow shares	<u>(601,125)</u>	<u>-</u>	<u>-</u>
Balance, August 31, 2008	<u>104,383,200</u>	<u>\$ 42,623,302</u>	<u>\$ 3,789,892</u>

During the year ended August 31, 2007, the Company issued 10,000,000 units at \$0.60 per unit pursuant to a private placement for gross proceeds of \$6,000,000. 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 \$0.75 per share for one year. The Company incurred legal and filing fees of \$82,246 and issued 700,000 units as

**PROBE RESOURCES LTD.**  
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Note 10 Share Capital - (cont'd)

Issued – (cont'd)

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.

On November 16, 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 valued at \$84,175 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.

On December 19, 2007, the Company 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 \$32,840 for share issue costs.

On February 14, 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.

On June 6, 2008, the Company issued 2,000,000 common shares pursuant to the Cutter transactions as described in Note 5.

On June 6, 2008 the Company closed a non-brokered private placement consisting of 15,999,999 Units (each, a "Unit") at a price of \$0.40 per Unit, for gross proceeds of \$6,400,000. Each Unit consisted of one common share of the Company (each a "Share") and one transferable share purchase warrant (the "Warrants"). Each Warrant entitled the holder thereof to purchase one additional Share for a two-year period expiring on June 3, 2010 at an exercise price of \$0.40 per Share. The Company incurred legal and filing fees of \$53,052 and finders' fees of \$77,000. In addition, the Company issued 511,875 units as finders' fees valued at \$204,750 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.

On July 2, 2008, the Company closed a brokered private placement consisting of 54,720,000 Units (each, a "Unit") at a price of \$0.50 per Unit, for gross proceeds of \$27,360,000. Each Unit consisted of one common share of the Company (each a "Share") and one transferable share purchase warrant (the "Warrants"). Each Warrant entitled the holder thereof to purchase one additional Share for a one-year period expiring on June 30, 2009 at an exercise price of \$0.75 per Share.

The brokers received a cash commission of \$1,726,400 representing 6.5% of the gross proceeds raised in the Offering (excluding proceeds raised from the sale of Units in the United States) and a total of 2,736,000 non-transferable compensation options (each a "Broker Option") representing 5% of the Units sold in the Offering valued at \$0.34 for

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended August 31, 2008

Note 10 Share Capital - (cont'd)

Issued – (cont'd)

\$930,240 included in share issue costs. Each Broker Option entitles the holder thereof to purchase one Share for a one-year period expiring on June 30, 2009 at an exercise price of \$0.50 per Share. The brokers also received a corporate finance fee of \$52,000.

Escrow:

During the year ended August 31, 2008, 601,125 common shares held in escrow by the Company's transfer agent were cancelled pursuant to the Escrow Agreement.

Stock-Based Compensation Plan

The Company has a fixed share option plan effective February 29, 2008 whereby the maximum number of shares reserved for issue under the plan shall not exceed 6,295,490 common shares 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.

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

	2008		2007	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,340,910	\$0.67	-	\$0.00
Granted	5,649,000	\$0.45	1,340,910	\$0.67
Cancelled	<u>(1,977,000)</u>	<u>\$0.61</u>	<u>-</u>	<u>-</u>
Outstanding, end of year	<u>5,012,910</u>	<u>\$0.45</u>	<u>1,340,910</u>	<u>\$0.67</u>
Exercisable, end of year	<u>2,041,910</u>	<u>\$0.45</u>	<u>1,340,910</u>	<u>\$0.67</u>

During the year ended August 31, 2008, 363,500 unvested share purchase options exercisable at \$0.67 until July 26, 2012 and 650,000 unvested share purchase options exercisable at \$0.60 until November 22, 2012 were cancelled due to directors' resignations. In connection with the resignations, 413,500 vested share purchase options exercisable at

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 10 Share Capital – (cont'd)

Stock-Based Compensation Plan – (cont'd)

\$0.67 until July 26, 2012 expired unexercised, and 350,000 vested share purchase options exercisable at \$0.60 until November 22, 2012 expired unexercised.

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

In March, 2008, the Company 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.

On June 2, 2008, the Company granted incentive stock options to certain employees of the Company to purchase up to 300,000 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 \$0.50 per share.

Share purchase options outstanding at August 31, 2008 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
563,910	\$0.67	July 26, 2012
100,000	\$0.49	October 26, 2012
250,000	\$0.60	November 22, 2012
3,243,000	\$0.40	March 5, 2013
556,000	\$0.40	March 5, 2013
<u>300,000</u>	\$0.50	June 1, 2013
<u><u>5,012,910</u></u>		

The weighted average contractual life of outstanding options is 4.44 years.

The fair value of the share purchase options granted during the year ended August 31, 2008 of \$1,548,622 (2007: \$831,364) was estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	3.01% - 4.22%	4.13%
Dividend yield	0.00%	0.00%
Expected stock price volatility	111.46% - 232.36%	104.4%
Weighted average expected stock option life	5 years	5 years

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 10 Share Capital – (cont'd)

Share Purchase Warrants

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

	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	10,700,000	\$0.75	-	-
Issued	78,611,224	\$0.68	10,700,000	\$0.75
Expired	<u>(700,000)</u>	<u>\$0.75</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u><u>88,611,224</u></u>	<u><u>\$0.67</u></u>	<u><u>10,700,000</u></u>	<u><u>\$0.75</u></u>

Share purchase warrants outstanding at August 31, 2008 are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
10,000,000	\$0.75	February 9, 2009 <sup>(1)</sup>
4,368,350	\$0.60	November 15, 2008
275,000	\$0.70	February 14, 2009
16,511,874	\$0.50	June 6, 2010
2,736,000	\$0.50	June 30, 2009
<u>54,720,000</u>	<u>\$0.75</u>	<u>June 30, 2009</u>
<u><u>88,611,224</u></u>		

<sup>(1)</sup> The Company agreed to extend the term of warrants (the "Warrants") to purchase a total of 10,000,000 common shares of the Company from 12 months from the date of issuance to 18 months from the date of issuance. The new expiry date for the Warrants to purchase a total of 10,000,000 will be February 9, 2009, provided that, the Company is entitled to accelerate the expiry date of the Warrants to the date that is 30 days following the date a notice to holders of Warrants advising that the published closing price of the common shares of the Company on the TSX Venture Exchange has been greater than \$0.75 for 20 consecutive trading days.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 10 Share Capital – (cont'd)

Finders' Warrants

Share issue costs of \$1,123,514 with respect to 3,336,225 share purchase warrants issued for finders' fees during the year ended August 31, 2008 and included in the share purchase warrants outstanding above, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	3.69% - 4.97%	4.13%
Dividend yield	0.00%	0.00%
Expected stock price volatility	105.24% - 171.54%	104.4%
Weighted average expected stock option life	1 - 2 years	5 years

Note 11 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>2008</u>	<u>2007</u>
Administration fees	\$ -	\$ 72,300
Consulting fees	603,612	-
Corporate development	12,000	-
Directors' fees	59,000	28,500
Drilling, completion and other costs	143,322	254,249
Furniture and equipment rental	-	27,144
Legal fees	281,650	-
Office and miscellaneous	-	29,040
Rent	37,568	26,136
Wages and benefits	<u>142,808</u>	<u>-</u>
	<u>\$ 1,279,960</u>	<u>\$ 437,369</u>

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

- b) At August 31, 2008, accounts payable and accrued liabilities include \$85,708 (2007: \$42,436) due to directors of the Company or to private companies with directors in common with the Company and \$Nil (2007: \$583,495) due to a private company controlled by a significant shareholder of the Company.
- c) At August 31, 2008, an officer of the Company was indebted to the Company for \$9,428 (2007: \$Nil) from payroll advances. This amount is included in prepaid expenses and deposits.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Note 11 Related Party Transactions – (cont'd)

- d) During the year ended August 31, 2008, the Company recorded interest income of \$nil (2007: \$3,653) in respect to advances to a public company with directors in common with the Company.
- e) During the year end August 31, 2008 the Company acquired an interest in certain oil and natural gas properties from a private company controlled by an officer/director as disclosed in Note 5.

Note 12 Financial Instruments and Risk Management

At August 31, 2008 the Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments and variable rates of interest. The company is exposed to risks arising from its financial instruments. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange rates, credit risk and liquidity risk.

a) Market Risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, is comprised of the following:

(i) Commodity price risk

The Company sells all of its natural gas and condensate production at current market prices on the date of sale.

(ii) Foreign exchange risk

The Company is exposed to foreign exchange risks to the extent it transacts in various currencies, while measuring and reporting its results in Canadian dollars (CAD). Since time passes between the recording of a receivable or payable transaction and its collection or payment, the Company is exposed to gains or losses on non CAD amounts and on balance sheet translation of monetary accounts denominated in non CAD amounts upon spot rate fluctuations from quarter to quarter.

In addition, additions to oil and gas properties are recorded and translated at historical cost. Based on recent trends in foreign exchange rates, the Company has assumed a possible fluctuation range of an increase or decrease of 20% in non CAD currency rates. As at August 31, 2008, a 20% increase in the value of the US dollar when measured against the pound sterling and the Canadian dollar would have positively impacted net earnings (loss) by an estimated \$802,000. A similar decrease of 20% would have had the opposite impact.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 12 Financial Instruments and Risk Management – (cont'd)

b) Credit Risk

Credit risk reflects the risk the Company may be unable to recover accounts receivable. The Company's accounts receivable are primarily with financially secure oil and gas companies. As such, the Company believes that it does not currently have any significant credit risk.

c) Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and the use of equity and debt facilities as needed. All of the Company's outflows relating to financial liabilities are repayable in the next fiscal year.

Note 13 Segmented Information

The Company has one operating segment, oil and gas operations, and operates in two geographical regions as follows:

<b>August 31, 2008</b>	<b>US</b>	<b>Canada</b>	<b>Total</b>
Revenues	\$ 5,110,861	\$ -	\$ -
Current assets	17,659,330	80,831	17,740,161
Petroleum and natural gas			
Properties and equipment	24,162,999	-	24,162,999
Property and equipment	401,551	11,266	412,817
Other assets	4,246,158	-	4,246,158
<b>Total Assets</b>	<u><b>\$46,470,038</b></u>	<u><b>\$ 92,097</b></u>	<u><b>\$46,562,135</b></u>

<b>August 31, 2008</b>	<b>US</b>	<b>Canada</b>	<b>Total</b>
Revenues	\$ -	\$ -	\$ -
Current assets	-	82,712	82,712
Petroleum and natural gas			
Properties and equipment	8,112,625	-	8,112,625
Other assets	-	-	-
<b>Total Assets</b>	<u><b>\$ 8,112,625</b></u>	<u><b>\$ 82,712</b></u>	<u><b>\$ 8,195,337</b></u>

All petroleum and natural gas properties of the Company are in the US Gulf of Mexico.

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Note 14 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 years ended August 31, 2008 and 2007, the following transactions were excluded from the statement of cash flows:

- a) The Company issued 680,225 (2007: 700,000) common shares valued at \$288,925 (2007: \$420,000) as finder's fees on a private placement. The value was determined by the issue price of the private placement.
- b) The Company issued 3,336,225 (2007: 700,000) finders' warrants valued at \$1,123,514 (2007: 259,000) as finders' fees on a private placement (Note 10).
- c) The Company included \$48,432 (2007: \$nil) in operation expenses and \$174,803 (2007: \$531,632) in asset retirement obligation pursuant to the provision of an asset retirement obligation.
- d) The Company issued 3,000,000 (2007: Nil) common shares valued at \$0.445 per share for the additional interest in oil and natural gas property. The value was determined by the market price on the date of issue.
- e) The Company issued 2,000,000 (2007: Nil) common shares valued at \$0.50 per share for the additional interest in oil and natural gas property as part of the Cutter transaction described in Note 5. The value was determined by the market price on the date of issue.
- f) The Company's acquisition of oil and gas properties includes \$4,657,998 (2007 \$nil) in accounts payable.

Note 15 Income Taxes

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

	<u>2008</u>	<u>2007</u>
Loss before income taxes	\$ <u>4,076,271</u>	\$ <u>1,084,602</u>
Statutory tax rates	<u>34.12%</u>	<u>34.12%</u>
Computed income tax recovery	\$ 1,390,800	\$ 370,100
Effect of reduction in statutory rate	(267,100)	-
Expiry of loss carry forward	(19,300)	-
Foreign income taxed at other than CDC Rate	(1,100)	-
Permanent differences	(405,900)	(283,700)
Other non-deductible items for tax purposes	-	-
Share issue costs not deducted	667,400	-
Net change in valuation allowance	<u>(1,364,800)</u>	<u>( 86,400)</u>
Total income taxes (recovery)	\$ <u>-</u>	\$ <u>-</u>

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 15 Income Taxes – (cont'd)

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

	<u>2008</u>	<u>2007</u>
Future income tax assets		
Non-capital loss carried forward	\$ 996,000	\$ 350,000
Exploration and development costs	216,000	-
Capital assets	9,000	-
Share issue costs remaining	<u>587,000</u>	<u>93,000</u>
	1,808,000	443,000
Valuation allowance	<u>(1,808,000)</u>	<u>(443,000)</u>
Future income tax assets	<u>\$ _____ -</u>	<u>\$ _____ -</u>

At August 31, 2008, the Company has estimated losses for income tax purposes that can be used to reduce future taxes payable. These losses expire at varying dates to 2028.

The amount of non-capital losses available for carry forward is (Canada) \$3,500,000. The amount of net-operating losses available for carry forward is (USA) \$235,000.

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.

Note 16 Comparative Figures

Certain comparative figures as at August 31, 2007 and for the year then ended have been reclassified to conform with the financial statement presentation adopted for the current period.

Note 17 Subsequent Events

On September 13, 2008, the well's platform, departing export line, host platform at High Island 71 and the onshore facilities were all damaged in varying degrees by Hurricane Ike. As a result, the well has not produced since that date. Repairs to the facilities have been completed as December 15, 2008, with the exception of the onshore facilities. It is currently anticipated that the repairs to those facilities will be complete and the well will return to production by the end of December, 2008.

On October 3, 2008, share purchase options were granted to employees of the Company to purchase up to 370,000 common shares at \$0.40 per share exercisable until October 2, 2013.

On September 2, 2008, the Company advanced \$750,000 to an officer of the Company as a relocation/home ownership loan.. The advance bears interest at 5% and is repayable on the earlier of January 1, 2010, or immediately in the case of the borrower's termination of the employment agreement dated February 12, 2008. The loan will be forgiven as to 50% after one year and the remaining 50% after the second year unless the employment is terminated.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Note 18 Commitments and Contingent Liability

Contractual Obligations:

Operating Leases

The Company has a non-cancelable operating lease for its office facility. The lease has schedule increases, requires the Company to pay its share of operating costs, and expires in 2013.

Future minimum payments under operating lease for the next five years are as follows:

August 31, 2009	\$280,756
August 31, 2010	\$329,721
August 31, 2011	\$329,721
August 31, 2012	\$338,625
August 31, 2013	\$343,077

Drilling Commitments

At August 31, 2008, the Company had entered into two drilling contracts. The Company had entered into a contract to drill the East Cameron 246 #2 well at a rate of \$59,700 per day plus ancillary costs. The Company had also entered into a contract to drill the South Timbalier 214 #A-6 Sidetrack #1 well at a rate of \$78,500 per day plus ancillary costs.

Contingent Liability:

The Company's 100% owned U.S. subsidiary, Probe Resources US Ltd. ("Probe US"), along with an officer of the Company, have been named as defendants in a petition filed in the State Court of Texas, USA during September 2008 and amended in November 2008 to add Probe US and the officer as defendants. As of December 10, 2008, Probe US has not filed a reply as it has not been served. The lawsuit alleges that Probe US and the officer used information in violation of a confidentiality agreement to acquire certain properties. The petition has, among other things, petitioned for the establishment of a constructive trust for the revenue from the plaintiff's alleged interest in the properties and has requested unspecified damages as a result of the utilization of the confidential information. Neither Probe US nor its officers have ever had any contractual relationships with the plaintiff. The Company believes that the plaintiff's claims are without merit and accordingly no provision has been provided in the financial statements. The Company intends to vigorously defend the claims made in the lawsuit.

Note 19 Capital Risk Management

The company's objectives when managing capital are: to safeguard the Company's ability to continue as a going concern; to maintain optimal capital structure, while ensuring the Company's strategic objectives are met and to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

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Note 19 Capital Risk Management – (cont'd)

In the management of capital, the Company includes share capital, contributed surplus, deficit, interest bearing debt and cash and cash equivalents.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling its capital expenditures program.