

PROBE RESOURCES LTD.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2009 and 2008



BDO Dunwoody LLP
Chartered Accountants and Advisors

600 Cathedral Place
925 West Georgia Street
Vancouver BC Canada V6C 3L2
Telephone: (604) 688-5421
Fax: (604) 688-5132
Email: vancouver@bdo.ca
www.bdo.ca

AUDITORS' REPORT

To the Shareholders,
Probe Resources Ltd.

We have audited the consolidated balance sheets of Probe Resources Ltd. as at August 31, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Vancouver, Canada
December 21, 2009

PROBE RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
August 31, 2009 and 2008

	<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Current			
Cash and cash equivalents		\$ 752,772	\$ 16,532,434
Restricted cash – Note 3		6,155,638	-
Accounts receivable		6,463,115	509,636
Prepaid expenses and deposits – Note 10(c)		<u>662,578</u>	<u>698,091</u>
		14,034,103	17,740,161
Restricted cash – Note 3		256,251	245,962
Accounts receivable - other		547,500	-
Reclamation and performance deposits – Note 6		4,176,911	4,000,196
Office equipment – Note 4		374,627	412,817
Oil and natural gas properties – Notes 5 and 8		<u>49,697,583</u>	<u>24,162,999</u>
		<u>\$ 69,086,975</u>	<u>\$ 46,562,135</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities – Notes 10 and 12		\$ 29,073,971	\$ 6,122,649
Notes payable – Notes 7 and 11		<u>16,560,108</u>	<u>115,262</u>
		45,634,079	6,237,911
Asset retirement obligation – Note 8		3,929,197	706,435
Asset retirement obligation received – Note 8		<u>463,756</u>	<u>155,075</u>
		<u>50,027,032</u>	<u>7,099,421</u>

SHAREHOLDERS' EQUITY

Share capital – Notes 9 and 13		\$ 42,712,280	42,623,302
Contributed surplus – Note 9		4,924,274	3,789,693
Deficit		<u>(28,576,611)</u>	<u>(6,950,281)</u>
		<u>19,059,943</u>	<u>39,462,714</u>
		<u>\$ 69,086,975</u>	<u>\$ 46,562,135</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Subsequent Events – Note 16
Commitments and Contingent Liability – Note 17

APPROVED BY THE DIRECTORS:

“L. Scott Broussard” Director “Richard Buski” Director

The accompanying notes are an integral part of the financial statements.

PROBE RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenue		
Oil and natural gas	\$ <u>23,918,542</u>	\$ <u>5,110,861</u>
Production expenses		
Operating expenses	3,943,831	1,272,789
Depletion and accretion	<u>25,773,834</u>	<u>2,732,732</u>
	<u>29,717,665</u>	<u>4,005,521</u>
Net production revenue	<u>(5,799,123)</u>	<u>1,105,340</u>
General and administrative expense		
Amortization	89,718	29,800
Administrative expenses – Note 10	1,027,474	978,084
Interest expense and bank charges	4,467,638	60,722
Consulting fees – Note 10	466,057	1,090,449
Directors' fees – Note 10	77,500	59,000
Legal – Note 10	1,242,404	575,892
Stock-based compensation – Note 9	1,100,981	1,548,622
Wages and benefits – Note 10	<u>3,395,310</u>	<u>1,214,388</u>
	<u>11,867,082</u>	<u>5,556,957</u>
Income (Loss) for the period before other items	<u>(17,666,205)</u>	<u>(4,451,617)</u>
Other items:		
Foreign exchange gain (loss)	3,194,175	375,346
Write-off of deferred financing costs – Note 7	(5,681,675)	-
Litigation settlement - Note 16	<u>(1,472,625)</u>	<u>-</u>
Net loss and other comprehensive loss for the year	(21,626,330)	(4,076,271)
Deficit, beginning of the year	<u>(6,950,281)</u>	<u>(2,874,010)</u>
Deficit, end of the year	\$ <u>(28,576,611)</u>	\$ <u>(6,950,281)</u>
Basic and diluted earnings (loss) per share	\$ <u>(\$0.21)</u>	\$ <u>(\$0.10)</u>
Weighted average number of shares outstanding	<u>104,713,793</u>	<u>43,410,035</u>

The accompanying notes are an integral part of the financial statements.

PROBE RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash provided by (used in):		
Operating Activities		
Net loss for the year	\$ (21,626,330)	\$ (4,076,271)
Add items not affecting cash:		
Depletion and accretion	25,777,118	2,732,732
Amortization	89,718	29,800
Foreign exchange gain on cash held in foreign currency	(215,921)	(866,013)
Stock-based compensation	1,100,981	1,548,622
Note discount accretion and deferred financing costs amortization	1,954,150	-
Note forgiveness – Note 10(e)	852,413	-
Litigation settlement	1,472,625	-
Write-off of deferred financing costs	<u>5,681,676</u>	<u>-</u>
	<u>15,086,430</u>	<u>(631,130)</u>
Changes in non-cash working capital balances:		
Restricted cash	(6,165,927)	-
Accounts receivable	(6,500,979)	(497,028)
Prepaid expenses and other	35,513	(696,841)
Accounts payable and accrued liabilities	4,932,127	721,960
Note receivable – related party	(852,413)	115,262
Advances payable	<u>-</u>	<u>(1,012,814)</u>
	<u>(8,551,679)</u>	<u>(1,369,461)</u>
Financing Activity		
Proceeds from issuance of new notes payables	15,468,231	-
Other notes payable	498,699	-
Principal payments on notes	(4,858,851)	-
Asset retirement obligations received	308,681	115,262
Net proceeds from issuance of common shares	-	33,747,163
Deferred loan costs paid	<u>(2,265,458)</u>	<u>-</u>
	<u>9,151,302</u>	<u>33,862,425</u>
Investing Activities		
Restricted cash	-	(245,962)
Reclamation and performance deposits	(176,715)	(4,000,196)
Net additions to oil and natural gas properties	(31,442,371)	(11,575,492)
Additions to equipment	(51,528)	(442,617)
Stock issuance costs – Cutter Energy	<u>(11,022)</u>	<u>-</u>
	<u>(31,681,636)</u>	<u>(16,264,267)</u>

..../cont'd

PROBE RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Foreign exchange gain on cash held in foreign currency	<u>215,921</u>	<u>866,013</u>
Increase (decrease) in cash during the year	(15,779,662)	16,463,580
Cash and cash equivalents, beginning of the year	<u>16,532,434</u>	<u>68,854</u>
Cash and cash equivalents, end of the year	<u>\$ 752,772</u>	<u>\$ 16,532,434</u>
Cash and cash equivalents consist of:		
Cash	\$ 752,772	\$ 16,286,473
Term deposits/guaranteed income deposits	<u>-</u>	<u>245,961</u>
	<u>\$ 752,772</u>	<u>\$ 16,532,434</u>
Cash paid for interest	<u>\$ 1,946,826</u>	<u>\$ 17,676</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplementary Information with Respect to Non-cash Transactions – Note 13

The accompanying notes are an integral part of the financial statements.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

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 and incorporated under the British Columbia Business Corporations Act on November 15, 1988. At August 31, 2009, the Company owned interests in two oil and natural gas producing properties and a total of six 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, 2009, the Company had a working capital deficiency of \$31,599,976 and had not yet achieved profitable operations and expects to incur further losses in the near term development of its business, which raises significant 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 cash flow 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., Probe High Island 115 Ltd., Probe ST 214 Ltd., and Probe Resources Energy Marketing US Ltd. All of these wholly-owned subsidiaries are incorporated in the State of Nevada, USA. All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 2 Significant Accounting Policies – (cont'd)

b) Office Equipment and Amortization

Office equipment includes computer equipment, and office furniture, fixtures and leasehold improvements. All equipment and leasehold improvements are recorded at cost. Amortization of computer equipment is charged to operations on a declining balance basis at an annual amortization rate of 30%; office furniture and fixtures amortization is charged to operations on a declining balance basis at an annual rate of 20%. Leasehold improvements are 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. The Company has producing properties and interests in the Gulf of Mexico, USA and therefore only has one country basis currently. 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 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 reserves are proved 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. 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, 2009

Note 2 Significant Accounting Policies – (cont'd)

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

The recoverability of amounts shown for unproved 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. There was no impairment of Oil and Natural Gas Properties as of August 31, 2009 and August 31, 2008 based upon the ceiling test performed by management for each year.

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 values of obligations associated with the retirement of tangible long-lived assets are recorded in the period in which it is incurred 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 asset retirement obligation 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. There were no asset impairments of the Company's long-lived assets as at August 31, 2009 and 2008 based upon management's evaluation review.

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

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 2 Significant Accounting Policies – (cont'd)

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

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. There were no options exercised during the fiscal year ended August 31, 2009 and 2008.

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.

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, 2009 and 2008, potentially dilutive common shares (including options and warrants outstanding at year-end) and common shares outstanding totaled 39,401,287 (2008: 10,839,066) were not included in the computation of loss per share because their effect was anti-dilutive.

j) Income Taxes

The Company uses 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. Due to the Company's accumulated net income losses, the Company has provided a tax valuation for its current income tax benefit of its net income losses that may be utilized in the future years.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 2 Significant Accounting Policies – (cont'd)

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

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 revenue, net of royalties and production related taxes, represent the Company's share after royalty payments and government taxes and the amount recorded as revenue.

m) Measurement Uncertainty

The amounts for depletion and amortization of property and equipment and oil & gas properties and the provision for asset retirement obligation are based on estimates. Ceiling tests are based on estimates of proved reserves, production rates, gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

n) Financial Instruments

The Company follows CICA Handbook Sections 1530. "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, and Section 3865, "Hedges", Section 1530 establishes standards for reporting and presenting 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 income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, financial instruments must be classified into one of these 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 both initially and subsequently in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured initially and subsequently at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 2 Significant Accounting Policies – (cont'd)

n) Financial Instruments – (cont'd)

The Company's financial instruments consist of cash and cash equivalents and restricted cash which are classified as held-for-trading, accounts receivable and notes receivable which are classified as loans and receivables, accounts payables and accrued liabilities and notes payable which are classified as other liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments (note 11).

The Company has chosen to recognize all transaction costs in the statements of operations on financial liabilities that have been designated as other than held-for-trading.

o) Adoption of New Accounting Standards

On September 1, 2008, the Company adopted three new accounting standards and one amended standard: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, Handbook Section 3863, Financial Instruments – Presentation and Handbook Section 1400, General Standards of Financial Statement Presentation. The requirements of these new standards are for disclosure purposes only and have not impacted the financial results of the Company.

Capital Disclosures

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new disclosure is summarized in note 18.

Financial Instruments

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Note 11 provides the required disclosure under this new accounting standard.

General Standards of Financial Statement Presentation

The amended Section 1400 provides guidance related to management's assessment of the Company's ability to continue as a going concern. The additional requirement requires management to make an assessment of the Company's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Note 1 addresses the additional disclosure as required.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 2 Significant Accounting Policies – (cont'd)

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

Recent Accounting Pronouncements

Financial Statement Concepts

Handbook section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the adoption of this change on its financial statements.

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements, and 1602 – Non Controlling Interests. Section 1582 replaces Section 1581 – Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Sections 1601 and 1602 replace Section 1600 – Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective April 1, 2011. Early adoption of the Sections is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 3 Restricted Cash

Current

As at August 31, 2009, \$6,155,638 (US\$5,621,587) represented a restricted cash balance in Current Assets related to the cash management arrangement associated with the Debt Restructuring Agreement (“DRA”) that was effective on August 31, 2009 (note 16 and note 7). The restricted cash balance at August 31, 2009 represents primarily current period customer collection amounts that will be paid to the creditors (including the debt instrument holders) in the DRA and to the Company for operating and general administrative costs, gas and condensate transportation charges and royalty payments on the related properties.

Non-current

A restricted deposit of \$256,251 (US\$234,019), (2008: \$245,962) (US\$231,603) represents primarily a certificate of deposit held as office rent security for a US\$230,000 bank letter of credit. As at August 31, 2009, the Company does not have a bank line of credit on its credit facilities and accordingly does not have any-amounts outstanding on a bank line of credit.

Note 4 Office Equipment

	2009		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 77,513	\$ 23,081	\$ 54,432
Office furniture and fixtures	351,075	80,736	270,339
Leasehold improvements	<u>64,042</u>	<u>14,186</u>	<u>49,856</u>
	<u>\$ 492,630</u>	<u>\$ 118,003</u>	<u>\$ 374,627</u>
	2008		
	<u>Cost</u>	<u>Accumulated Amortization</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 improvements	<u>51,184</u>	<u>1,731</u>	<u>49,453</u>
	<u>\$ 441,103</u>	<u>\$ 28,286</u>	<u>\$ 412,817</u>

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 5 Oil and Natural Gas Properties

The asset categories of petroleum and natural gas interests at August 31, 2009 and 2008 were as follows:

	2009		
	<u>Cost</u>	<u>Accumulated Depletion</u>	<u>Net Book Value</u>
Proved properties including lease and well equipment	\$ 50,719,078	\$ 28,320,816	\$ 22,398,262
Unproved properties			
Undeveloped	429,505	-	429,505
In process of development	<u>26,869,816</u>	<u>-</u>	<u>26,869,816</u>
	<u>\$ 78,018,399</u>	<u>\$ 28,320,816</u>	<u>\$ 49,697,583</u>
	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>

The company has two properties currently in its proved properties amount. High Island Block 115 is a proved well in the Gulf of Mexico which was acquired during June 2007 with an add-on ownership in December 2007 and an overall working interest ownership of 41.5% (30.9% net revenue interest). South Timbalier Block 214 is a proved well with production start up in the second fiscal quarter of 2009 and has a working interest of 100% (70% net revenue interest). This property was acquired in fiscal year 2008 as part of Cutter Energy transaction described below.

Management has evaluated the carrying value of its proved and unproved properties and has determined that no impairment provision is required at August 31, 2009 and 2008. The future prices in US dollars used in the ceiling test evaluation of the Company's oil and natural gas properties were as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Oil - \$/Barrel	<u>\$ 72.73</u>	<u>\$ 76.74</u>	<u>\$ 80.44</u>	<u>\$ 82.34</u>	<u>\$ 84.69</u>
Natural gas - \$/MMbtu	<u>\$ 4.74</u>	<u>\$ 6.41</u>	<u>\$ 6.84</u>	<u>\$ 6.96</u>	<u>\$ 7.10</u>

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

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

Agreement to Purchase Oil and Gas Rights

On May 22, 2008, the Company's wholly-owned subsidiary Probe Resources US Ltd. ("Probe US") announced it has entered into an agreement (the "Agreement in Principle") with certain arm's length parties (the "Vendors") to purchase a 75% working interest rights associated with approximately 26,500 acres on six 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 (the "Cutter Transaction"). Cutter Energy is owned by Scott Broussard (President, CEO, and Chairman of Probe) and the acquisition is, therefore, considered to be a non-arm's-length transaction. Total consideration for the Cutter interest rights is US\$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 and 666,667 Common shares on March 3, 2009 upon completion of the South Timbalier 214 well. The Company will issue to Cutter the remaining 1,333,333 Common Shares, 666,666 common shares for each occurrence of up to two additional 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 US\$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.

On April 29, 2009, the Company announced that it had entered into a joint venture on its East Cameron 36, East Cameron 37 and Vermillion 20 Blocks. The terms of the arrangement included a proportionate payment at time of the joint venture (received in April 2009) and proportionate contributions in the future for development and production costs by the joint venture participants. The joint venture participants became working interest owners in the prospects with Probe retaining an overall approximately 52% working interest and approximately 36.4% net revenue interest before Project Payout.

Note 6 Reclamation and Performance Deposits

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

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 6 Reclamation and Performance Deposits – (cont'd)

<u>Property</u>	<u>2009</u>	<u>2008</u>
High Island 115 Sidetrack B-2	\$ 421,824	\$ 419,132
East Cameron 246 #2	438,217	435,420
South Timbalier 198 Platform	2,458,288	2,442,600
South Timbalier 214	707,559	703,044
East Cameron 36 #1	<u>151,023</u>	<u>-</u>
	<u>\$ 4,176,911</u>	<u>\$ 4,000,196</u>

Note 7 Notes Payable

Notes payables consisted of the following:

	<u>2009</u>	<u>2008</u>
Credit Facility Loan	\$ 6,840,480	\$ -
Senior Second Notes	9,220,930	-
Other short term notes	<u>498,698</u>	<u>115,262</u>
	<u>\$16,560,108</u>	<u>\$ 115,262</u>

All of the balances were classified in the current liability section of the Consolidated Balance Sheet due to their expected maturity or repayment schedule.

Credit Facility Loan

On February 19, 2009 the Company entered into a credit facility (“Loan”) with an institutional lender in the amount of US\$8,500,000. The Loan was for initially a term of six months from the date of advance (the “Maturity Date”). The Loan is collateralized by certain of the Company’s oil and natural gas properties. Interest is at an annual rate of 18% payable and compounded monthly on amounts outstanding at month end. In consideration of the initial Loan and its provisions, the Lender received a \$480,000 commitment fee and 7,000,000 share purchase warrants to purchase 7,000,000 common shares of the Company at a price of \$0.25 per share for a four year period expiring February 19, 2013. Finders’ fees were paid in connection with the Loan equal to 4% (\$428,162) of the funds raised by the Company and 4% (280,000) in warrants of the Company exercisable into a common share at a price of \$0.25 per share on or before February 19, 2010. The fair value of the Loan on inception was equal to the cash received and accordingly no consideration was allocated to the warrants. The fair value of the warrants issued for finders’ fees was determined using the Black Scholar model as described in note 9. The loan fees and finders’ fee were initially deferred to be expensed over the original term of the Loan. The Company did not repay the loan within the original six month term and, effective August 31, 2009, the Loan was included in the Debt Restructuring Agreement (note 16). Interest rate on the balance outstanding remained at the 18% annual rate while monthly debt service payments are determined and made from monthly net restricted cash flow under the Debt Restructuring Agreement arrangement. Certain covenants and reporting requirements of the Loan Agreement were also modified as part of the Debt Restructuring and Forbearance Agreements. For the Forbearance Agreement that was executed in conjunction with the Debt Restructuring Agreement, an

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 7 Notes Payable – (cont'd)

additional US\$500,000 fee was incurred by the Company related to the Forbearance Agreement and was added to the balance of the Loan as of August 31, 2009.

As a result of the amended terms, the remaining deferred financing costs of \$753,938 were written off as at August 31, 2009.

Note Purchase Agreement – Senior Secured Notes

On January 22, 2009 the Company entered into a Note Purchase Agreement whereby the Company issued and sold senior secured notes (“Notes”) in the aggregate principal amount of US\$10,000,000 (the “Notes”) to a Single Holder (the “Holder”). The net proceeds to the Company, as a result of the negotiated discount to face value of the Notes, was CDN\$7,000,000(US\$5,626,233). The Notes are collateralized by certain oil and natural gas properties. The Notes bear interest at a rate of 15% per annum, fixed and payable monthly in arrears on principal outstanding. The principal was originally scheduled to be paid by monthly payments of US\$200,000. The initial term of the Notes was two years with an extension option at the election of the Company for an additional two years upon payment of an extension fee of US\$300,000 in each of the second and third years of the total term. As additional consideration for the Notes, the Holder received, at the time of initial execution, 7,000,000 share purchase warrants exercisable into 7,000,000 common shares of the Company at a price of \$0.20 per share for a period of five years from the closing date. The fair value of the Notes on inception was equal to the cash received and accordingly no consideration was allocated to the warrants. The fair value of the warrants issued for finders’ fees was determined using the Black Scholar model as described in note 9. The Note fees and finders’ fee were initially deferred to be expensed over the original term of the Notes. Effective August 31, 2009, the Notes were included in the Debt Restructuring Agreement (note 16).

As a result of the amended terms, the remaining deferred financing costs of \$907,542 and the unamortized note discount of \$4,020,195 were written off as of August 31, 2009.

Other Notes – Corporate Insurance Financing

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% per annum, repayable in monthly installments of \$11,227 (US\$10,572) and \$5,418 (US\$5,102) respectively, both maturing on April 8, 2009. These notes have been extinguished by the Company with payment of its principal and related interest.

On April 8, 2009, the Company obtained insurance financing for certain of its annual insurance policies by an unsecured short term note payable in the amounts of \$574,089 (US\$523,756) and \$48,091 (US\$43,875) bearing interest at 3.21% per annum, repayable in monthly installments of \$64,284 (US\$58,976) and \$6,930 (US \$6,358) maturing on February 8, 2010.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 8 Asset Retirement Obligations

The total future asset retirement obligation result from the Company's net ownership interest in wells and facilities. Management estimates the total undiscounted amount of future cash flows required to reclaim and abandon wells and facilities as at August 31, 2009 is approximately \$4,000,000 (2008 - \$800,000) with a present value recorded liability of \$3,927,197 at August 31, 2009.

The increase in value between years reflects primarily the additional obligations from the oil and natural gas properties during the year, especially the South Timbalier 214 well completion.

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

	August 31,	
	2009	2008
Balance, beginning of the year	\$ 706,435	\$ 531,632
Liabilities incurred	3,082,160	320,000
Revisions	-	(193,297)
Accretion expense	140,602	48,100
Balance, end of the year	\$ 3,929,197	\$ 706,435

Asset Retirement Obligation Received

The asset retirement obligation received consists of amounts that the Company has withheld from revenue payments to its partners on the High Island 115 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.

Note 9 Share Capital

Authorized:

Unlimited common shares without par value

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

Issued:

	Share Capital		Contributed Surplus
	Number of Shares	Amount	
Balance, August 31, 2007	24,109,101	\$ 7,691,846	\$ 1,090,364
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	-	-	1,548,623
Cancelled escrow shares	(601,125)	-	-
Balance, August 31, 2008	104,383,200	\$ 42,623,302	\$ 3,789,693
Issued for lease acquisition	666,666	100,000	-
Less: share issue costs	-	(11,022)	-
Finders' fee warrants	-	-	33,600
Share purchase options	-	-	1,100,981
Balance, August 31, 2009	105,049,866	\$ 42,712,280	\$ 4,924,274

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 which warrant have since expired. 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 consisted of one common

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

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, which warrants have since expired.

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 at an exercise price of \$0.75 per Share for a one-year period expiring on June 30, 2009.

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

On January 22, 2009 the Company closed a US\$4,000,000 tranche of a senior secured notes issue (the “Notes”) for CDN\$2,800,000 (US\$2,200,047 net proceeds to the Company) in connection therewith. The Company then issued 2,800,000 of the 7,000,000 warrants to the Holder where each warrant entitles the Holder thereof to purchase one common share of the Company on or before November 28, 2013 at an exercise price of \$0.20 per share.

On February 10, 2009 the Company closed the second tranche of a note issue by issuing US\$6,000,000 Notes for CDN\$4,200,000 (US\$3,351,955 net proceeds to the Company). In addition, the Company issued the remaining 4,200,000 of the seven million warrants to the Holder where each warrant entitles the Holder to purchase one common share of the Company on or before November 28, 2013 at an exercise price of \$0.20 per share (note 7).

Fees were paid in connection with the issue of the Notes equal to 4% (\$277,271.90) of the funds raised and 4% (280,000) in warrants of the Company exercisable into common shares at a price of \$0.25 per warrant on or before February 9, 2010 (note 7).

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

On February 19, 2009 the Company closed a credit facility (“Loan”) with an institutional lender in the amount of US \$8,500,000. The Loan was for a term of six months from the date of advance (the “Maturity Date”). Interest is at an annual rate of 18% payable and compounded monthly on amounts outstanding at month end. Regular principal payments were to be made over a six-month period which will, upon completion, retire the Loan. In consideration of the Loan the Lender received a \$480,000 commitment fee and 7,000,000 share purchase warrants to purchase 7,000,000 common shares of the Company at a price of \$0.25 per share for a four year period expiring February 19, 2013. Fees were paid in connection with the Loan equal to 4% (\$428,162) of the funds raised by the Company and 4% (280,000) in warrants of the Company exercisable into a common share at a price of \$0.25 per warrant on or before February 19, 2010 (note 7).

By way of a Purchase and Sale Agreement, dated June 4, 2008, and effective as of April 1, 2008 among the Company, Probe US, and Cutter Energy LLC (“Cutter”), a private entity controlled by L. Scott Broussard, the Company acquired from Cutter a 25% interest in the Leases. The acquisition was accepted by the TSXV on June 30, 2008. Aggregate payable by the Corporation to Cutter is: (1) US\$829,594 cash (paid); (2) 2,000,000 Common

Shares upon approval (issued); and (3) 666,666, 666,667, and 666,667 Common Shares for each occurrence of up to three successful wells at distinct leases within 24 months from the date of the agreement. The first installment of 666,666 Common Shares was issued to Cutter on March 3, 2009 upon the completion of the South Timbalier 214 Well.

Escrow:

601,125 common shares held in escrow by the Company's transfer agent were cancelled on July 28, 2008 pursuant to the Escrow Agreement.

Stock-Based Compensation Plan

The Company had a fixed share option plan effective February 29, 2008. 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 could not 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 could not 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.

Effective March 26, 2009, the Company adopted a rolling share option plan where the maximum number of common shares reserved for issue to any one person under the plan cannot exceed 10% 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

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

Stock-Based Compensation Plan – (cont'd)

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 ten (10) years from the date of the grant, are non-transferable and expire within 45 days of termination of employment or holding office as director or officer of the Company.

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

	<u>Year Ended</u> <u>August 31, 2009</u>		<u>Year Ended</u> <u>August 31, 2008</u>	
	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Outstanding, beginning of period	5,012,910	\$0.45	1,340,910	\$0.67
Granted	3,616,503	\$0.21	5,649,000	\$0.45
Forfeited	<u>(300,000)</u>	<u>\$0.50</u>	<u>(1,977,000)</u>	<u>\$0.61</u>
Outstanding, end of period	<u>8,329,413</u>	<u>\$0.35</u>	<u>5,012,910</u>	<u>\$0.45</u>
Exercisable, end of period	<u>6,039,526</u>	<u>\$0.33</u>	<u>2,041,910</u>	<u>\$0.45</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 forfeited due to directors' resignations. In connection with the resignations, 413,500 vested share purchase options exercisable at \$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.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

Stock-Based Compensation Plan – (cont'd)

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.

In October, 2008, the Company granted incentive stock options to certain employees of the Company to purchase up to 370,000 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 February 11, 2009, the Company granted incentive stock options to certain employees and senior management of the Company to purchase up to 912,580 common shares in the capital stock of the Company. The options have a term of five years expiring February 10, 2014 and are exercisable at an exercise price of \$0.19 per share.

On June 2, 2009, the Company granted incentive stock options to certain employees and senior management of the Company to purchase up to 2,033,923 common shares in the capital stock of the Company. The options have a term of five years expiring June 1, 2014 and are exercisable at an exercise price of \$0.20 per share.

On July 30, 2009, the Company granted incentive stock options to a certain director 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 expiring July 29, 2014 and are exercisable at an exercise price of \$0.15 per share.

Share purchase options outstanding at August 31, 2009 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
370,000	\$0.40	October 2, 2013
912,580	\$0.19	February 10, 2014
2,033,923	\$0.20	June 1, 2014
<u>300,000</u>	\$0.15	July 29, 2014
<u>8,329,413</u>		

The weighted average contractual life of outstanding options is 3.98 years.

The fair value of the share purchase options granted during the years ended August 31, 2009 and August 31, 2008 of \$664,793 and \$1,548,622 was estimated using the Black-Scholes option pricing model using the following assumptions:

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

Stock-Based Compensation Plan – (cont'd)

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.30% - 2.22%	3.01% - 4.22%
Dividend yield	0.00%	0.00%
Expected stock price volatility	116.65% - 223.99%	111.46% - 232.36%
Weighted average expected stock option life	5 years	5 years

Share Purchase Warrants

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

	<u>Year Ended</u> <u>August 31, 2009</u>		<u>Year Ended</u> <u>August 31, 2008</u>	
	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Balance, beginning of period	88,531,224	\$0.67	10,700,000	\$0.75
Issued	14,560,000	\$0.23	78,531,224	\$0.68
Expired	<u>(72,019,350)</u>	<u>\$0.74</u>	<u>(700,000)</u>	<u>\$0.75</u>
Balance, end of period	<u>31,071,874</u>	<u>\$0.37</u>	<u>88,531,224</u>	<u>\$0.67</u>

Share purchase warrants outstanding at August 31, 2009 are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
16,511,874	\$0.50	June 6, 2010
7,000,000	\$0.20	November 28, 2013
280,000	\$0.25	February 9, 2010
7,000,000	\$0.25	February 19, 2013
<u>280,000</u>	<u>\$0.25</u>	<u>February 19, 2010</u>
<u>31,071,874</u>		

Financing costs of \$33,600 with respect to 560,000 share purchase warrants issued for finders' fees during the year ended August 31, 2009 and included in the share purchase warrants outstanding above, were estimated using the Black-Scholes option pricing model with the following assumptions:

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:

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 9 Share Capital – (cont'd)

Share Purchase Warrants – (cont'd)

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.30%	3.69% - 4.97%
Dividend yield	0.00%	0.00%
Expected stock price volatility	116.39%	105.24% - 171.54%
Weighted average expected warrant	1 year	1 - 2 years

Note 10 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>2009</u>	<u>2008</u>
Consulting fees	\$ -	\$ 603,612
Corporate development	-	12,000
Directors' fees	77,500	59,000
Drilling, completion and other costs	-	143,322
Legal fees	515,997	281,650
Rent	-	37,568
Wages and benefits	<u>158,520</u>	<u>142,808</u>
	<u>\$ 752,017</u>	<u>\$ 1,279,960</u>

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

- b) At August 31, 2009, accounts payable and accrued liabilities include \$337,627 (2008: \$85,708) due to directors of the Company or to private companies with directors in common with the Company.
- c) At August 31, 2009, an officer of the Company was indebted to the Company for \$9,428 (2008: \$9,428) from payroll advances. This amount is included in prepaid expenses and deposits.
- d) 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.
- e) On September 2, 2008, the Company advanced US\$750,000 to an officer of the Company as a relocation/home ownership loan. The advance bears interest at 5% per annum 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 was forgiven as to 50% as of January 1, 2009 and the remaining 50% will be

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 10 Related Party Transactions – (cont'd)

forgiven on January 1, 2010 however the Company considers that the terms will be met and has fully allowed for the remainder as of August 31, 2009.

Note 11 Financial Instruments and Risk Management

At August 31, 2009 the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, notes payable, accounts payable and accrued liabilities. The fair values of cash, cash equivalents and restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments. The Company is exposed to risks arising from the creditors balances in the Debt Restructuring Agreement. 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, comprises 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 primarily US dollars, 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 US\$ amounts and on balance sheet translation of monetary accounts denominated in US\$ amounts upon spot rate fluctuations from quarter to quarter.

In addition, additions to oil and gas properties are recorded and translated at historical cost. Changes in foreign exchange rate between US dollar and Canadian dollar could have a significant exchange fluctuation on the results of operations. As at August 31, 2009, a 10% increase in the value of the US dollar to the Canadian dollar would have positively impacted net earnings (loss) by an estimated \$2,473,000 favorable impact. A similar decrease of 10% would have had the opposite impact.

b) Credit Risk

Credit risk reflects the risk the Company may be unable to recover accounts receivable and have access to its bank balances. The Company's accounts receivable are primarily with secure oil and gas companies. The Company's bank accounts are with secure financial institutions. As such, management believes from its evaluation that it does not currently have any significant credit risk.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 11 Financial Instruments and Risk Management (cont'd)

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 debt facilities and equity facilities as needed. All of the Company's debt obligations are repayable or subject to renegotiations in the next fiscal year.

Note 12 Segmented Information

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

August 31, 2009	US	Canada	Total
Revenues	<u>\$ 23,918,542</u>	<u>\$ -</u>	<u>\$ 23,918,542</u>
Current assets	\$ 14,400,950	\$ 43,778	\$ 14,444,728
Oil and Natural Gas Properties	49,697,583	-	49,697,583
Equipment	367,182	7,445	374,627
Other assets	<u>4,980,662</u>	<u>-</u>	<u>4,980,662</u>
Total Assets	<u>\$ 69,446,377</u>	<u>\$ 51,223</u>	<u>\$ 69,497,600</u>
August 31, 2008	US	Canada	Total
Revenues	<u>\$ 5,110,861</u>	<u>\$ -</u>	<u>\$ 5,110,861</u>
Current assets	\$ 17,659,330	\$ 80,831	\$ 17,740,161
Oil and Natural Gas Properties	24,162,999	-	24,162,999
Equipment	401,551	11,266	412,817
Other assets	<u>4,246,158</u>	<u>-</u>	<u>4,246,158</u>
Total Assets	<u>\$ 46,470,038</u>	<u>\$ 92,097</u>	<u>\$ 46,562,135</u>

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

Note 13 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, 2009 and 2008, the following transactions were excluded from the statement of cash flows:

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 13 Non-Cash Transactions – (cont'd)

- a) The Company issued 680,225 common shares valued at \$288,925 as finder's fees on a private placement during 2008. The value was determined by the issue price of the private placement.
- b) For 2009, the Company included \$140,602 (2008: \$48,432) in operation expenses and \$3,082,160 (2008: \$174,803) in asset retirement obligation pursuant to the provision of an asset retirement obligation.
- c) For 2008, the Company issued 3,000,000 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.
- d) For 2008, the Company issued 2,000,000 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.
- e) For 2009, the Company issued 666,666 shares for the South Timbalier 214 well completion as part of the Cutter Energy transactions (less cash share issue costs of \$ 11,023) valued at current stock market price of \$.15
- f) Finders' fee warrants were issued in 2009 in conjunction with its note financing (footnote #9) with a value of \$33,600.
- g) In conjunction with the Debt Restructuring Agreement, the Forbearance Agreement on the existing debt arrangements included a fee to the holders of the debt of \$547,500 which was added to the loan balance outstanding.

Note 14 Income Taxes

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

	<u>2009</u>	<u>2008</u>
Loss before income taxes	\$ <u>21,626,330</u>	\$ <u>4,076,271</u>
Statutory tax rates	<u>30.17%</u>	<u>34.12%</u>
Computed income tax recovery	\$ 6,524,000	\$ 1,390,800
Effect of reduction in statutory rate	(372,000)	(267,100)
Expiry of loss carry forward	(25,000)	(19,300)
Foreign income taxed at other than CDC Rate	573,000	(1,100)
Permanent differences	(3,016,000)	(405,900)

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

	<u>2009</u>	<u>2008</u>
Financing fees	468,000	667,400
Other	658,000	-
Net change in valuation allowance	<u>(4,810,000)</u>	<u>(1,364,800)</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:

	<u>2009</u>	<u>2008</u>
Future income tax assets		
Non-capital loss carried forward	\$ 5,193,000	\$ 996,000
Exploration and development costs	243,000	216,000
Capital assets	40,000	9,000
Financing costs	<u>1,133,000</u>	<u>587,000</u>
	6,609,000	1,808,000
Valuation allowance	<u>(6,609,000)</u>	<u>(1,808,000)</u>
Future income tax assets	<u>\$ -</u>	<u>\$ -</u>

At August 31, 2009, 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 2029.

The amount of Canadian non-capital losses available for carry forward is \$10,027,000. The amount of US net-operating losses available for carry forward is \$7,674,000.

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 15 Comparative Figures

Certain comparative figures as at August 31, 2009 and for the year then ended have been reclassified to conform with the financial statement presentation adopted for the current period.

Note 16 Subsequent Events

Debt Restructuring Agreement

Subsequent to August 31, 2009, the Company announced that it had entered into a Debt Restructuring Agreement (the "DRA") which became effective on August 31, 2009. The DRA schedules repayment of the Company's outstanding past due trade payables and credit agreements in an orderly manner consistent with monthly collected revenues,

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 16 Subsequent Events – (cont'd)

Debt Restructuring Agreement - (cont'd)

following deduction for general and administrative as well as lease operating and transportation expenses and royalty payments of the Company.

Under the terms of the DRA, repayment will be made to all trade creditors with interest at an annual rate of 10%. The outstanding credit facilities are also included in the DRA. Interest rates on the existing loans and notes remained at their original rate. Monthly debt service on the agreements are determined in the DRA monthly payments based upon available cash as defined by the DRA and is allocated among the various Creditor classes, including the credit facilities, within the provisions of the DRA. The Company's cash collection on the revenue from the properties secured by the DRA are maintained in a restricted cash account until distribution to the Company or Creditors by the DRA Creditors' Agent (Restricted Cash – Note 3). The Company also agreed to restrictions on the sale of certain Company assets and certain monthly reporting requirements. In the event of a rise (or decline) in the price or sales volume of natural gas, the repayment schedule self adjusts. A Creditors' Committee was formed under the DRA to resolve future issues, and a Creditors' Agent has been selected by the Creditors' Committee to oversee payments by the Company.

Development Financing

Subsequent to August 31, 2009, the Company announced that it had entered into an amended and increased credit facility agreement with an institutional lender ("the Lender") whereby the Lender provided to the Company a US\$9.25 million loan (the "Loan"). The Company subsequently issued to the Lender additional notes (the "Notes") under an existing credit facility. The Notes have a face value of US\$9.25 million bearing interest at 18% per annum over a primary term of one year with approximately US\$1 million of the proceeds to be used for underwriting and amendment fees to the Lender, US\$1.25 million of the loan was used for litigation settlement (see next paragraph). Debt service will be generated from production payments from the two wells of the East Cameron development.

Note 16 Subsequent Events – (cont'd)

Litigation Settlement

Subsequent to August 31, 2009, the Company announced that it had reached a Litigation Settlement of all claims and dismissal of a lawsuit initiated by a party (Frankel) against Probe Resources US LTD and an officer of the Company alleging the use of confidential information related to certain properties previously acquired by Probe, thereby removing the uncertainty surrounding such claims and the concomitant material legal expenses. As a condition of the settlement, the Company paid US\$1.25 million and the Litigation Settlement counterparty also received small overriding royalties on certain Probe properties. Probe and management vigorously deny any wrongdoing with respect to all of the matters alleged and the settlement specifically acknowledges that there is no admission of liability on either party's part. As of August 31, 2009, the Company provided a provision of \$1,472,625 (US\$1,250,000) for the settlement.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended August 31, 2009

Note 17 Commitments

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 December 31, 2013.

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

August 31, 2010	\$376,147
August 31, 2011	\$376,147
August 31, 2012	\$386,207
August 31, 2013	\$391,237
August 31, 2014	\$130,412

Note 18 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.

In the management of capital, the Company includes share capital, contributed surplus, deficit, interest bearing debt, debt restructure agreement balances, 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. See Subsequent Event (note #16) for additional debt issuance during first fiscal quarter of 2010.