

PROBE RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2011



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Independent Auditor's Report

To the Shareholders of Probe Resources Ltd.

We have audited the accompanying consolidated financial statements of Probe Resources Ltd. and its subsidiary (the "Company"), which comprise the consolidated balance sheet as at August 31, 2011 and of the predecessor of Probe Resources Ltd. and its subsidiaries (the "Predecessor") as at April 15, 2011 and August 31, 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the period April 16, 2011 to August 31, 2011 of the Company and for the period September 1, 2010 to April 15, 2011 and the year ended August 31, 2010 of the Predecessor, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Probe Resources Ltd. and its subsidiaries as at August 31, 2011 and of the Predecessor as at April 15, 2011 and August 31, 2010 and the results of its operations and its cash flows for the period April 16, 2011 to August 31, 2011 of the Company and for the period September 1, 2010 to April 15, 2011 and the year ended August 31, 2010 for the Predecessor in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(Signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
December 23, 2011

PROBE RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(in Canadian Dollars)

ASSETS

	<u>Successor as at</u>		<u>Predecessor as at</u>	
	<u>08/31/2011</u>		<u>04/15/2011</u>	
			<u>08/31/2010</u>	
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,678,205	\$ 2,637,221	\$ 2,326,283	
Restricted cash – Notes 1 and 3	-	394,588	895,680	
Accounts receivable	2,065,207	2,693,163	2,762,678	
Prepaid expenses and deposits	<u>390,180</u>	<u>153,308</u>	<u>1,333,155</u>	
Total current assets	4,133,592	5,878,280	7,317,796	
PROPERTY, PLANT, EQUIPMENT AND OTHER ASSETS				
Reclamation and performance deposits – Note 8	3,678,860	3,759,416	4,429,388	
Office equipment - Note 4	-	-	39,916	
Oil and natural gas properties – Notes 1 and 5	<u>14,135,924</u>	<u>35,914,871</u>	<u>38,935,882</u>	
Total Assets	<u>\$ 21,948,376</u>	<u>\$ 45,552,567</u>	<u>\$ 50,722,982</u>	

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES				
Accounts payable and accrued liabilities – Notes 1, 7 and 11	\$ 3,358,870	\$ 16,915,168	\$ 14,809,801	
Notes payable – Notes 1 and 6	<u>479,370</u>	<u>26,644,451</u>	<u>28,908,037</u>	
Total current liabilities	3,838,240	43,559,619	43,717,838	
LONG-TERM LIABILITIES				
Notes payable – Notes 1 and 6	14,668,500	-	-	
Asset retirement obligations – Notes 1 and 9	3,758,275	4,501,575	4,419,273	
Asset retirement obligations received – Note 9	<u>870,558</u>	<u>765,839</u>	<u>674,891</u>	
Total long-term liabilities	<u>19,297,333</u>	<u>5,267,414</u>	<u>5,094,164</u>	
SHAREHOLDERS' DEFICIT				
Share capital – Notes 1 and 10	10	42,832,280	42,832,280	
Contributed surplus – Notes 1 and 10	-	5,116,890	5,116,890	
Reorganization expenses - Note 1	-	(2,387,101)	-	
Deficit	<u>(1,187,207)</u>	<u>(48,836,535)</u>	<u>(46,038,190)</u>	
Total shareholder's deficit	<u>(1,187,197)</u>	<u>(3,274,466)</u>	<u>1,910,980</u>	
Total liabilities and shareholders' equity	<u>\$ 21,948,376</u>	<u>\$ 45,552,567</u>	<u>\$ 50,722,982</u>	

Nature of Operations, Financial Reorganization and Going Concern – Note 1

Commitments and Contingencies – Note 17

Subsequent Events- Notes 5 and 18

PROBE RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT
(in Canadian Dollars except for per share amounts)

	<u>Successor</u>	<u>Predecessor</u>	
	From 4/16/11 through <u>08/31/2011</u>	From 09/1/2010 through <u>04/15/2011</u>	<u>08/31/2010</u>
REVENUE			
Oil and natural gas	\$ 1,760,055	\$ 4,197,478	\$ 16,365,761
EXPENSES OF OPERATIONS			
Lease operating expenses	695,244	1,492,876	2,096,143
Transportation	406	134,713	941,195
Insurance	110,401	299,628	690,042
Other	-	676	70,412
	<u>806,051</u>	<u>1,927,893</u>	<u>3,797,792</u>
Depreciation, depletion, and accretion	962,909	3,094,893	18,345,142
Total operating expenses	<u>1,768,960</u>	<u>5,022,786</u>	<u>22,142,934</u>
Loss from operations	(8,905)	(825,308)	(5,777,173)
GENERAL AND ADMINISTRATIVE EXPENSE			
Depreciation and amortization	-	39,789	342,677
Administrative expenses - Note 11	663,178	1,671,157	4,590,140
Stock-based compensation – Note 10	-	-	192,616
Total general and administrative expense	<u>663,178</u>	<u>1,710,946</u>	<u>5,125,433</u>
Net interest expense & deferred financing costs	(881,453)	(3,517,630)	(7,138,534)
Gain on sale of assets	34,157	-	-
Foreign exchange gain	<u>332,171</u>	<u>3,255,539</u>	<u>579,560</u>
Net loss and comprehensive income loss	(1,187,207)	(2,798,345)	(17,461,579)
Deficit, beginning of period - Note 1	<u>-</u>	<u>(46,038,190)</u>	<u>(28,576,611)</u>
Deficit, end of period	\$ <u>(1,187,207)</u>	\$ <u>(48,836,535)</u>	\$ <u>(46,038,190)</u>
Basic and diluted income (loss) per share	<u>(0.00)</u>	<u>(0.03)</u>	<u>(0.17)</u>
Weighted average shares outstanding	<u>3,546,106,667</u>	<u>106,383,200</u>	<u>105,513,793</u>

See accompanying notes to consolidated financial statements.

PROBE RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian Dollars)

	<u>Successor</u>	<u>Predecessor</u>	
	From 4/16/11 through <u>08/31/2011</u>	From 09/1/2010 through <u>04/15/2011</u>	<u>08/31/2010</u>
Cash provided by (used in) Operating Activities:			
Net loss for the period	\$ (1,187,207)	\$ (2,798,345)	\$ (17,461,580)
Add items not affecting cash:			
Depletion, accretion and write-downs	962,909	3,094,893	18,359,981
Depreciation	-	39,789	342,677
Foreign exchange loss (gain)	1,227,606	(3,204,655)	(215,928)
Accrued- interest expense	785,488	3,200,831	2,058,165
Stock-based compensation	-	-	192,616
Note discount accretion and deferred financing cost amortization	-	-	1,461,051
	<u>1,788,796</u>	<u>332,513</u>	<u>4,736,982</u>
Changes in working capital and other balances:			
Restricted cash	394,588	501,092	5,516,209
Accounts receivable	657,662	69,515	3,911,572
Prepaid expenses and other	(247,888)	1,179,847	(670,577)
Accounts payable and accrued liabilities	(3,188,789)	4,302,649	(1,695,288)
Litigation settlement payment	-	-	(1,472,625)
	<u>(595,631)</u>	<u>6,385,616</u>	<u>10,326,273</u>
Cash provided by (used in) Financing Activities:			
Proceeds from Administrative DIP Facilities	-	445,147	-
Reorganization expenses	-	(2,387,101)	-
Proceeds from issuance of notes payable	-	-	11,858,670
Principal payment on notes	-	(2,662,260)	(2,014,142)
Asset retirement obligations received	104,142	90,948	-
Deferred financing costs	-	-	(1,461,056)
	<u>104,142</u>	<u>(4,513,266)</u>	<u>8,383,472</u>
Cash provided by (used in) Investing Activities:			
Reclamation and performance deposits	-	391,397	(252,477)
Additions to equipment	-	127	(7,967)
Additions to oil and natural gas properties	(499,134)	(1,742,401)	(16,883,199)
	<u>(499,134)</u>	<u>(1,350,877)</u>	<u>(17,143,643)</u>
Foreign exchange effect on cash	31,607	(210,535)	7,409
Increase (decrease) in cash	(959,016)	310,938	1,573,511
Cash and cash equivalents, beginning of period	2,637,221	2,326,283	752,772
Cash and cash equivalents, end of period	<u>\$ 1,678,205</u>	<u>\$ 2,637,221</u>	<u>\$ 2,326,283</u>

PROBE RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian Dollars)

	Successor	Predecessor	
	From 4/16/11 through <u>08/31/2011</u>	From 09/1/2010 through <u>04/15/2011</u>	<u>08/31/2010</u>
Cash paid for interest	\$ <u>100,000</u>	\$ <u>319,418</u>	\$ <u>2,841,529</u>
Cash paid for income taxes	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Supplementary Information with Respect to Non-cash Transactions - Note 14

See accompanying notes to consolidated financial statements.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 1 Nature of Operations and financial reorganization

Probe Resources Ltd. (the "Company") is a public company listed on the TSX Venture Exchange (TSX-V) and was incorporated under the British Columbia Business Corporations Act on November 15, 1988. At August 31, 2011, the Company owned interests in three oil and natural gas producing properties and a total of seven Federal oil and natural gas blocks located in the United States Gulf of Mexico.

The Company's U.S. subsidiaries filed voluntary Chapter 11 petitions on November 16, 2010 (the Company filed similar petitions in Canada on December 7, 2010) in the U.S. Bankruptcy Court (the "Court") for the Southern District of Texas in Houston, Texas. The Company and its subsidiaries, (collectively the "Debtors") proceeded to operate their businesses and manage their properties as debtors in possession. The bankruptcy filing followed the expiration of the Debt Restructuring Agreement (the "DRA") and Forbearance Agreements.

On November 15, 2010, the Company's Board of Directors formally engaged Energy Spectrum Advisors, Inc. ("ESA") as the Company's exclusive financing advisor and restructuring agent. ESA immediately undertook a restructuring plan on behalf of the Company and its subsidiaries. Also as part of its terms of engagement, Coy Gallatin, Senior Vice President of ESA became Chief Restructuring Officer of the Company. On April 15, 2011 the financial reorganization was complete and, accordingly, ESA and Mr. Gallatin resigned (see Financial Reorganization below).

On January 10, 2011, trading in the Company's shares was suspended. Further to the Exchange Bulletins dated January 10, 2011 and July 20, 2011, trading in the Company's shares will remain suspended. On August 9, 2011, the Company announced that its listing has been transferred from the TSX-V Tier 2 to the NEX. The Company's trading symbol has changed from PBR to PBR.H. On December 5, 2011, the Company made an application for reinstatement with the TSX-V NEX.

Director and Officer Appointments

By April 15, 2011, through attrition, all remaining officers had left the company. Pursuant to the Plan of Reorganization, a new board was established and new officers were appointed.

Financial Reorganization

On March 21, 2011 a Plan of Reorganization was agreed to by the Company, its subsidiaries and its creditors and was confirmed by the Court with an effective date of April 15, 2011 (the "Effective Date" and/or the "Confirmation Date").

The principal terms of the Plan of Reorganization, were as follows:

- Value of Oil & Gas Properties and Related Debt

The oil and gas properties and related debt were each assigned a negotiated value by the Company and the creditors of US \$15,000,000. See "Senior Secured Lender Claims (the "Allowed Senior Secured Lender Claim") and assigned value of related oil and gas assets" below for additional details.

- Claim of RLI Insurance Company and the Bureau of Ocean Energy Management, Regulation and Enforcement ("MMS" or "BOEMRE")

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 1 Financial reorganization (Cont'd)

As of the Effective Date, all contracts between the Debtors and the decommissioning and/or plug and abandonment financial responsibility bonding company, RLI Insurance Company, were assumed by the Debtors to the extent section 365 of the US Bankruptcy Code applies. All bonds, held in the form of performance deposits, remained in place to secure the performance of the reorganized Debtors' applicable decommissioning and/or plug and abandonment obligations.

As of the Effective Date, the Debtors assumed, to the extent section 365 of the US Bankruptcy Code applies, all of its oil and gas leases in the Gulf of Mexico granted by and through the MMS/BOEMRE and is obligated to pay all claims (if any) of the BOEMRE in the ordinary course of business.

- Senior Secured Lender Claims (the "Allowed Senior Secured Lender Claim") and assigned value of related oil and gas assets

The Senior Secured Note Holder, K2 Principal Fund L.P., received, with respect to its claims (the "Allowed Senior Secured Lender Claims"), on the Effective Date: (i) 3,095,751,120 shares of common stock, representing ninety percent (90%) of the number of shares of New Common Stock of the Company issued under the Plan of Reorganization (see "Interests in Parent Company" below); (ii) a note payable in the amount of up to US \$1,800,000 representing the obligations owed by the reorganized Debtors under the Advancing Loan Facility (more fully described below); (iii) a 90% interest in a note payable in the amount of US \$15,000,000, representing the obligations owed by the reorganized Debtors under the Post Confirmation Term Loan (more fully described below); and (iv) an allowed general unsecured Deficiency Claim totaling approximately US \$13,700,000.

The balance owing to the Senior Secured Note Holder at the Effective Date was \$26,130,118 (US \$27,176,410). On the Effective Date of the Debtors' Plan of Reorganization, the reorganized Debtors entered into a new term loan with the Senior Secured Note Holder ("Post Confirmation Term Note"). The principal amount of the Post Confirmation Term Note totaled US \$15,000,000, computed as (i) the agreed upon value of the reorganized Debtors' oil and gas assets, excluding the EC 246 lease, as of the Effective Date (wherein the agreed upon value of the oil and gas properties was approximately US \$15,000,000), plus (ii) the value of the EC 246 lease in excess of the 246 DIP Facility Loan, if any, on the Effective Date, minus (iii) the amount outstanding on the Administration DIP Facility or the Advancing Loan Facility as of the Effective Date.

Pursuant to the Plan of Reorganization, a ten percent (10%) participation interest in the Post Confirmation Term Note was assigned to a liquidating trust (the "Liquidating Trust") for the benefit of certain vendors (the "DRA Class 1 and 3 Creditors"). The Post Confirmation Term Note matures on the third anniversary of the Effective Date and accrues interest at 15% per annum. The balance of the pre-confirmation Allowed Senior Secured Lender Claims in excess of the Post Confirmation Term Note, less the 10% participation interest granted to the Liquidating Trust is classified as an unsecured claim. The Senior Secured Lenders "deficiency" claim of approximately US \$13,700,000 received the same treatment as all other unsecured claims per the Debtors' Plan of Reorganization.

Upon the Effective Date, the Administrative DIP Facility, drawn in the amount of \$445,147 (US \$462,971), was modified, amended and otherwise converted into the post confirmation Advancing Loan Facility ("Advancing Loan Facility") in the amount of up to US \$1,800,000. The Advancing Loan Facility matures on the third anniversary of the Effective Date and accrues interest at a rate of 15% per annum. The terms of the Advancing Loan Facility require

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 1 Financial reorganization (Cont'd)

that net available cash in excess of the Debtors' administrative and operating expenses are to be applied against the balance owed on the Advancing Loan Facility.

- Allowed Secured DRA Creditors' Agent Claim for DRA Class 1 and Class 3 Joining Creditors

On the Effective Date, the Liquidating Trust was established. The Liquidating Trust was funded with (1) a ten percent (10%) participation in the Post Confirmation Term Loan, (2) 343,972,347 shares of common stock, representing ten percent (10%) of New Common Stock of the Company (see "Interests in Parent Company" below), and (3) any future amounts which might be recovered pursuant to successful avoidance actions (the "Avoidance Actions"). The DRA Class 1 and Class 3 joining creditors are to receive, on account of the DRA Creditors' Agent's Claim, distributions from the Liquidating Trust from and on account of the foregoing interests. DRA Class 1 and DRA Class 3 joining creditors are to be included in the general unsecured creditor class.

- General Unsecured Claims

Each holder of allowed unsecured claims (the "Allowed General Unsecured Claims") are to receive a pro rata share of distributions from the Liquidating Trust from and on account of any future recoveries attributable to Avoidance Actions after payment of fees and expenses of the Liquidating Trust.

- Other Claims

Certain executory contracts and administrative claims were confirmed by the Company under the Plan of Arrangement on the Effective Date.

- Interests in Parent Company

On the Effective Date, holders of common stock in Probe retained their existing interests subject to substantial dilution from the issuance of 3,439,723,467 shares of common stock (the "New Common Stock"), representing ninety seven percent (97%) of the outstanding shares of common stock following issuance of the New Common Stock. The balance of the common shares outstanding will continue to be held by existing shareholders. Subsequent to the issuance of the New Common Shares, the Company intends to file Articles of Amendment pursuant to the British Columbia Business Corporations Act to consolidate its outstanding share capital at an appropriate ratio and potentially change the name of the Company.

The Plan of Reorganization resulted in K2 Principal Fund L.P. obtaining beneficial ownership of 87.3% of the total authorized, issued and outstanding common shares, control and direction over the Company, therefore becoming a significant shareholder as defined under National Instrument 55-104 and making them subject to insider reporting requirements going forward.

- Interests in Subsidiaries

On the Effective Date, the Company's interests in Probe HI 115, Ltd., Probe ST 214, Ltd. and Probe Resources Energy Marketing US, Ltd. were merged with and into the wholly owned subsidiary Probe Resources US, Ltd. There was no impact on the consolidation of Probe Resources US, Ltd. as a result of this merger, all intercompany balances and transactions were eliminated upon consolidation.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 1 Financial reorganization (Cont'd)

The following table summarizes the impact of adjustments recorded to implement the financial reorganization and to reflect the adoption of the new basis ("Fresh Start") of accounting as at April 15, 2011. See also Note 2a) - Basis of Valuation.

<u>ASSETS</u>	04/15/2011	04/15/2011	Notes	Fresh Start	Notes	04/15/2011
	<u>Pre- Reorganization</u>	<u>Reorganization Adjustments</u>		<u>Adjustments</u>		<u>Post- Reorganization</u>
CURRENT ASSETS						
Cash and cash equivalents	\$ 2,637,221	\$ -		\$ -		\$ 2,637,221
Restricted cash	394,588	(116,785)	(1)	-		277,803
Accounts receivable	2,693,163	-		-		2,693,163
Prepaid expenses and deposits	153,308	-		-		153,308
Total current assets	<u>5,878,280</u>	<u>(116,785)</u>		<u>-</u>		<u>5,761,495</u>
PROPERTY, PLANT, EQUIPMENT AND OTHER ASSETS						
Reclamation and performance deposits	3,759,416	-		-		3,759,416
Office equipment	-	-		-		-
Oil and natural gas properties	35,914,871	-		(19,616,441)	(2)	16,298,430
Total Assets	<u>\$ 45,552,567</u>	<u>\$ (116,785)</u>		<u>\$ (19,616,441)</u>		<u>\$ 25,819,341</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 16,915,168	\$ (11,230,898)	(1)	\$ -		\$ 5,684,270
Notes payable	26,644,451	(26,199,304)	(2) & (3)	-		445,147
Total current liabilities	<u>43,559,619</u>	<u>(37,430,202)</u>		<u>-</u>		<u>6,129,417</u>
LONG-TERM LIABILITIES						
Notes payable	-	14,422,500	(3)	-		14,422,500
Asset retirement obligations	4,501,575	-		-		4,501,575
Asset retirement obligations received	765,839	-		-		765,839
Total long-term liabilities	<u>5,267,414</u>	<u>14,422,500</u>		<u>-</u>		<u>19,689,914</u>
SHAREHOLDERS' EQUITY (DEFICIT)						
Share capital	42,832,280	22,890,917	(1) & (3)	(65,723,187)	(1)	10
Contributed surplus	5,116,890	-		(5,116,890)	(1)	-
Reorganization expenses	(2,387,101)	-		2,387,101	(1)	-
Retained Earnings/(Deficit)	(48,836,535)	-		48,836,535	(1) & (2)	-
Total shareholder's equity (deficit)	<u>(3,274,466)</u>	<u>22,890,917</u>		<u>(19,616,441)</u>		<u>10</u>
Total liabilities and shareholders' equity	<u>\$ 45,552,567</u>	<u>\$ (116,785)</u>		<u>\$ (19,616,441)</u>		<u>\$ 25,819,341</u>

See Footnotes on next page

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 1 Financial reorganization (Cont'd)

Financial Reorganization Adjustments:

1. To reflect forfeit of restricted cash of \$116,785 (US \$121,461) for default on office lease, the issuance of new common shares, the reduction of \$11,230,898 (US \$11,650,382) in general unsecured creditor liabilities, and the retention of certain executory contracts and administrative claims that were confirmed by the Company as of the Effective Date.
2. To reflect the conversion of the Administrative DIP Facility into \$445,147 (US \$462,971) Advancing Loan Facility as of the Effective Date.
3. To reflect the issuance of new common shares and reduction of \$26,199,304 (US \$27,241,986) in Senior Secured Notes and a general unsecured note payable and conversion into a new \$14,422,500 (US \$15,000,000) Term Loan Facility as of the Effective Date.

Fresh Start Accounting Adjustments:

At April 15, 2011, the carrying value of all current assets and current liabilities not subject to the Plan of Reorganization approximated fair value and were carried forward at these values to the post-reorganization balance sheet.

1. To reclassify the deficit and contributed surplus that arose prior to the fresh start to share capital and to account for the reorganization expenses as a capital transaction in accordance with the provisions of CICA Handbook Section 1625 *comprehensive revaluation of assets and liabilities*.
2. The value ascribed to the oil and natural gas properties was negotiated with the creditors to an amount where the secured creditors were willing to be refinanced and has been adjusted to reflect the amounts finalized with the submission to the Court of the mutually agreed upon Plan of Reorganization.

Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For the predecessor company prior to the Fresh Start accounting, from September 1, 2010 to April 15, 2011, the predecessor company incurred a net loss of \$2,798,345 and as at April 15, 2011 had an accumulated deficit of \$48,836,535. Subsequent to the financial reorganization, from April 16 to August 31, 2011 the Company had a comprehensive loss of \$1,187,207, had used cash in operating activities of \$595,631 and as at August 31, 2011 had an accumulated deficit of \$1,187,207 after the reorganization.

The Company's ability to continue as a going concern is dependent upon its ability to raise capital, the generation of positive cash flow from operations, the maintenance of its existing reserves and production base, the success of any future development and exploration program and the continued support of its creditor. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flow is also uncertain. These uncertainties cast significant doubt on the Company's ability to continue as a going concern.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 2 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Basis of Valuation - Fresh Start Accounting

The Company was required to perform a comprehensive balance sheet revaluation under the provisions of CICA Handbook Section 1625, *comprehensive revaluation of assets and liabilities*. The Company assessed the value of identifiable assets and liabilities as at April 15, 2011, whether or not previously recorded. The adjustments to revalue assets and liabilities met the recognition criteria under Canadian GAAP to establish a new cost basis as at April 15, 2011, as more fully described in Note 1. Reorganization expenses directly incurred in effecting the Plan of Reorganization were treated as a capital transaction at the Effective Date.

b) Principles of Consolidation

As of the Effective Date, these consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Probe Resources US Ltd. Prior to the reorganization these consolidated financial statements include the accounts of the predecessor 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 intercompany transactions and balances have been eliminated in the consolidated financial statement presentation.

c) 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%; and leasehold improvements are amortized on a straight-line basis over five years.

d) Oil and Natural Gas Properties

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs of exploring for and developing oil and natural gas reserves are initially capitalized on a country-by-country basis. 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.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 2 Significant Accounting Policies (Cont'd)

d) Oil and Natural Gas Properties (Cont'd)

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 unless the loss would alter the depletion rate by more than 20%.

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. 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.

e) Environmental Costs

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

f) Asset Retirement Obligations

The fair 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.

g) Impairment of Long-Lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 2 Significant Accounting Policies (Cont'd)

g) Impairment of Long-Lived Assets (Cont'd)

must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized to the extent that the carrying amount of the asset exceeds its fair value.

h) Stock-based Compensation

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

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

i) Foreign Currency Translation

These consolidated financial statements are measured and expressed in Canadian dollars. Integrated foreign operations are translated using the temporal method, whereby monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the average rates of exchange during the period, and any resulting foreign exchange gains and losses are included in the statement of operations.

j) Basic and Diluted Income (Loss) Per Share

Basic income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the year. The weighted average number of shares is determined by relating the portion of time within the reporting period that the common shares have been outstanding to the total time in the period. Diluted earnings per share reflect the potential dilution of securities that could share in the 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 is the same for the periods presented.

For the years ended August 31, 2011 and 2010, potentially dilutive common shares (including options and warrants outstanding at year-end) totaling nil (2010: 22,774,659) were not included in the computation of income (loss) per share because their effect was anti-dilutive.

k) 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.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 2 Significant Accounting Policies (Cont'd)

k) Income Taxes (Cont'd)

Future income tax assets and liabilities are determined based on the substantially enacted tax laws and rates that are anticipated to apply in the period of realization.

l) Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and have maturities of 90 days or less when purchased.

m) 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. The Company's share of oil and gas revenue is net of royalties and production related government taxes.

n) 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.

o) Financial Instruments- Recognition and Measurement

The Company classifies all financial instruments as held-to-maturity, available-for-sale, held-for-trading, loans and receivables, or other liabilities. Subsequent to their measurement on initial recognition at fair value financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive loss. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the statement of operations and comprehensive loss.

The Company has chosen to expense transaction costs relating to financial assets and liabilities that have been designated as other than held-for-trading in accordance with S3855.57(a) of the CICA Handbook.

In accordance with this standard, the Company has classified its financial instruments as follows:

- Cash, cash equivalents and restricted cash as held-for-trading, which is measured at fair value;
- Accounts receivable, which are classified as loans and receivables; and
- Accounts payable, accrued liabilities and notes payable are classified as other liabilities. They are initially measured at fair value. Subsequent measurement is recorded at amortized cost using the effective interest rate method.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 2 Significant Accounting Policies (Cont'd)

o) Financial Instruments (Cont'd)

The amendments require additional fair value disclosure for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making fair value assessments, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the financial instruments measured at fair value on the balance sheet are included in Level 1.

p) Recent Accounting Pronouncements

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") requires the adoption of IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of September 1, 2011 will therefore 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 2012, the financial reporting impact of the transition to IFRS has not been determined at this time.

Note 3 Restricted Cash

As at April 15, 2011, restricted cash consisted of \$277,803 (US \$288,927) in payments received from partners for expenditures to be incurred on the EC36 and EC37 oil and gas properties. These amounts were released back to partners during the period ended August 31, 2011. There was also a restricted deposit of \$116,785 (US \$121,461) represented by a certificate of deposit held as office rent security. On November 16, 2010, as described in Note 1, the Company filed for bankruptcy, thereby defaulting on the office lease agreement. The office lease agreement was terminated in the Chapter 11 reorganization process and the Company moved from the premises on April 30, 2011. As a result of these actions, as at April 15, 2011, the restricted deposit was forfeited and included in the Reorganization Adjustment described in Note 1.

As at August 31, 2010, \$766,458 (US \$720,455) of restricted cash related to the cash management arrangement associated with the Debt Restructuring Agreement ("DRA") that became effective on August 31, 2009 (Note 7). The restricted cash balance at August 31, 2010 represented current period customer collection amounts that were to 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. Immediately prior to the Effective Date of the Plan of Reorganization, this cash was applied by the DRA administrator against outstanding balances owed. The balance of restricted cash at August 31, 2010 in the amount of

PROBE RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended August 31, 2011

Note 3 Restricted Cash (Cont'd)

\$129,222 (US \$121,461) was represented by the certificate of deposit held as office rent security described above.

Note 4 Office Equipment

	Predecessor		
	08/31/2010		
	<u>Accumulated</u>		
	<u>Cost</u>	<u>Amortization and</u>	<u>Net Book</u>
		<u>Write-Downs</u>	<u>Value</u>
Computer equipment	\$ 77,707	\$ 56,561	\$ 21,146
Office furniture and fixtures	355,122	336,352	18,770
Leasehold improvements	<u>69,209</u>	<u>69,209</u>	<u>-</u>
	<u>\$ 502,038</u>	<u>\$ 462,122*</u>	<u>\$ 39,916</u>

*An impairment provision of \$203,094 was included in equipment depreciation and amortization expense.

Subsequent to the Company's emergence from bankruptcy protection, and as a result of moving from the Company's previous office premises (see Note 3), the Company sold the remaining computer equipment and office furniture and fixtures.

Note 5 Oil and Natural Gas Properties

The development categories of oil and natural gas interests at August 31, 2011, April 15, 2011 and August 31, 2010 were as follows:

	Successor		
	08/31/2011		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net Book Value</u>
		<u>Depletion</u>	
Proved properties including lease and well equipment	\$ 14,707,918	\$ 910,648	\$ 13,797,270
Unproved properties			
Undeveloped	338,654	-	338,654
	<u>\$ 15,046,572</u>	<u>\$ 910,648</u>	<u>\$ 14,135,924</u>

	Predecessor		
	04/15/2011		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net Book Value</u>
		<u>Depletion</u>	
Proved properties including lease and well equipment	\$ 85,395,193	\$ 49,818,976	\$ 35,576,217
Unproved properties			
Undeveloped	338,654	-	338,654
	<u>\$ 85,733,847</u>	<u>\$ 49,818,976</u>	<u>\$ 35,914,871</u>

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 5 Oil and Natural Gas Properties (Cont'd)

	<u>Cost</u>	<u>Predecessor 08/31/2010 Accumulated Depletion</u>	<u>Net Book Value</u>
Proved properties including lease and well equipment	\$ 85,383,334	\$ 46,786,106	\$ 38,597,228
Unproved properties			
Undeveloped	338,654	-	338,654
	<u>\$ 85,721,988</u>	<u>\$ 46,786,106</u>	<u>\$ 38,935,882</u>

The Company performed a ceiling test to evaluate the carrying value of its proved and unproved properties at August 31, 2011 and has determined that no impairment provision is required.) 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Oil - \$/Barrel	\$ <u>99.73</u>	\$ <u>100.92</u>	\$ <u>100.73</u>	\$ <u>100.34</u>	\$ <u>100.21</u>
Natural Gas - \$/MMbtu	\$ <u>4.84</u>	\$ <u>5.16</u>	\$ <u>5.42</u>	\$ <u>5.70</u>	\$ <u>5.96</u>

The predecessor company also performed a ceiling test to evaluate the carrying value of its proved and unproved properties at April 15, 2011 immediately prior to the financial reorganization described in Note 1. On the basis of that ceiling test, no impairment provision was required (See also Note 1, "Value of Oil & Gas Properties and Related Debt" for additional details).

As of August 31, four properties were categorized by the Company as proved. These are as follows:

- East Cameron Block 36, which consists of one well (East Cameron 36 A-1 well) which was placed on production during February 2010. The Company has a 52.00% working interest (35.62% net revenue interest) in the well.
- East Cameron Block 37, which consists of one well (East Cameron 37 A-2 well) which was placed on production during February 2010. The Company has a 52.00% working interest (35.36% net revenue interest) in the well.
- High Island Block 115, which consists of one producing well (the High Island 115 B-1 ST2 well), which was acquired during June 2007 with an add-on ownership in December 2007. The Company has 27.50% working interest (22.07% net revenue interest) in the well.
- South Timbalier Block 214, which consists of one producing well (the South Timbalier 214 A-6 ST1 well) which was placed on production during the second quarter of 2009. The Company holds a 100.00% WI and 68.50% NRI prior to project payout ("BPPO") and an 80.00% WI and 57.70% NRI after project payout ("APPO") in the well.

As of August 31, two properties were categorized by the Company as unproved. These are as follows:

- South Timbalier Block 198 has an undrilled location identified (named the A-7 ST2 well). The Company has 100.00% working interest (70.00% net revenue interest) in the block.
- Vermillion Block 20 has potential drill locations identified to test sands productive in the adjacent leased blocks, the East Cameron 36 and 37. The Company has 52.00% working interest (35.62 % net revenue interest) in the block.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 5 Oil and Natural Gas Properties (Cont'd)

Agreements to Purchase and Sell Oil and Gas Rights

On May 6, 2010, the predecessor company entered into an agreement whereby it agreed to execute an assignment of a 23.00% working interest (16.91% net revenue interest) in the High Island Block 115 field in exchange for forgiveness of \$860,000 of indebtedness to a vendor. With that sale, the predecessor company retained a 27.50% working interest and a 22.07% net revenue interest in the field.

On June 24, 2010, the predecessor company entered into a participation agreement to convey a 10.00% working interest and 6.85% net revenue interest before payout (8% working interest and 6.45% net revenue interest after payout) in the East Cameron Block 246 project. With that sale, the predecessor company retained a 90.00% working interest and a 61.65% net revenue interest before Project Payout and approximately 72.00% working interest and 52.00% net revenue interest after Project Payout. The project consists of one well, the EC 246 #2, that was drilled, logged, cased and suspended awaiting completion during the 3rd Quarter of 2010. The predecessor company received cash consideration in the amount of \$400,000 as a prospect recoupment fee. Additional consideration for the transaction was a replacement performance bond totaling \$886,000 to be posted by the partner. In September 2010, the predecessor company received return of restricted cash deposits totaling \$886,000 from the cancellation of the supplemental and development bonds related to this field.

The primary term of the East Cameron 246 lease has expired. The lease was being held by a Suspension of Operations ("SOP") through June 30, 2011. The SOP required certain milestones in order to retain the lease. After careful geologic and economic evaluation, the Company has decided not to pursue completion of this project. The SOP lapsed on its expiration date of June 30, 2011.

Note 6 Notes Payable

Notes payable consisted of the following:

	Successor		Predecessor	
	August 31, 2011	April 15, 2011	August 31, 2010	
Term Loan	\$14,668,500	\$ -	\$ -	-
Advancing Loan Facility	479,370	-	-	-
Credit Facility Loans	-	17,547,317	19,895,047	-
Senior Secured Notes	-	8,582,801	8,731,308	-
Debtor in Possession Loans	-	445,147	-	-
Other short term notes	-	69,186	281,682	-
	<u>\$15,147,870</u>	<u>\$ 26,644,451</u>	<u>\$ 28,908,037</u>	<u>-</u>

Sr. Secured Notes, Credit Facility and Term Loans

On November 10, 2009, the Company entered into a new credit agreement with an institutional lender for US \$9,250,000 which was collateralized by certain of the Company's oil and natural gas properties and bore interest at 18% compounded monthly over a primary loan term of one year. Approximately US \$1,000,000 of the proceeds were to be used for related loan fees to the institutional lender. The fees incurred were initially deferred and expensed over the expected one year loan period, however, effective August 31, 2010, the remaining deferred costs of \$917,850 were written off. The Debt Restructuring Agreement (Note 7) was amended as a result of this agreement and the restricted cash flow to determine the monthly debt service is governed by the amended Debt Restructuring Agreement, while it remains in effect.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 6 Notes payable (Cont'd)

Sr. Secured Notes, Credit Facility and Term Loans (Cont'd)

On May 19, 2010, the Company also entered into an additional term credit agreement of US\$1,750,000 primarily for required bonding, legal fees, and deposits related to the East Cameron 246 project. This loan had an associated original issue discount of US \$175,000, which was included in the overall initial borrowing amount of US \$1,750,000. This loan bore interest at an annual rate of 18% compounded monthly on amounts outstanding at month end and was to mature May 19, 2012. The Debt Restructuring Agreement (Note 7) was again amended to incorporate the new loan and the restricted cash flow to determine the monthly debt service is also to be governed by the amended Debt Restructuring Agreement, while it remains in effect.

Pursuant to the Plan of Reorganization disclosed in Note 1, on April 15, 2011, the credit facility loans and senior secured notes balances outstanding, totaling \$26,130,118, were reduced to US \$15,000,000 and converted to a new Term Loan Facility. The new Term Loan Facility matures on April 15, 2014 and accrues interest at 15% per annum. It is subordinated in lien rights to the Advancing Loan Facility.

Advancing Loan Facility

The Company entered into a Debtor In Possession Credit Facility with its primary lender (the "DIP Facility") in conjunction with its bankruptcy filing in November 2010 (Note 1). Under this facility, the Company was entitled to borrow up to US \$1,600,000 to fund its Operating, Administrative and Reorganization expenses during bankruptcy proceedings, with advances under the DIP Facility bearing interest at the rate of 15% per annum. As described in note 1, the DIP Facility was converted to the Amended and Restated US \$1,800,000 Credit Agreement dated April 11, 2011 (the "Advancing Loan Facility"). The Advancing Loan Facility matures three years from the date of the loan (April 11, 2014). The Company received advances totaling US\$ 462,971 (\$452,740 at August 31, 2011 and \$445,147 at April 15, 2011) during the year ended August 31, 2011.

Other Short Term Notes

During the year ended August 31, 2010, the Company renewed its annual insurance policies with a consolidated insurance financing for certain policies by an unsecured short term note payable in the amount of US \$306,404 bearing interest at 3.074%, repayable in monthly installments of US \$34,462, maturing on February 1, 2011. Pursuant to the Plan of Reorganization disclosed in Note 1, the unsecured note payable balance of \$69,186 became a general unsecured claim and was reduced to \$nil on April 15, 2011.

Note 7 Debt Restructuring Agreement

Effective August 31, 2009, the Company entered into a Debt Restructuring Agreement (the "DRA") which scheduled repayment of the Company's outstanding past due trade payables and credit agreements (Note 6) in an orderly manner consistent with monthly collected revenues, following deduction for general and administrative expenses as well as lease operating costs, transportation expenses and royalty expenses of the Company.

Under the terms of the DRA, repayments were to be made to all trade creditors with interest compounded monthly on the outstanding balance at a 10% annual rate. The outstanding credit and note agreements were also included in the DRA. Interest rates on the existing loans and notes at the time of

PROBE RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended August 31, 2011

Note 7 Debt Restructuring Agreement (Cont'd)

the DRA effective date remained at their original rate. Monthly debt service on the agreements was determined 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 was maintained in a restricted cash account until distribution to the Company or Creditors by the DRA Creditors' Agent (Note 3).

The Company also agreed to restrictions on the sale of certain Company assets and to 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 adjusted. A Creditors' Committee was formed under the DRA to resolve future issues, and a Creditors' Agent was selected by the Creditors' Committee to oversee payments by the Company. The DRA was amended in November 2009 and May 2010 for the two new credit agreements (Note 6). In the May 2010 amendment, the restricted cash distribution process within the DRA was revised to include a monthly minimum distribution level to the DRA Creditors of US \$75,000. If the minimum distribution level was not met within any of the remaining months of the DRA term, the monthly funding to the Company for its General and Administrative budget from the restricted cash account was to be reduced by the shortfall up to a US \$75,000 level. The DRA expired on September 15, 2010 and did not have established renewal or extension provisions for outstanding balances at the time of expiration.

Upon formation of the Liquidating Trust pursuant to the Plan of Reorganization disclosed in Note 1, on April 15, 2011, the DRA creditor balances were effectively reduced to a 10% participation interest in the new Term Loan Facility (Note 6) and 343,972,347 shares of common stock of the Company representing ten percent (10%) of new common stock of the Company.

Note 8 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 plug and abandonment bonds. As described in Note 1, these deposits were confirmed as part of the Plan of Reorganization.

Note 9 Asset Retirement Obligations

The asset retirement obligations result from the Company's net ownership interest in wells and facilities. Management estimates that the total undiscounted amount of future cash flows required to plug and abandon wells and facilities as at August 31, 2011 is approximately \$3,860,000 with a present value recorded liability at August 31, 2011 in the amount of \$3,758,000 using a 2.0% discount factor and a 2.0% inflation rate.

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

	Successor		Predecessor	
	August 31, 2011	April 15, 2011	August 31, 2010	
Balance, beginning of the period	\$ 4,501,575	\$ 4,419,273	\$ 3,929,197	
Liabilities incurred, net of deposits	-	-	364,576	
Revision of estimate	(795,561)	-	-	
Accretion expense	52,261	82,302	125,500	
Balance, end of period	<u>\$3,758,275</u>	<u>\$ 4,501,575</u>	<u>\$ 4,419,273</u>	

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 9 Asset Retirement Obligations (Cont'd)

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. These amounts will be paid by the Company to the operator of the High Island 115 property as plugging and abandonment costs are incurred in the future.

Note 10 Share Capital and Contributed Surplus

Authorized:

Unlimited common shares without par value

Issued:

	Share Capital		Contributed Surplus
	Number of Shares	Amount	
<u>(Predecessor)</u>			
Balance, August 31, 2009	105,049,866	\$ 42,712,280	\$4,924,274
Issued for oil and gas properties – Note 5	1,333,334	120,000	-
Share purchase options	-	-	192,616
Balance, August 31, 2010 and April 15, 2011	106,383,200	\$ 42,832,280	\$ 5,116,890
<u>(Successor)</u>			
Issuance of new common stock in connection with the emergence from bankruptcy protection (See Note 1)	3,439,723,467	22,890,917	-
Fresh start accounting adjustments (See Note 1)	-	(65,723,187)	(5,116,890)
Balance, August 31, 2011	3,546,106,667	\$ 10	\$ -

Stock-Based Compensation Plan

Prior to March 26, 2009, the Company had a fixed share option plan where the maximum number of shares reserved for issue under the plan could not exceed 6,295,490 common shares at the date of the grant. 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 all persons 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.

Pursuant to the Plan of Reorganization disclosed in Note 1, the Share Purchase Warrants and Stock Based Compensation Plans were terminated and all remaining stock options and share purchase warrants were cancelled on the Effective Date.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 11 Related Party Transactions

- a) For the years ended August 31, 2011, 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 which are included in administrative expenses:

	<u>Successor</u>	<u>Predecessor</u>	
	From 4/16/11 through <u>08/31/2011</u>	From 09/01/2010 through <u>04/15/2011</u>	Year ended <u>08/31/ 2010</u>
Director's fees	\$ 32,702	\$ 50,915	\$ 100,802
Legal fees	12,998	3,323	115,946
Wages and benefits	148,750	305,461	161,909
Balance, end of period	<u>\$ 194,450</u>	<u>\$ 359,699</u>	<u>\$ 378,657</u>

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

- b) At August 31, 2011 \$nil, April 15, 2011 and August 31, 2010 \$337,627 were included in accounts payable and accrued liabilities due to directors of the Company or to private entities with directors in common with the Company. These amounts became general unsecured claims under the Plan of Reorganization (see Note 1) and were reduced to \$nil.

Note 12 Financial Instruments and Risk Management

For the years ended August 31, 2011, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, accounts receivable, notes payable, accounts payable and accrued liabilities.

At August 31, 2011 the carrying values of the cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximated their fair values due to the short-term maturity on those 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, comprises the following:

- i) Commodity price risk

The Company sells all of its oil and natural gas 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

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 12 Financial Instruments and Risk Management (Cont'd)

dollars, while measuring and reporting its results in Canadian dollars. 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.

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, 2011 a 10% increase in the value of the US dollar to the Canadian dollar would have negatively impacted net earnings (loss) by an estimated \$3,743,412 unfavorable 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/or have access to its bank balances. The Company's accounts receivable are primarily with reputable oil and gas companies or are secured by oil and gas production. These revenues are normally collected on the 25th day of the month following delivery. 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 therefore the carrying amounts of cash and cash equivalents and accounts receivable totaling \$3,836,207 represents the maximum exposure to credit risk in relation to financial assets at the balance sheet date.

c) Liquidity Risk

The following are management's estimate of financial liabilities as at August 31, 2011:

	<u>Total</u>	<u>1- 12 months</u>	<u>1-2 years</u>	<u>Thereafter</u>
Accounts payable and accrued liabilities	\$ 3,358,870	\$ 3,358,870	\$ -	\$ -
Notes payable	\$ 15,147,870	\$ -	\$ -	\$ 15,147,870

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. On April 15, 2011, as disclosed in Note 1, the Company completed a Plan of Reorganization with respect to its financial obligations.

Note 13 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, 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. The Company underwent a financial reorganization which included reduction of accounts payable, DRA balances and debt agreements as discussed in Note 1.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 13 Capital Risk Management (Cont'd)

Other than as described elsewhere, the Company is not subject to capital restrictions and there were no changes to its capital management approach during the year.

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. Other than as a result of the Plan of Reorganization described in Note 1, there were no other non-cash transactions for the periods ending August 31, 2011 and April 15, 2011.

Note 15 Income Taxes

As of August 31, 2011, reconciliation of income taxes at statutory rates is as follows:

	Successor From 04/16/2011 through 08/31/2011	Predecessor From 09/01/2010 through 04/15/2011	Predecessor Year ended 08/31/2010
Loss before income taxes	\$1,187,207	\$2,798,345	\$ 17,461,580
Statutory tax rates	27.17%	27.17%	29.00%
Computed tax recovery	\$323,000	\$760,000	\$ 5,064,000
Effect of reduction in statutory rate	(2,000)	(3,000)	(21,000)
Expiry of loss carry forward	-	-	(31,000)
Foreign income taxed at other than CDC Rate	136,000	208,000	1,005,000
Permanent differences	(18,000)	(771,000)	128,000
Impact of Financial Reorganization (Note 1)	(9,606,000)	-	-
Net change in valuation allowance	9,167,000	(194,000)	(6,145,000)
Total incomes taxes (recovery)	\$ -	\$ -	\$ -

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

	Successor From 04/16/2011 through 08/31/2011	Predecessor From 09/01/2010 through 04/15/2011	Predecessor Year ended 08/31/2010
Future income tax assets			
Non-capital loss carry forward	\$126,000	\$7,896,000	\$ 13,155,000
Exploration and development costs	1,882,000	3,176,000	(2,280,000)
Asset retirement obligations	1,340,000	1,340,000	1,455,000
Capital assets	(16,000)	(14,000)	(15,000)
Financing costs	449,000	550,000	439,000
	3,781,000	12,948,000	12,754,000
Valuation allowance	(3,781,000)	(12,948,000)	(12,754,000)
Future income tax assets	\$ -	\$ -	\$ -

PROBE RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended August 31, 2011

Note 15 Income Taxes (Cont'd)

Pursuant to the Plan of Reorganization described in Note 1, the Company settled various debts owing to its creditors which resulted in debt forgiveness for Canadian Income Tax purposes and a change in ownership for US Tax purposes. This resulted in a substantial reduction and/or possible elimination of the future tax assets as outlined above.

Note 16 Segmented Information

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

	Successor		
	From 04/16/2011 through 08/31/2011		
	US	Canada	Total
Revenues	\$ 1,760,055	\$ -	\$ 1,760,055
Current assets	\$ 4,133,592	-	\$ 4,133,592
Oil and natural gas properties	14,135,924	-	14,135,924
Other assets	3,678,860	-	3,678,860
Total Assets	\$ 21,948,376	\$ -	\$ 21,948,376

	Predecessor		
	From 09/01/2010 through 04/15/2011		
	US	Canada	Total
Revenues	\$ 4,197,478	\$ -	\$ 4,197,478
Current assets	\$ 5,878,280	\$ -	\$ 5,878,280
Oil and natural gas properties	35,914,871	-	35,914,871
Other assets	3,759,416	-	3,759,416
Total Assets	\$ 45,552,567	\$ -	\$ 45,552,567

	Predecessor		
	Year ended 08/31/2010		
	US	Canada	Total
Revenues	\$ 16,365,761	\$ -	\$ 16,365,761
Current assets	\$ 7,293,040	\$ 24,756	\$ 7,317,796
Oil and natural gas properties	38,935,882	-	38,935,882
Office equipment	39,916	-	39,916
Other assets	4,429,388	-	4,429,388
Total Assets	\$ 50,698,226	\$ 24,756	\$ 50,722,982

All oil and natural gas properties of the Company are in the US Gulf of Mexico in Federal Waters.

PROBE RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended August 31, 2011

Note 17 Commitments and Contingencies

Lawsuits

Two former officers of the Company (the "Plaintiffs") have filed suit against both the Company and Coy Gallatin, the CRO, individually. The Plaintiffs assert claims for "wrongful dismissal." They are seeking combined damages in the amount of US \$808,564 plus interest, attorney's fees and cost of suit, etc. As of June 23, 2011, the court granted a motion to release Coy Gallatin from the lawsuit. On November 28, 2011, the court signed an Order Granting Plaintiff's Motion for Summary Judgment which was agreed upon by the Company's insurance carrier to settle and end the lawsuit. The Company is insured against such claims regarding employment practices and is liable only for the policy deductible amount of US \$50,000.

Note 18 Subsequent Events

On December 5, 2011, the Company made an application for reinstatement of trading with the TSX-V NEX.

Approved:

(signed) "Dave Elgie"

(signed) "John Boylan"

David Elgie
Chief Executive Officer

John P. Boylan
Chief Financial Officer

(signed) "Paul Crilly"

Paul Crilly
Director