

# **NOTICE TO SHAREHOLDERS FOR THE THREE MONTHS ENDED JULY 31, 2005**

## **PROBE MINES LIMITED**

### Responsibility for Financial Statements

The accompanying financial statements for Probe Mines Limited have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the April 30, 2005 audited financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

### Auditors' involvement

The auditors of Probe Mines Limited have not performed a review of the unaudited financial statements for the three months ended July 31, 2005 and July 31, 2004.

# Probe Mines Limited

## Balance Sheets (Prepared by Management)

	July 31, 2005 (Unaudited)	April 30, 2005 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,383,128	\$ 54,941
Sundry receivable and prepaids	180,539	50,360
	1,563,667	105,301
Equipment	3,462	3,743
Interest in mineral properties and deferred exploration expenditures (Note 2)	1,419,152	1,239,801
	\$ 2,986,281	\$ 1,348,845

## Liabilities and Shareholders' Equity

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 128,024	\$ 196,654
Future income tax liability	104,672	83,000
Shareholders' equity:		
Capital stock (Note 3)	3,524,212	2,440,646
Share purchase warrants (Note 6)	669,296	40,185
Broker compensation warrants (Note 7)	72,878	58,732
Contributed surplus	879,008	872,758
Deficit	(2,391,809)	(2,343,130)
	2,753,585	1,069,191
	\$ 2,986,281	\$ 1,348,845

APPROVED ON BEHALF OF THE BOARD:

Sgd. "David Palmer", Director

Sgd. "Dennis H. Peterson", Director

# Probe Mines Limited

## Statements of Operations and Deficit

(Prepared by Management - Unaudited)

	Three Months Ended July 31,	
	2005	2004
Expenses		
Shareholder information	\$ 21,439	\$ 18,748
Professional fees	9,480	6,550
Stock-based compensation (Note 4)	6,250	-
Transfer agent and filing fees	4,035	2,160
Occupancy costs	3,450	3,962
Office and general	2,030	1,285
Government fees	1,730	-
Amortization	281	401
	48,695	33,106
Net loss before undernoted	(48,695)	(33,106)
Interest income	16	503
Net loss for the period	(48,679)	(32,603)
DEFICIT, beginning of period	(2,343,130)	(2,141,956)
DEFICIT, end of period	\$ (2,391,809)	\$ (2,174,559)
Basic and diluted loss per share (Note 5)	\$ 0.00	\$ 0.00
Weighted average number of shares	17,977,515	15,030,794

# Probe Mines Limited

## Statements of Cash Flows (Prepared by Management - Unaudited)

	Three Months Ended July 31,	
	2005	2004
Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (48,679)	\$ (32,603)
Items not involving cash:		
Amortization	281	401
Stock-based compensation (Note 4)	6,250	-
Changes in non-cash working capital	(198,809)	174,838
	<u>(240,957)</u>	<u>142,636</u>
Financing activities:		
Issuance of common shares for cash, net of issue costs	1,748,495	-
Investing activities:		
Additions to interest in mineral properties and deferred exploration	<u>(179,351)</u>	<u>(72,708)</u>
Change in cash and cash equivalents	1,328,187	69,928
Cash and cash equivalents, beginning of period	<u>54,941</u>	<u>646,698</u>
Cash and cash equivalents, end of period	<u>\$ 1,383,128</u>	<u>\$ 716,626</u>

# Probe Mines Limited

## Notes to Financial Statements

(Prepared by Management - Unaudited)

Three Months Ended July 31, 2005

---

### 1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES

Probe Mines Limited (the "Company"), which is in the development stage, is in the process of exploring its Canadian resource properties for mineral resources and has not determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for the resource properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production.

The unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended July 31, 2005 may not be necessarily indicative of the results that may be expected for the year ending April 30, 2006.

The balance sheet at April 30, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for complete financial statements. The interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended April 30, 2005. For further information, refer to the financial statements and notes thereto included in the Company's annual financial statements for the year ended April 30, 2005.

### 2. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

As of July 31, 2005, accumulated costs with respect to the Company's interest in mineral properties owned, leased or under option, consisted of the following:

	Opening Balance April 30, 2005	Additions (Reductions) (**)	Ending Balance July 31, 2005
Dubuisson Township (*)	\$ 1	\$ -	\$ 1
McFauld's Lake Property (*)	552,365	5,833	558,198
Bristol Township (*)	367,623	5,833	373,456
Victory Property (*)	319,812	167,685	487,497
	<u>\$ 1,239,801</u>	<u>\$ 179,351</u>	<u>\$ 1,419,152</u>

(\*) The descriptions of these properties can be found in the April 30, 2005 audited financial statements.

(\*\*) Refer to Supplement I of the July 31, 2005 unaudited financial statements for a breakdown of material costs.

# Probe Mines Limited

## Notes to Financial Statements

(Prepared by Management - Unaudited)

Three Months Ended July 31, 2005

---

3. CAPITAL STOCK (\*\*\*)

(a) Authorized

Unlimited common shares

(b) Issued

	<u>Shares</u>	<u>Amount</u>
Balance, April 30, 2005 (audited)	15,621,920	\$ 2,440,646
Private placement - hard dollar basis (1)	62,500	25,000
Private placement - flow-through basis (2)	3,155,555	1,420,000
Private placement - hard dollar basis (2)	337,500	135,000
Private placement - flow-through basis (3)	222,222	100,000
Private placement - flow-through basis (5)	444,444	200,000
Warrant issue - Black-Scholes valuation (6)	-	(629,111)
Cost of issue - compensation warrants (Black-Scholes valuation) (6)	-	(14,146)
Renunciation of flow-through expenditures (7)	-	(21,672)
Cost of issue - cash	-	(131,505)
Balance, July 31, 2005 (unaudited) (***)	<u>19,844,141</u>	<u>\$ 3,524,212</u>

(\*\*\*) Refer to Supplement II of the July 31, 2005 unaudited financial statements for disclosure of information relating to the outstanding securities of the Company as at August 31, 2005.

(1) The Company completed a private placement for gross proceeds of \$25,000 consisting of 62,500 Units, which were sold on a hard dollar basis at \$0.40 per Unit. Each Unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.70 until March 31, 2006, and thereafter for \$1.00 until March 31, 2007, at which time the warrants expire.

(2) The Company completed a private placement for gross proceeds of \$1,555,000 consisting of 3,493,055 Units, of which 3,155,555 Units were sold on a flow-through basis at \$0.45 per Unit for gross proceeds of \$1,420,000, and 337,500 Units were sold on a hard dollar basis at \$0.40 per Unit for gross proceeds of \$135,000. Each Unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.70 until May 26, 2006, and thereafter for \$1.00 until May 26, 2007, at which time the warrants expire. The warrants underlying the Units are subject to a further condition that if the 20 day weighted average trading price of the common shares exceeds \$1.00 in the first year or \$1.30 in the second year (an "Acceleration Event"), the exercise period of the warrants is accelerated such that the holder of the warrant has 60 days from notice of an Acceleration Event to exercise the warrants after which the warrants expire.

(3) The Company completed a private placement for gross proceeds of \$100,000 consisting of 222,222 Units, which were sold on a flow-through basis at \$0.45 per Unit. Each Unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.70 until May 26, 2006, and thereafter for \$1.00 until May 26, 2007, at which time the warrants expire. In conjunction with this financing, compensation warrants were issued to acquire a total of 22,222 units exercisable at \$0.45 per unit until May 26, 2007.

(4) In conjunction with the private placement listed in (1) above, compensation warrants were issued to acquire a total of 6,250 Units exercisable at \$0.45 per Unit until March 31, 2007.

# Probe Mines Limited

## Notes to Financial Statements

(Prepared by Management - Unaudited)

Three Months Ended July 31, 2005

---

### 3. CAPITAL STOCK (\*\*\*)(continued)

(5) The Company completed a private placement for gross proceeds of \$200,000 consisting of 444,444 Units, which were sold on a flow-through basis at \$0.45 per Unit. Each Unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.70 until July 25, 2006, and thereafter for \$1.00 until July 25, 2007, at which time the warrants expire. In conjunction with this financing, compensation warrants were issued to acquire a total of 44,444 Units exercisable at \$0.45 per Unit until July 25, 2007.

(6) The weighted average grant date fair value of the share purchase warrants and the compensation warrants granted during the period, amounted to \$0.149 and \$0.194 respectively per warrant for total amounts of \$629,111 and \$14,146 respectively. The fair value of these warrants at the date of grant was estimated using the Black-Scholes pricing model based on the following assumptions: dividend yield of 0%; risk-free interest rate of 4.0%; expected life of two years; and volatility of 94%.

(7) During the period, the Company renounced \$60,000 of flow-through proceeds. The renunciation created a future income tax liability of approximately \$21,672.

(8) Pursuant to the above-noted financings, the Company issued 3,822,221 flow-through common shares for proceeds of \$1,720,000 during the period. The Company also issued 109,093 flow-through common shares for proceeds of \$49,092 in fiscal 2005. These proceeds have not been renounced for Canadian income tax purposes at the date of these unaudited financial statements. The Company plans to renounce these proceeds after December 31, 2005 at which time the renunciation will create a future income tax liability of approximately \$63,900 which will be allocated as a cost of issuing the flow-through common shares.

### 4. Stock options

The following table reflects the continuity of stock options for the period:

	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$
Balance, April 30, 2005 (audited) and July 31, 2005 (unaudited)	1,700,000	0.26

The following table reflects the actual stock options outstanding as of July 31, 2005:

Expiry Date	Exercise Price (\$)	Options Outstanding	Black-Scholes Valuation (\$)
November 7, 2008	0.10	800,000	61,000
January 5, 2010	0.40	900,000	212,500
		1,700,000	273,500

During the period, the fair value of 25,000 previously issued stock options of \$6,250 was expensed. The remaining fair market value balance of \$12,500 for the 50,000 previously issued stock options will be charged to the statement of operations and deficit as services are rendered.

# Probe Mines Limited

## Notes to Financial Statements

(Prepared by Management - Unaudited)

Three Months Ended July 31, 2005

---

### 5. Basic and diluted loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of outstanding stock options and warrants, is the same as basic loss per share for the period ended. The conversion of stock options and warrants to calculate diluted loss per share was not done, because the conversion was anti-dilutive.

### 6. Share purchase warrants

As at July 31, 2005, the Company had the following share purchase warrants outstanding:

	BLACK-SCHOLES VALUATION (\$)	SHARE PURCHASE WARRANTS	EXERCISE PRICE (\$)	EXPIRY DATE
	-	714,826	1.00	April 26, 2006
	49,497	332,196	0.70 - 1.00	March 31, 2007
Note 3(b)(2)	520,465	3,493,055	0.70 - 1.00	May 26, 2007
	33,111	222,222	0.70 - 1.00	May 26, 2007
	66,223	444,444	0.70 - 1.00	July 25, 2007
	669,296	5,206,743		

---

### 7. Broker compensation warrants

As at July 31, 2005, the Company had the following broker compensation warrants outstanding:

	BLACK-SCHOLES VALUATION (\$)	BROKER COMPENSATION WARRANTS	EXERCISE PRICE (\$)	EXPIRY DATE
	53,500	142,857	1.00	April 26, 2006
	6,445	33,220	0.45	March 31, 2007
	4,311	22,222	0.45	May 26, 2007
	8,622	44,444	0.45	July 25, 2007
	72,878	242,743		

---

### 8. Related party transactions

During the period, the Company paid consulting fees of \$17,500 (2004 - \$17,500) to a director and a company controlled by the director. The Company also incurred legal fees of \$50,600 (2004 - \$nil) to a corporation controlled by another director of the Company. These directors were also paid for out-of-pocket expenses. These transactions were in the normal course of operations and were measured at the exchange amount of consideration established by and agreed to by the related parties and did not exceed the arm's length equivalent value for these services.

### 9. Comparative figures

Certain comparative figures have been restated to conform with the current period financial statement presentation.

# Probe Mines Limited

Supplement I to the Financial Statements

(Prepared by Management - Unaudited)

Three Months Ended July 31, 2005

## MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES BREAKDOWN

### Victory Property

	Three Months Ended July 31,	
	2005	2004
Activity during the period		
Consulting	\$ 5,833	\$ -
Transportation	454	-
Drilling	62,207	-
Supplies	34	-
Geophysical	99,157	-
	<hr/>	
	\$ 167,685	\$ -

### McFauld's Lake Property

	Three Months Ended July 31,	
	2005	2004
Activity during the period		
Consulting	\$ 5,833	\$ 8,750
Transportation	-	9,420
Geophysical	-	2,000
Travel	-	391
	<hr/>	
	\$ 5,833	\$ 20,561

### Bristol Township

	Three Months Ended July 31,	
	2005	2004
Activity during the period		
Drilling	\$ -	\$ 40,974
Consulting	5,833	8,750
Assays	-	150
Geological	-	1,200
Travel	-	1,073
	<hr/>	
	\$ 5,833	\$ 52,147
	<hr/>	
Total activity during the period	\$ 179,351	\$ 72,708

# Probe Mines Limited

Supplement II to the Financial Statements

(Prepared by Management - Unaudited)

Three Months Ended July 31, 2005

---

OUTSTANDING SECURITIES AS OF AUGUST 31, 2005

(a) There were 19,844,141 common shares outstanding.

(b) Stock options

The following table reflects the actual stock options outstanding:

Expiry Date	Exercise Price (\$)	Options Outstanding
November 7, 2008	0.10	800,000
January 5, 2010	0.40	900,000
		1,700,000

---

(c) Broker compensation warrants and share purchase warrants

The Company had the following broker compensation warrants and share purchase warrants outstanding:

	BROKER COMPENSATION WARRANTS	EXERCISE PRICE (\$)	EXPIRY DATE
	142,857	1.00	April 26, 2006
	33,220	0.45	March 31, 2007
	22,222	0.45	May 26, 2007
	44,444	0.45	July 25, 2007
	242,743		

---

	SHARE PURCHASE WARRANTS	EXERCISE PRICE (\$)	EXPIRY DATE
	714,826	1.00	April 26, 2006
	332,196	0.70 - 1.00	March 31, 2007
(X)	3,493,055	0.70 - 1.00	May 26, 2007
	222,222	0.70 - 1.00	May 26, 2007
	444,444	0.70 - 1.00	July 25, 2007
	5,206,743		

---

(X) The warrants underlying the Units are subject to a further condition that if the 20 day weighted average trading price of the common shares exceeds \$1.00 in the first year or \$1.30 in the second year (an "Acceleration Event"), the exercise period of the warrants is accelerated such that the holder of the warrant has 60 days from notice of an Acceleration Event to exercise the warrants after which the warrants expire.