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**HALO RESOURCES LTD.**

*(formerly Trimark Energy Ltd.)  
(An Exploration Stage Company)*

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

AUGUST 31, 2004 AND 2003

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## AUDITORS' REPORT

To the Shareholders of  
Halo Resources Ltd.

We have audited the consolidated balance sheets of Halo Resources Ltd. as at August 31, 2004 and 2003 and the consolidated statements of loss and deficit and cash flow 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, 2004 and 2003 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

On December 6, 2004 we reported separately to the shareholders of Halo Resources Ltd. on consolidated financial statements as at August 31, 2004 and 2003 and for the years ended August 31, 2004, 2003 and 2002 audited in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) which include a reconciliation to United States generally accepted accounting principles.

Vancouver, B.C.  
December 6, 2004  
except as to Note 11(b) which is as of December 24, 2004

***"D&H Group"***

**Chartered Accountants**

D&H Group

A Partnership of Corporations

A Member of BHD Association with affiliated offices across Canada and Internationally

10<sup>th</sup> Floor, 1333 West Broadway, Vancouver B.C. V6H 4C1 □ www.dhgroup.ca □ F 604-731-9923 T 604-731-5881

**HALO RESOURCES LTD.**  
*(formerly Trimark Energy Ltd.)*  
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**CONSOLIDATED BALANCE SHEETS**  
**AS AT AUGUST 31**

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash	329,065	9,805
Amounts receivable	<u>12,610</u>	<u>7,113</u>
	341,675	16,918
<b>RESOURCE INTERESTS</b> (Note 3)	<u>75,906</u>	<u>76,167</u>
	<u><u>417,581</u></u>	<u><u>93,085</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	62,965	19,046
<b>ADVANCES</b> (Note 4)	<u>-</u>	<u>1,019,012</u>
	<u>62,965</u>	<u>1,038,058</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>SHARE CAPITAL</b> (Note 5)	20,914,102	19,537,102
<b>CONTRIBUTED SURPLUS</b>	179,611	-
<b>DEFICIT</b>	<u>(20,739,097)</u>	<u>(20,482,075)</u>
	<u>354,616</u>	<u>(944,973)</u>
	<u><u>417,581</u></u>	<u><u>93,085</u></u>

**NATURE OF OPERATIONS** (Notes 1, 4 and 11)

APPROVED BY THE BOARD

"Nick DeMare" , Director

"William Lee" , Director

*The accompanying notes are an integral part of these consolidated financial statements.*

**HALO RESOURCES LTD.**  
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**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**  
**FOR THE YEARS ENDED AUGUST 31**

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>		
Oil and gas sales	81,347	45,346
Interest and other	695	23,878
	<u>82,042</u>	<u>69,224</u>
<b>EXPENSES</b>		
Production	21,832	16,810
Depreciation, depletion and impairment	10,441	1,251,882
General and administrative	183,539	176,947
Stock-based compensation	179,611	-
	<u>395,423</u>	<u>1,445,639</u>
<b>LOSS BEFORE THE FOLLOWING</b>	(313,381)	(1,376,415)
<b>INTEREST EXPENSE</b>	(29,817)	(60,741)
<b>WRITE-OFF OF AMOUNTS RECEIVABLE</b>	-	(19,959)
<b>LOSS ON SALE OF MARKETABLE SECURITIES</b>	-	(15,527)
<b>GAIN ON SETTLEMENT OF ADVANCES (Note 4)</b>	97,207	-
<b>LOSS ON SALE OF RESOURCE INTERESTS</b>	<u>(11,031)</u>	<u>-</u>
<b>NET LOSS FOR THE YEAR</b>	(257,022)	(1,472,642)
<b>DEFICIT - BEGINNING OF YEAR</b>	<u>(20,482,075)</u>	<u>(19,009,433)</u>
<b>DEFICIT - END OF YEAR</b>	<u><u>(20,739,097)</u></u>	<u><u>(20,482,075)</u></u>
 <b>LOSS PER COMMON SHARE - BASIC AND DILUTED</b>	 <u><u>\$(0.05)</u></u>	 <u><u>\$(0.50)</u></u>
 <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	 <u><u>5,654,354</u></u>	 <u><u>2,926,859</u></u>

*The accompanying notes are an integral part of these consolidated financial statements.*

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**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED AUGUST 31**

	<b>2004</b>	<b>2003</b>
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(257,022)	(1,472,642)
Items not involving cash		
Depreciation, depletion and impairment	10,441	1,251,882
Stock-based compensation	179,611	-
Interest expense	29,817	60,741
Write-off of amounts receivable	-	19,959
Loss on sale of marketable securities	-	15,527
Loss on sale of resource interests	11,031	-
Gain on settlement of advances	(97,207)	-
Increase in amounts receivable	(5,497)	(4,223)
Increase in accounts payable and accrued liabilities	43,919	9,197
	<u>(84,907)</u>	<u>(119,559)</u>
<b>FINANCING ACTIVITIES</b>		
Shares issued for cash	1,377,000	-
Repayment of advances	(951,622)	(117,405)
	<u>425,378</u>	<u>(117,405)</u>
<b>INVESTING ACTIVITIES</b>		
Additions to resource interests	(99,841)	(319,757)
Proceeds from sale of resource interests	78,630	84,907
Proceeds from sale of marketable securities	-	30,594
Other assets	-	114,843
	<u>(21,211)</u>	<u>(89,413)</u>
<b>INCREASE (DECREASE) IN CASH</b>	319,260	(326,377)
<b>CASH - BEGINNING OF YEAR</b>	<u>9,805</u>	<u>336,182</u>
<b>CASH - END OF YEAR</b>	<u><u>329,065</u></u>	<u><u>9,805</u></u>

See also Note 10 for supplementary cash flow information.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**1. NATURE OF OPERATIONS**

Halo Resources Ltd. (the "Company") is a resource exploration company which was most recently engaged in the acquisition, exploration and development of crude oil and natural gas interests in the United States. Effective March 1, 2004, the Company sold its remaining oil and natural gas interest. On July 5, 2004, the Company entered into an agreement to acquire an unproven mineral interest. On November 12, 2004, the Company entered into a further option agreement to acquire additional unproven mineral interests. See also Notes 3 and 11(a).

The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these unproven mineral interests contain economically recoverable ore reserves. Consequently the Company considers itself to be an exploration stage company. The amounts shown as unproven mineral interests and deferred costs represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the unproven mineral interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company to obtain the necessary financing to complete development, and future profitable production.

As at August 31, 2004, the Company had working capital of \$278,710. Subsequent to August 31, 2004, the Company completed an equity financing of approximately \$6.4 million, as described in Note 11(b). The Company considers that it has adequate financial resources to maintain its core operations for the next fiscal year.

**2. ACCOUNTING POLICIES**

***Basis of Presentation***

The consolidated financial statements for the 2003 fiscal year included the accounts of the Company and its wholly-owned subsidiaries, Trimark Resources Inc. ("Trimark Inc."), Safari Petroleum, LLC ("Safari") and TMK Oil & Gas Inc. ("TMK"). As described in Note 3(c), during the 2003 fiscal year the Company abandoned its net investment in Trimark Inc. On August 31, 2004, the Company abandoned its investment in Safari which was inactive throughout the 2004 fiscal year, and TMK which had sold its remaining asset, as described in Note 3(b), and became inactive. Intercompany balances and transactions are eliminated on consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principals ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results may differ from those estimates.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**2. ACCOUNTING POLICIES** (continued)

*Unproven Mineral Interests*

Unproven mineral interests costs and exploration, development and field support costs directly relating to mineral interests are deferred until the interests to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of production or written off if the mineral interest is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific mineral interest are expensed as incurred.

On a periodic basis, management reviews the carrying values of deferred unproven mineral interest acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Although the Company has taken steps to verify title to the unproven mineral interests, according to the usual industry standards for the stage of exploration of such mineral interests, these procedures do not guarantee the Company's title. Such mineral interests may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of mineral interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral interest costs or recoveries when the payments are made or received.

*Petroleum and Natural Gas Interests*

The Company followed the full cost method of accounting for petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves were capitalized on a country-by-country basis. Costs included lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells. Proceeds from the sale of properties were applied against capitalized costs, without any gain or loss being recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of exploration and development costs and depreciation of production equipment was provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves. The costs of significant unevaluated properties were excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves were converted into equivalent units based upon relative energy content.

In applying the full cost method, the Company performed a ceiling test whereby the carrying value of petroleum and natural gas properties and production equipment, net of recorded future income taxes and the accumulated provision for site restoration and abandonment costs, was compared annually to an estimate of future net cash flow from the production of proven reserves. Net cash flow was estimated using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess was charged against earnings.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**2. ACCOUNTING POLICIES** (continued)

Substantially all of the Company's oil and gas exploration, development and production activities were conducted jointly with others and, accordingly, these consolidated financial statements reflected the Company's proportionate interest in such activities.

***Asset Retirement Obligations***

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at August 31, 2004, the Company does not have any asset retirement obligations.

***Impairment of Long-Lived Assets***

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

***Revenue Recognition***

The Company recognized petroleum and natural gas revenues from its interests in producing wells as oil and gas was produced and sold from these wells. The Company has no gas balancing arrangements in place. Oil and gas sold was not significantly different from the Company's product entitlement.

***Cash Equivalents***

Cash includes cash and short-term deposits maturing within 90 days of the original date of acquisition.

***Foreign Currency Translation***

Monetary assets and liabilities are translated into Canadian dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for amortization, depreciation and depletion, which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

***Stock-Based Compensation***

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**2. ACCOUNTING POLICIES** (continued)

*Income Taxes*

Income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

*Earnings (Loss) Per Share*

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

**3. RESOURCE INTERESTS**

	<b>2004</b>	<b>2003</b>
	\$	\$
Unproven mineral interests		
Acquisition costs	75,906	-
Petroleum and natural gas interests		
Exploration and development costs	-	87,255
Less: accumulated depreciation, depletion and impairment	-	(11,088)
	-	76,167
	75,906	76,167

(a) Duport Property, Ontario

On July 5, 2004, the Company, The Sheridan Platinum Group Ltd., and Pat Sheridan entered into a letter agreement whereby the Company agreed to acquire a 100% interest in 100 mineral claims (the "Duport Property") over an area of approximately 4,578 acres, located near Kenora, Ontario. Under the terms of the agreement, the Company has the right to acquire the Duport Property by paying \$250,000 cash and issuing one million common shares and \$8 million in preferred shares of the Company.

The preferred shares will have a term of five years and have an annual dividend requirement of \$50,000 in years one and two and at 4% thereafter, are non-voting, non-convertible and can be redeemed by the Company. In order to redeem the preferred shares, the Company may at any time on or before the end of the term of the preferred shares:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**3. RESOURCE INTERESTS** (continued)

- (i) make a cash payment of \$8 million plus a \$400,000 bonus, together with any accrued and unpaid dividends; or
- (ii) provided the dividends payable pursuant to the terms of the preferred shares have been paid to date, the Company may return the Duport Property to the vendors.

If the preferred shares have not been redeemed the Company will retract the preferred shares in consideration of \$8 million plus accrued unpaid dividends.

The Company has also agreed to pay a 2.5% net smelter return royalty (“NSR”) on the first 1.5 million ounces of gold produced and a 5% NSR on the excess. The Company will have the right to buy back a portion of the NSR.

As of August 31, 2004, the Company has incurred \$75,906 for staking, due diligence, professional and legal costs relating to the acquisition of the Duport Property.

Completion of the acquisition of the Duport Property is subject to normal closing conditions including receipt of final regulatory approvals.

- (b) In January 2003, the Company earned a 3% working interest in certain oil and gas leases, known as the West Ranch Field, located in Jackson County, Texas by funding a development program on the subject leases. Effective March 1, 2004, the Company sold its interest in the West Ranch Field to an arms-length private corporation for \$78,630 (US \$60,000) proceeds and recorded a net loss on sale of \$11,031.
- (c) During the 2003 fiscal year, the Company incurred petroleum expenditures totalling \$232,502 on the unsuccessful drilling of a side-track well on the Basil Project. In addition, the Company did not participate in any further funding of exploration activities or holding costs relating to the East Lost Hills Project. In light of the results the Board of Directors of the Company determined that the Company could no longer provide further funding to Trimark Inc., which held the Company's East Lost Hills and regional California petroleum interests. Accordingly, during the 2003 fiscal year, the Company recorded an impairment charge of \$1,240,794, representing the Company's remaining net investment in Trimark Inc. Effective November 30, 2002, the Company ceased to record the activities of Trimark Inc.
- (d) No write-down was required as a result of the ceiling test performed effective August 31, 2003. The ceiling test is a cost-recovery test and is not intended to result in an estimate of fair market value.
- (e) See also Note 11.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**4. ADVANCES**

	<b>2004</b>	<b>2003</b>
	\$	\$
Advances, bearing interest at 10% per annum, due September 1, 2005 (a)	-	718,870
Advances, non-interest bearing, due September 1, 2005 (b)	-	300,142
	-	300,142
	-	1,019,012

- (a) The Company had previously received advances from a related party and a non-related third party. The related party is a public company which certain of its officers and directors are also officers and directors of the Company. During the 2004 fiscal year, the Company negotiated a settlement of the \$748,687 which was outstanding and paid \$688,079 cash, resulting in a gain of \$60,608.
- (b) Advances had been previously made to the Company by shareholders and directors of the Company for working capital purposes. During fiscal 2004, the Company negotiated a settlement of the \$300,142 which was outstanding and paid \$263,543 cash, resulting in a gain of \$36,599.

**5. SHARE CAPITAL**

Authorized - unlimited common shares without par value

Issued and outstanding -

	<b>2004</b>		<b>2003</b>	
	Number	\$	Number	\$
Balance, beginning of year	2,926,859	19,537,102	2,926,859	19,537,102
Issued during the year				
For cash				
Private placements	6,000,000	1,290,000	-	-
Exercise of warrants	435,000	87,000	-	-
For finder's fees	82,000	24,600	-	-
	6,517,000	1,401,600	-	-
Less: share issue costs	-	(24,600)	-	-
	6,517,000	1,377,000	-	-
Balance, end of year	9,443,859	20,914,102	2,926,859	19,537,102

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**5. SHARE CAPITAL** (continued)

- (a) During the 2004 fiscal year, the Company:
- i) completed a non-brokered private placement of 3,400,000 units at \$0.15 per unit, for \$510,000 cash proceeds. Each unit comprised one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of two years, at \$0.20 per share on or before March 4, 2005, and at \$0.25 per share on or before March 4, 2006. 281,667 units were purchased by the President of the Company; and
  - ii) completed a non-brokered private placement of 2,600,000 units at \$0.30 per unit, for \$780,000 cash proceeds. Each unit comprised one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of two years, at \$0.40 per share on or before April 15, 2006. 71,000 units were purchased by the President of the Company. The Company also issued 82,000 units in consideration of \$24,600 of a finder's fee. The finder's fee units have the same terms as the private placement units
- (b) The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange. The options have a maximum term of ten years.

A summary of the Company's options at August 31, 2004 and 2003, and the changes for the fiscal years ending on those dates is presented below:

	2004		2003	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of year	92,857	0.40	125,000	0.40
Granted	810,000	0.61	-	
Cancelled/expired	<u>(92,857)</u>	0.40	<u>(32,143)</u>	0.40
Balance, end of year	<u><u>810,000</u></u>	0.61	<u><u>92,857</u></u>	0.40

The following table summarizes information about the stock options outstanding and exercisable at August 31, 2004:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
750,000	187,500	\$0.60	2.75 years	\$0.60
<u>60,000</u>	<u>60,000</u>	\$0.75	2.89 years	\$0.75
<u><u>810,000</u></u>	<u><u>247,500</u></u>			

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**5. SHARE CAPITAL** (continued)

The fair value of stock options granted to employees, directors and consultants is estimated on the dates of grants using the Black-Scholes option pricing model with the following assumptions used for the grants made during the periods:

Risk-free interest rate	2.28% - 2.53%
Estimated volatility	105% - 106%
Expected life	1.5 years
Expected dividend yield	0%

The weighted average fair value per share of stock options, calculated using the Black-Scholes option pricing model, granted during the 2004 fiscal year to the Company's employees, directors and consultants was \$0.40 per share.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

- (c) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at August 31, 2004 and 2003 and the changes for the years ending on those dates is as follows:

	2004	2003
Balance, beginning of year	-	468,857
Issued pursuant to private placements	6,000,000	-
Issued for finder's fee	82,000	-
Exercised	(435,000)	-
Expired	-	(468,857)
	<u>5,647,000</u>	<u>-</u>
Balance, end of year		

Common shares reserved pursuant to warrants outstanding at August 31, 2004, are as follows:

Number	Exercise Price \$	Expiry Date
2,965,000	0.20 / 0.25	March 4, 2005 / March 4, 2006
<u>2,682,000</u>	0.40	April 15, 2006
<u><u>5,647,000</u></u>		

- (d) See also Note 3(a) and 11.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**6. INCOME TAXES**

As at August 31, 2004, the Company has accumulated non-capital losses for income tax purposes of approximately \$2,264,000, expiring from 2005 to 2014, which are available for application against future taxable income, the related benefits of which have not been recognized in these financial statements.

**7. RELATED PARTY TRANSACTIONS**

- (a) During the 2004 fiscal year, the Company was charged \$69,638 (2003 - \$153,064) for management, professional, accounting and administrative services provided by companies controlled by current and former officers of the Company. As at August 31, 2004, accounts payable and accrued liabilities include \$6,503 due to these related parties.
- (b) During the 2003 fiscal year the former President of the Company repaid the outstanding principal balance of \$114,843 and interest income of \$2,242 to the Company.
- (c) Other related party transactions are disclosed elsewhere in these consolidated financial statements.

**8. SEGMENTED INFORMATION**

During the 2004 fiscal year, the Company's principal activities were the development of petroleum properties in the United States and the acquisition of unproven mineral interests in Canada. As at August 31, 2004, the Company had only recorded deferred costs relating to the unproven mineral interest. The unproven mineral interest and the Company's corporate assets are located in Canada. Identifiable assets, revenues and net loss in each of these geographic areas are as follows:

	<b>2004</b>		
	<b>Identifiable Assets \$</b>	<b>Revenues \$</b>	<b>Net Income (Loss) \$</b>
United States - petroleum operations	-	81,347	169,728
Canada - mineral operations	75,906	-	-
Canada - corporate	341,675	695	(426,750)
	<u>417,581</u>	<u>82,042</u>	<u>(257,022)</u>
	<b>2003</b>		
	<b>Identifiable Assets \$</b>	<b>Revenues \$</b>	<b>Net Income (Loss) \$</b>
United States - petroleum operations	80,226	68,800	(967,993)
Canada - corporate	12,859	424	(504,649)
	<u>93,085</u>	<u>69,224</u>	<u>(1,472,642)</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

**9. FINANCIAL INSTRUMENTS**

The fair values of financial instruments at August 31, 2004 and 2003, were estimated based on relevant market information and the nature and terms of financial instruments. Management is not aware of any factors which would significantly affect the estimated fair market amounts, however, such amounts have not been comprehensively revalued for purposes of these financial statements. Disclosure subsequent to the balance sheet dates and estimates of fair value at dates subsequent to August 31, 2004 and 2003 may differ significantly from that presented.

Fair value approximates the amounts reflected in the financial statements for cash, amounts receivable and accounts payable and accrued liabilities.

**10. SUPPLEMENTARY CASH FLOW INFORMATION**

Non-cash investing and financing activities were conducted by the Company as follows:

	<b>2004</b>	<b>2003</b>
	\$	\$
Financing activities		
Shares issued for finder's fees	24,600	-
Share issue costs	<u>(24,600)</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>
Other supplementary cash flow information		
	<b>2004</b>	<b>2003</b>
	\$	\$
Interest paid in cash	<u>105,484</u>	<u>-</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

**11. SUBSEQUENT EVENTS**

- (a) On November 12, 2004, the Company entered into an option agreement, with Wolfden Resources Inc. ("Wolfden"), whereby Wolfden assigned to the Company, Wolfden's option to earn a 50% undivided interest in two mining concessions and 51 mineral claims (the "Bachelor Lake Property"), located in the La Sueur Township, Quebec. The Company can acquire Wolfden's option by paying, on closing, \$1.25 million and issuing 800,000 units, with each unit comprising one common share and one-half warrant. Each whole warrant will entitle Wolfden to acquire an additional common share at a price of \$1.50 for a period of two years. Effective as of November 12, 2004, the Company will also assume the balance of Wolfden's remaining \$1.4 million of expenditure commitments under Wolfden's underlying option agreement with the vendor. Upon earning the 50% option interest, the Company will issue a further 400,000 common shares to Wolfden. If project financing is arranged and the Bachelor Lake Property achieves commercial production, the Company will pay to Wolfden a further \$250,000, issue 250,000 common shares upon 50,000 ounces of gold or gold equivalent has been produced and a 0.5% NSR.

A director of the Company is also a director and officer of Wolfden.

**HALO RESOURCES LTD.**  
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**11. SUBSEQUENT EVENTS** (continued)

- (b) On December 24, 2004, the Company completed a brokered private placement of (i) 4,342,951 flow-through units (the "FT Units") at a price of \$0.95 per FT Unit; and (ii) 2,673,530 units (the "Non FT Units") at a price of \$0.85 per Non FT Unit, for total gross proceeds of \$6,398,304. Each FT Unit consisted of one common share and one-half share purchase warrant (the "FT Warrant"). Each full FT Warrant entitles the holder to purchase one further share of the Company for a period of two years, at a price of \$1.25 on or before December 23, 2005 and, thereafter, at a price of \$1.50 on or before December 23, 2006. Each Non FT Unit consists of one common share and one share purchase warrant (the "Non FT Warrant"). Each full Non FT Warrant entitles the holder to purchase one further share of the Company for a period of two years, at a price of \$1.10 on or before December 23, 2005 and, thereafter, at a price of \$1.35 on or before December 23, 2006.

The Company paid the agents a cash commission of \$479,873 and issued 701,647 warrants (the "Agents' Warrants"). Each Agents' Warrant is exercisable to purchase one common share at a price of \$1.05 on or before December 23, 2006.

The Company also issued 40,000 units (the "Corporate Finance Units"). Each Corporate Finance Unit is comprised of one common share and one-half share purchase warrant having the same terms as the Non FT Unit.

- (c) Subsequent to August 31, 2004, the Company granted stock options to purchase 150,000 common shares of the Company at \$0.70 per share and 50,000 shares at \$0.85 per share, expiring September 27, 2007 and October 18, 2007, respectively.
- (d) On November 2, 2004, the shareholders of the Company approved the authorization of an unlimited number of preferred shares in the Company's share capital.