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**HALO RESOURCES LTD.**

FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
AUGUST 31, 2006 AND 2005

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## AUDITORS' REPORT

To the Shareholders of  
Halo Resources Ltd.

We have audited the balance sheets of Halo Resources Ltd. as at August 31, 2006 and 2005 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

On December 11, 2006, we reported separately to the shareholders of Halo Resources Ltd. on the financial statements as at August 31, 2006 and 2005 and for the years ended August 31, 2006, 2005 and 2004 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 11, 2006

**"D&H Group LLP"**  
**Chartered Accountants**

### D&H Group LLP

*a B.C. Limited Liability Partnership of Corporations*

member of BHD Association with affiliated offices across Canada and Internationally

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**HALO RESOURCES LTD.  
BALANCE SHEETS  
AS AT AUGUST 31**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash	271,935	893,525
Amounts receivable and prepaids (Note 3)	<u>136,275</u>	<u>197,507</u>
	408,210	1,091,032
<b>CAPITAL ASSETS</b> (Note 4)	298,630	32,761
<b>UNPROVEN MINERAL INTERESTS</b> (Note 5)	23,845,828	22,759,333
<b>DEFERRED SHARE ISSUE COSTS</b> (Note 7(a))	<u>-</u>	<u>45,556</u>
	<u><u>24,552,668</u></u>	<u><u>23,928,682</u></u>
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	256,688	584,221
<b>REDEEMABLE PREFERRED SHARES</b> (Note 6)	8,000,000	8,000,000
<b>ASSET RETIREMENT OBLIGATION</b> (Note 16)	1,014,500	938,500
<b>FUTURE INCOME TAX LIABILITY</b> (Note 10)	<u>4,832,000</u>	<u>5,328,000</u>
	<u>14,103,188</u>	<u>14,850,721</u>
<b>LEASE COMMITMENTS</b> (Note 15)		
<b>S H A R E H O L D E R S '   E Q U I T Y</b>		
<b>SHARE CAPITAL</b> (Note 7)	32,395,855	28,487,576
<b>CONTRIBUTED SURPLUS</b> (Note 9)	1,360,767	738,642
<b>SHARE SUBSCRIPTIONS RECEIVED</b> (Note 7(a))	-	958,950
<b>DEFICIT</b>	<u>(23,307,142)</u>	<u>(21,107,207)</u>
	<u>10,449,480</u>	<u>9,077,961</u>
	<u><u>24,552,668</u></u>	<u><u>23,928,682</u></u>

SUBSEQUENT EVENTS (Note 17)

APPROVED BY THE BOARD

"Marc Cernovitch" , Director

"Nick DeMare" , Director

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

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

	2006 \$	2005 \$
<b>EXPENSES</b>		
Accretion (Note 16)	76,000	38,000
Depreciation	39,373	4,132
General and administrative	1,267,825	1,060,276
General exploration	17,627	27,002
Stock-based compensation (Note 8)	550,817	559,031
Part XII.6 tax expense (Note 10)	43,000	40,000
Write-down of unproven mineral interest (Note 5(b))	<u>1,538,655</u>	<u>-</u>
	<u>3,533,297</u>	<u>1,728,441</u>
<b>LOSS BEFORE OTHER ITEM</b>	<u>(3,533,297)</u>	<u>(1,728,441)</u>
<b>OTHER ITEM</b>		
Interest income	<u>16,729</u>	<u>31,331</u>
<b>LOSS BEFORE INCOME TAXES</b>	(3,516,568)	(1,697,110)
<b>FUTURE INCOME TAX RECOVERY</b> (Note 10)	<u>1,316,633</u>	<u>1,329,000</u>
<b>NET LOSS FOR THE YEAR</b>	(2,199,935)	(368,110)
<b>DEFICIT - BEGINNING OF YEAR</b>	<u>(21,107,207)</u>	<u>(20,739,097)</u>
<b>DEFICIT - END OF YEAR</b>	<u>(23,307,142)</u>	<u>(21,107,207)</u>
<b>LOSS PER COMMON SHARE</b>		
<b>- BASIC AND DILUTED</b>	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>28,447,710</u>	<u>16,049,812</u>

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

**HALO RESOURCES LTD.**  
**STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED AUGUST 31**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(2,199,935)	(368,110)
Items not involving cash		
Accretion	76,000	38,000
Depreciation	39,373	4,132
Stock-based compensation	550,817	559,031
Write-down of unproven mineral interests	1,538,655	-
Future income tax recovery	(1,316,633)	(1,329,000)
Decrease (increase) in amounts receivable and prepaids	61,232	(184,897)
Increase (decrease) in accounts payable and accrued liabilities	<u>(495,278)</u>	<u>517,089</u>
	<u>(1,745,769)</u>	<u>(763,755)</u>
<b>FINANCING ACTIVITIES</b>		
Common shares issued for cash	4,125,749	6,941,897
Common share subscriptions received	-	958,950
Common share issue costs	<u>(257,173)</u>	<u>(692,979)</u>
	<u>3,868,576</u>	<u>7,207,868</u>
<b>INVESTING ACTIVITIES</b>		
Additions to unproven mineral interests	(2,469,647)	(5,842,760)
Purchase of capital assets	<u>(274,750)</u>	<u>(36,893)</u>
	<u>(2,744,397)</u>	<u>(5,879,653)</u>
<b>INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	(621,590)	564,460
<b>CASH - BEGINNING OF YEAR</b>	<u>893,525</u>	<u>329,065</u>
<b>CASH - END OF YEAR</b>	<u><u>271,935</u></u>	<u><u>893,525</u></u>

**SUPPLEMENTARY CASH FLOW INFORMATION** - See Note 14.

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

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**1. NATURE OF OPERATIONS**

Halo Resources Ltd. (the "Company") is a resource exploration company which is engaged in the acquisition, exploration and development of unproven mineral interests in Canada. 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. 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Use of Estimates*

The preparation of financial statements in conformity with 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 year. Examples of significant estimates made by management include depreciation, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities, valuations of mineral interests, capital assets, asset retirement obligations and stock-based compensation. Actual results may differ from those estimates.

*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 are 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 mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties 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.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Capital Assets*

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets, as follows:

Office furniture and equipment	20%
Computer and telephone equipment	25%
Field equipment and facility	20%
Leasehold improvements	50%

*Asset Retirement Obligations*

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value as at the time in which they are incurred or the event occurs giving rise to such an obligation. The liability is increased (accreted) over time through periodic charges to earnings. The corresponding asset retirement cost is capitalized as part of the asset's carrying value, and is amortized over the asset's estimated useful life. The amount of the liability will be subject to re-measurement at each reporting period.

Where possible, the Company has estimated asset retirement obligations based on current best practice. These estimates are subject to change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

*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.

*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.

*Income Taxes*

Income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the 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.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*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. AMOUNTS RECEIVABLE AND PREPAIDS**

	2006 \$	2005 \$
Commodity taxes receivable	43,424	146,162
Prepays	55,011	25,302
Other	<u>37,840</u>	<u>26,043</u>
	<u><u>136,275</u></u>	<u><u>197,507</u></u>

**4. CAPITAL ASSETS**

	2006			2005
	Costs \$	Accumulated Depreciation \$	Net Book Value \$	Net Book Value \$
Office furniture and equipment	46,313	5,896	40,417	5,693
Computer and telephone equipment	29,557	8,127	21,430	15,512
Field equipment and facility	254,741	28,041	226,700	11,556
Leasehold improvements	<u>11,524</u>	<u>1,441</u>	<u>10,083</u>	<u>-</u>
	<u><u>342,135</u></u>	<u><u>43,505</u></u>	<u><u>298,630</u></u>	<u><u>32,761</u></u>

**5. UNPROVEN MINERAL INTERESTS**

	2006			2005		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$
Duport	14,957,409	2,241,773	17,199,182	14,902,244	1,932,540	16,834,784
Bachelor Lake	1,399,289	3,647,500	5,046,789	2,756,880	2,829,076	5,585,956
Sherridon	423,519	1,127,370	1,550,889	107,614	230,979	338,593
Red Lake	<u>38,952</u>	<u>10,016</u>	<u>48,968</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>16,819,169</u></u>	<u><u>7,026,659</u></u>	<u><u>23,845,828</u></u>	<u><u>17,766,738</u></u>	<u><u>4,992,595</u></u>	<u><u>22,759,333</u></u>

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**5. UNPROVEN MINERAL INTERESTS (continued)**

(a) Duport Property, Ontario

Pursuant to an agreement dated February 18, 2005, the Company acquired from The Sheridan Platinum Group Ltd. ("Sheridan") a 100% interest in 93 mineral claims (the "Duport Property") covering an area of approximately 3,800 hectares, located near Kenora, Ontario. The Company paid \$250,000 cash and issued one million common shares, at a fair value of \$1,210,000, and \$8 million in redeemable preferred shares (see Note 6). The purchase of the Duport Property was conducted on a tax-free roll-over basis to Sheridan and, accordingly, \$9,210,000 of costs have no tax value.

The Company has 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 1% NSR for \$2.5 million cash.

The Company has also acquired, through staking, 10 mineral claims in the area of the Duport property, covering an area of approximately 1,744 hectares.

(b) Bachelor Lake Property, Quebec

On November 12, 2004, the Company entered into a heads of agreement with Wolfden Resources Inc. ("Wolfden"), whereby Wolfden would assign to the Company, Wolfden's option from Metanor Resources Inc. ("Metanor"), to earn a 50% undivided interest in two mining concessions and 51 mineral claims for a total of 1,851 hectares (the "Bachelor Lake Property"), located in the La Sueur Township, Quebec. On April 15, 2005, the Company and Wolfden signed the final agreement (the "Assignment and Assumption Agreement"). Under the agreed terms, the Company acquired Wolfden's option by paying \$650,000 cash and issuing 1,400,000 common shares, at a value of \$1,050,000. The Company was also responsible for all exploration costs incurred on the Bachelor Lake Property by Wolfden from the date of signing the heads of agreement and accordingly, reimbursed Wolfden \$1,818,123 by paying \$1,293,123 cash and issuing 700,000 common shares, at a value of \$525,000. Upon exercising the option and after 50,000 ounces of gold or gold equivalent have been produced from the Bachelor Lake Property, the Company will be required to pay to Wolfden a bonus payment of \$250,000 cash and issue a further 250,000 common shares. The Company also agreed to pay a 0.5% royalty on the Company's share of the NSR. A director of the Company is also a director and officer of Wolfden.

Effective May 18, 2005, the Company and Metanor entered an agreement whereby Metanor acknowledged the Assignment and Assumption Agreement and the terms of the underlying option agreement on the Bachelor Lake Property were amended. Under the amendment, the Company could exercise its option to earn the 50% interest in the Bachelor Lake Property by spending a minimum of \$500,000 of exploration on the Bachelor Lake Property and paying \$100,000 to Metanor. On September 21, 2005, the Company exercised its option and paid the \$100,000. The Bachelor Lake Property was then operated under a joint venture agreement (the "Bachelor Lake JV").

On May 2, 2006, as amended August 28, 2006, the Company and Metanor entered into a purchase agreement (the "Metanor Purchase") whereby Metanor agreed to purchase the Company's 50% interest in the Bachelor Lake JV in consideration of \$3.5 million cash, \$750,000 in common shares of Metanor and a 1% NSR in favour of the Company.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**5. UNPROVEN MINERAL INTERESTS (continued)**

Closing of the Metanor Purchase (the "Closing") is scheduled to occur (the "Completion Date") on the earlier of:

- i) 30 days after Metanor completes a \$5 million financing; or
- ii) November 10, 2006.

Until Closing occurs, Metanor assumes all costs, expenses and obligations relating to maintaining the Bachelor Lake Property in good standing until the Completion Date.

In the event the Closing does not occur within the Completion Date, the Company may elect to purchase Metanor's 50% interest in the Bachelor Lake Property under the same terms as the Metanor Purchase. The Company will then have four months to complete its acquisition. The Company would also assume all costs, expenses and obligations of the Bachelor Lake Property from its election until closing of the Company's purchase. If the Company does not elect to purchase Metanor's 50% interest then both parties will retain their respective 50% interests in the Bachelor Lake Property and operations would continue under the Bachelor Lake JV.

The Metanor Purchase contemplates for total consideration of a minimum of \$4.25 million. Accordingly, during fiscal 2006, the Company recognized an impairment of \$1,538,655 to reflect the difference between the Company's recorded costs and the anticipated proceeds.

Subsequent to August 31, 2006, the Company and Metanor negotiated a new agreement, as described in Note 17(b).

(c) Sherridon VMS Project, Manitoba

The Company has acquired, through staking and various acquisition agreements, an interest in 15,025 hectares located in the Sherridon area, north-central Manitoba. Details of the acquisitions are as follows:

- i) 66 unproven claims covering approximately 12,755 hectares, staked by the Company;
- ii) on February 9, 2005, as amended February 9, 2006, the Company entered into a letter of intent ("Quarter Moon LOI") with Endowment Lakes (2002) Limited Partnership ("EL") regarding the option to earn up to an 80% interest in the Quarter Moon Lake Property, Manitoba. The Quarter Moon Lake Property comprises five mining claims covering a total of 1,072 hectares and is located 75 kilometres northeast of Flin Flon and 61 kilometres northwest of Snow Lake. Under the terms of the Quarter Moon LOI, the Company had the right to acquire an initial 51% interest in the Quarter Moon Lake Property in which the Company has paid \$40,000 cash, issued 50,000 common shares of the Company, at a value of \$60,000, and was required to complete a \$500,000 work commitment, pay a further \$40,000 cash and issue 50,000 common shares. See also Note 17(c).
- iii) heads of agreement (the "Dunlop HOA") dated February 9, 2006, entered into by the Company and W. Bruce Dunlop Limited NPL, whereby the Company was granted the option to earn a 100% undivided interest in three unproven mineral claims, covering 536 hectares, for \$90,000 cash (\$15,000 paid), issuance of 250,000 common shares of the Company (25,000 shares issued) and expending a total of \$170,000 in work expenditures over a four year period; and

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**5. UNPROVEN MINERAL INTERESTS (continued)**

- iv) three option agreements (the "HBED Options"), dated March 19, 2006, entered into by the Company and Hudson Bay Exploration and Development Company Limited ("HBED"), whereby the Company was granted options to acquire 100% interests in 24 unproven mineral claims and one mining lease covering approximately 3,226 hectares. In order to earn 100% interests in all of the mineral claims and the mining lease the Company will be required to make option payments totalling \$650,000 and incur expenditures totalling \$4,300,000, as follows:

Date	Option Payments \$	Work Expenditures \$
On signing	30,000 (paid)	-
First Anniversary	70,000	30,000
Second Anniversary	120,000	100,000
Third Anniversary	80,000	790,000
Fourth Anniversary	<u>350,000</u>	<u>3,380,000</u>
	<u>650,000</u>	<u>4,300,000</u>

Upon agreement by both the Company and HBED, up to \$187,500 of the option payments may be paid in common shares of the Company.

Should the Company acquire a 100% interest in any of the claim groups under the HBED Options, HBED has the option to back-in for a 51% interest in the subject claims group by paying 135% of the expenditures incurred by the Company. HBED will also hold a 2% NSR.

(d) Red Lake Property, Ontario

On April 18, 2006, the Company entered into a letter of intent (the "Red Lake LOI") with Goldcorp. Inc. ("Goldcorp") regarding the option to earn a 60% interest in 67 mining claims, a 45% interest in two mining claims, and a 30% interest in ten mining claims (collectively the "Red Lake Property") located in Ball Township, Red Lake, Ontario. On June 20, 2006, the Company and Goldcorp completed a formal option agreement (the "Red Lake Option") on the Red Lake Property. Under the terms of the Red Lake Option, the Company is required to perform minimum exploration programs totalling \$3 million on or before December 31, 2008. Upon spending the \$3.0 million, the Company is entitled to elect to exercise the option of its interests. Upon notification of the Company's election, Goldcorp has 90 days to back-in and reacquire a 25% interest in the 67 mining claims, a 18.75% interest in two mining claims and a 12.5% interest in the ten mining claims by paying \$6 million to the Company. If Goldcorp does not exercise its back-in right, the Company will then be required to issue one million common shares of its share capital to Goldcorp.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**6. REDEEMABLE PREFERRED SHARES**

The series 1 redeemable preferred shares (the "Redeemable Preferred Shares") were issued by the Company as partial consideration of its purchase of the Duport Property described in Note 5(a). The Redeemable Preferred Shares have a term of five years with payment of cumulative cash dividends, at the following rates:

- i) for each of the two years commencing November 1, 2004, an annual dividend of \$50,000, payable in quarterly instalments, commencing on February 1, 2005 and ending on November 1, 2006; and
- ii) for each of the three years commencing November 1, 2006, an annual dividend of 4% of the Redeemable Preferred Shares outstanding, payable in quarterly instalments, commencing on February 1, 2007 and ending on November 1, 2009.

The Company may elect to pay any of its dividends in common shares of its capital stock based on a 15 day average price prior to the date the dividend is due.

The Redeemable Preferred Shares are non-voting, non-convertible and can be redeemed in whole or in part by the Company at any time prior to November 1, 2009, as follows:

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

The Company may elect to redeem the Redeemable Preferred Shares through the issuance of common shares in its capital stock based on a 15 day average price prior to the date of redemption.

If the Redeemable Preferred Shares have not been redeemed the Company will, effective November 1, 2009, retract the Redeemable Preferred Shares in consideration of \$8 million plus accrued unpaid dividends (collectively the "Retraction Amount"), payable in cash or common shares of the Company based on a 15 trading day average price prior to the date of retraction.

During fiscal 2006, the Company recorded \$50,000 of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at August 31, 2006, \$4,167 of accrued dividends were included as part of accounts payable and accrued liabilities.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**7. SHARE CAPITAL**

Authorized: unlimited common shares without par value  
unlimited preferred shares (Note 6)

Issued common shares:	2006		2005	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of year	21,005,765	28,487,576	9,443,859	20,914,102
Issued during the year				
For cash				
Private placements	5,273,236	3,493,249	7,324,894	6,688,797
Exercise of options	150,000	67,500	-	-
Exercise of warrants	4,598,500	1,523,950	1,048,500	253,100
For fiscal advisory services	85,715	32,458	-	-
For corporate finance fee	-	-	40,000	34,000
For unproven mineral interests	25,000	18,250	3,150,000	2,845,000
Cancellation of escrow shares	-	-	(1,488)	-
Reallocation from contributed surplus on exercise of options	-	69,413	-	-
	10,132,451	5,204,820	11,561,906	9,820,897
Less: flow-through share renunciation	-	(820,633)	-	(1,566,000)
share issue costs	-	(475,908)	-	(681,423)
	10,132,451	3,908,279	11,561,906	7,573,474
Balance, end of year	31,138,216	32,395,855	21,005,765	28,487,576

(a) During fiscal 2006, the Company completed a private placement of 3,293,070 flow-through common shares, at a price of \$0.70 per flow-through share, and 1,980,166 non-flow-through units, at a price of \$0.60 per non-flow-through unit, for total gross proceeds of \$3,493,249. Each non-flow-through unit consisted of one common share and one share purchase warrant entitling the holder to purchase one further share for a period of two years at a price of \$0.70 per share. The Company paid a finder's fee of \$262,194 and issued 523,323 warrants (the "Finders' Warrants") to the finder. The Company also issued 85,715 units (the "Finder's Units") in settlement of \$60,000 billed by the finder for fiscal advisory services rendered.

The Finder's Warrants have the same terms as the private placement warrants. The fair value of the Finder's Warrants has been estimated using the Black-Scholes option price model. The assumptions used were: dividend yield of 0%; expected volatility of 61.41%; a risk-free interest rate of 3.09% - 3.30%; and an expected life of two years. The value assigned to the Finder's Warrants was \$113,179.

Each Finder's Unit consisted of one common share and one purchase warrant entitling the finder to purchase one further share, for a period of two years at a price of \$0.75 per share. The fair value of the warrants has been estimated using the Black-Scholes option price model. The assumptions used were: dividend yield of 0%; expected volatility of 62.05%; a risk-free interest rate of 3.39%; and an expected life of two years. The value assigned to the warrants was \$27,542.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**7. SHARE CAPITAL** (continued)

The Company incurred a total of \$40,535 for legal, filing and other share issue costs relating to the private placement. As at August 31, 2005, the Company had received \$958,950 in common share subscriptions and incurred \$45,556 of share issue costs with respect to this private placement. A director of the Company purchased 20,000 flow-through shares for \$14,000.

(b) During fiscal 2005, the Company completed private placements, as follows:

i) on December 23, 2004, the Company issued 4,342,951 flow-through units, at a price of \$0.95 per flow-through unit, and 2,673,530 non-flow-through units, at a price of \$0.85 per non-flow-through unit, for total gross proceeds of \$6,398,304. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further share 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-flow-through unit consisted of one common share and one share purchase warrant entitling the holder to purchase one further share 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. Certain directors and officers of the Company and their immediate family members purchased 121,435 flow-through units for \$115,363.

The Company paid the agents a cash commission of \$510,643 and issued 701,647 warrants (the "Agents' Warrants") and incurred \$107,731 of costs relating to the financing. 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 at a fair value of \$0.85 per unit, each unit comprising of one common share and one-half share purchase warrant having the same terms as the non-flow-through units;

ii) on January 20, 2005, the Company issued 151,834 flow-through units, at a price of \$0.95 per flow-through unit, and 25,000 non-flow-through units, at a price of \$0.85 per non-flow-through unit, for total gross proceeds of \$165,492. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further share for a period of two years, at a price of \$1.25 on or before January 20, 2006 and, thereafter, at a price of \$1.50 on or before January 20, 2007. Each non-flow-through unit consisted of one common share and one share purchase warrant with each full warrant entitling the holder to purchase one further share for a period of two years, at a price of \$1.10 on or before January 20, 2006 and, thereafter, at a price of \$1.35 on or before January 20, 2007. The Company paid a cash finder's fee of \$16,549. A director of the Company purchased 5,300 flow-through units for \$5,305; and

iii) on February 3, 2005, the Company issued 131,579 flow-through units at a price of \$0.95 per flow-through unit for total gross proceeds of \$125,000. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further share for a period of two years, at a price of \$1.25 on or before February 3, 2006 and, thereafter, at a price of \$1.50 on or before February 3, 2007. The Company paid a cash finder's fee of \$12,500.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**7. SHARE CAPITAL** (continued)

(c) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at August 31, 2006 and 2005 and the changes for the years ending on those dates is as follows:

	<b>2006</b>	<b>2005</b>
Balance, beginning of year	10,331,859	5,647,000
Pursuant to private placements	2,589,204	5,733,359
Exercised	<u>(4,598,500)</u>	<u>(1,048,500)</u>
Balance, end of year	<u><u>8,322,563</u></u>	<u><u>10,331,859</u></u>

Common shares reserved pursuant to warrants outstanding at August 31, 2006, are as follows:

Number	Exercise Price \$	Expiry Date
2,313,182	1.50	December 23, 2006
2,718,530	1.35	December 23, 2006
701,647	1.05	December 23, 2006
2,071,015	0.70	September 14, 2007
432,474	0.70	September 29, 2007
<u>85,715</u>	0.75	October 14, 2007
<u><u>8,322,563</u></u>		

(d) See also Note 17.

**8. STOCK OPTIONS AND STOCK-BASED COMPENSATION**

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.

During fiscal 2006, the Company granted 2,168,000 stock options (2005 - 1,078,000) to its employees, directors and consultants and recorded compensation expense of \$550,817 (2005 - \$559,031).

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 fiscal 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	3.38% - 4.11%	2.28% - 2.92%
Estimated volatility	61.41% - 85.48%	52.44% - 105%
Expected life	3 years - 5 years	1.5 years
Expected dividend yield	0%	0%

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**8. STOCK OPTIONS AND STOCK-BASED COMPENSATION** (continued)

The weighted average fair value of all stock options, calculated using the Black-Scholes option pricing model, granted during the year to the Company's employees, directors and consultants was \$0.25 (2005 - \$0.43) 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.

A summary of the Company's stock options at August 31, 2006 and 2005, and the changes for the fiscal years ending on those dates is presented below:

	2006		2005	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of year	1,688,000	0.80	810,000	0.61
Granted	2,168,000	0.54	1,078,000	0.92
Exercised	(150,000)	0.75	-	-
Expired	<u>(803,000)</u>	0.95	<u>(200,000)</u>	0.66
Balance, end of year	<u><u>2,903,000</u></u>	0.56	<u><u>1,688,000</u></u>	0.80

The following table summarizes information about the stock options outstanding and exercisable at August 31, 2006:

Options Outstanding	Options Exercisable	Exercise Price \$	Expiry Date
600,000	600,000	0.60	May 31, 2007
60,000	60,000	0.75	July 22, 2007
150,000	150,000	0.70	September 27, 2007
200,000	200,000	0.45	September 28, 2008
580,000	580,000	0.75	September 29, 2008
913,000	913,000	0.45	February 2, 2009
<u>400,000</u>	<u>100,000</u>	0.45	March 10, 2011
<u><u>2,903,000</u></u>	<u><u>2,603,000</u></u>		

See also Note 17 (d).

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**9. CONTRIBUTED SURPLUS**

Contributed surplus for fiscal 2006 and 2005 is comprised of the following:

	2006 \$	2005 \$
Balance, beginning of year	738,642	179,611
Stock options exercised	(69,413)	-
Stock-based compensation on stock options (Note 8)	550,817	-
Stock-based compensation on warrants (Note 7)	<u>140,721</u>	<u>559,031</u>
Balance, end of year	<u><u>1,360,767</u></u>	<u><u>738,642</u></u>

**10. INCOME TAXES**

The income tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2006 \$	2005 \$
Future income tax assets:		
Financing costs	272,000	200,000
Capital assets	15,000	-
Losses available for future periods	<u>1,630,000</u>	<u>1,129,000</u>
	1,917,000	1,329,000
Future income tax liabilities:		
Difference between book value and income tax costs of unproven mineral interests	<u>(6,749,000)</u>	<u>(6,657,000)</u>
Net future income tax liabilities	<u><u>(4,832,000)</u></u>	<u><u>(5,328,000)</u></u>

The recovery of income taxes shown in the statements of loss and deficit differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	2006 \$	2005 \$
Combined federal and provincial income tax rate	<u>34.12%</u>	<u>35.36%</u>
Expected income tax recovery	1,205,600	600,100
Non-deductible stock-based compensation	(188,000)	(197,700)
Write-down of unproven mineral interest	(525,000)	-
Effect of change in tax rates	(48,000)	-
Unrecognized tax losses	(497,900)	(381,900)
Recovery of valuation allowance	1,316,633	1,329,000
Other	<u>53,300</u>	<u>(20,500)</u>
Future income tax recovery	<u><u>1,316,633</u></u>	<u><u>1,329,000</u></u>

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**10. INCOME TAXES** (continued)

As at August 31, 2006, the Company has accumulated non-capital losses of approximately \$4.8 million and cumulative resource and other tax pools of approximately \$5.2 million carried forward for Canadian income tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing in 2007 through 2016. The cumulative resource and other tax pools can be carried forward indefinitely.

In fiscal 2006, the Company issued 3,293,070 flow-through common shares for gross proceeds of \$2,305,149 (see Note 7(a)). Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The renunciation of such expenditures is accounted for as a financing cost related to the flow-through issuance and results in a reduction in share capital with a corresponding increase in the Company's future income tax liability.

The Company is permitted under Canadian income tax legislation to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended. During fiscal 2006 the Company incurred a \$43,000 Part XII.6 tax expense on the monthly unspent balance of flow-through funds. All of the flow-through funds were spent by September 2006.

**11. RELATED PARTY TRANSACTIONS**

- (a) The Company was charged for various services provided by companies controlled by directors and officers of the Company, as follows:

	2006	2005
	\$	\$
Accounting and administration	99,700	90,450
Professional and consulting	116,400	67,900
Compensation and benefits	93,000	51,500
	309,100	209,850

These fees have been either expensed to operations or capitalized to unproven mineral interests, based on the nature of the expenditures.

As at August 31, 2006, accounts payable and accrued liabilities include \$4,637 (2005 - \$24,369) due to these related parties.

These transactions were measured at the exchange amount, which was the amount of consideration established and agreed to by related parties.

- (b) Other related party transactions are disclosed elsewhere in these financial statements.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**12. SEGMENTED INFORMATION**

As at August 31, 2006 and 2005, the Company had only recorded deferred costs relating to its agreements on unproven mineral interests. The unproven mineral interest and the Company's corporate assets are located in Canada. Identifiable assets, revenues and net loss in each of these areas are as follows:

	<b>2006</b>		
	<b>Identifiable Assets \$</b>	<b>Revenues \$</b>	<b>Net Loss \$</b>
Canada - mineral operations	23,845,828	-	(1,538,655)
Canada - corporate	<u>706,840</u>	<u>16,729</u>	<u>(661,280)</u>
	<u><u>24,552,668</u></u>	<u><u>16,729</u></u>	<u><u>(2,199,935)</u></u>
	<b>2005</b>		
	<b>Identifiable Assets \$</b>	<b>Revenues \$</b>	<b>Net Loss \$</b>
Canada - mineral operations	22,759,333	-	-
Canada - corporate	<u>1,169,349</u>	<u>31,331</u>	<u>(368,110)</u>
	<u><u>23,928,682</u></u>	<u><u>31,331</u></u>	<u><u>(368,110)</u></u>

**13. FINANCIAL INSTRUMENTS**

The fair values of financial instruments at August 31, 2006 and 2005, 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, 2006 and 2005, 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. It is not practicable to estimate the fair value of the Redeemable Preferred Shares.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**14. SUPPLEMENTARY CASH FLOW INFORMATION**

Non-cash operating, financing and investing activities were conducted by the Company during fiscal 2006 and 2005 as follows:

	2006 \$	2005 \$
Operating activities		
Accounts payable for unproven mineral interests	137,253	4,167
Accounts payable for capital assets	30,492	-
	<u>167,745</u>	<u>4,167</u>
Financing activities		
Issuance of common shares for unproven mineral interests	18,250	2,845,000
Issuance of common shares for fiscal advisory services	60,000	-
Issuance of common shares for corporate finance fee	-	34,000
Common share issue costs	(60,000)	(34,000)
Issuance of Redeemable Preferred Shares for unproven mineral interests	-	8,000,000
Share capital - future income tax adjustment	(820,633)	(1,566,000)
Future tax liability	820,633	6,657,000
	<u>18,250</u>	<u>15,936,000</u>
Investing activities		
Accounts payable for unproven mineral interest	(137,253)	(4,167)
Accounts payable for capital assets	(30,492)	-
Common shares issued for unproven mineral interests	(18,250)	(2,845,000)
Redeemable Preferred Shares issued for unproven mineral interests	-	(8,000,000)
Unproven mineral interests - future income tax adjustment	-	(5,091,000)
	<u>(185,995)</u>	<u>(15,940,167)</u>
Other supplementary cash flow information:		
	2006 \$	2005 \$
Interest paid in cash	<u>-</u>	<u>-</u>
Dividends paid in cash	<u>50,000</u>	<u>37,500</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**15. LEASE COMMITMENTS**

The Company has entered into lease agreements for its offices and certain vehicles under operating leases. Minimum payments under these leases are as follows:

Year	\$
2007	87,124
2008	39,077
2009	<u>11,396</u>
	<u><u>137,597</u></u>

**16. ASSET RETIREMENT OBLIGATION**

	2006 \$	2005 \$
Balance, beginning of year	938,500	-
Liabilities assumed on acquisition	-	900,500
Accretion expense	<u>76,000</u>	<u>38,000</u>
	<u><u>1,014,500</u></u>	<u><u>938,500</u></u>

The total undiscounted amount of estimated cash flows required to settle the Company's estimated obligation is \$1,018,567 which has been discounted using a credit adjusted risk free rate of 8.5%. The reclamation obligation relates to the Bachelor Lake Property. The present value of the reclamation liability may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. Such changes will be recorded in the accounts of the Company as they occur. See also Notes 5(b) and 17(b).

**17. SUBSEQUENT EVENTS**

- (a) In October 2006, the Company completed a brokered private placement and issued 3,416,333 flow-through units at a price of \$0.45 per flow-through unit, for total gross proceeds of \$1,537,350. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further common share of the Company, for a period of two years at a price of \$0.60 on or before April 12, 2008. A director of the Company purchased 20,000 flow-through units for \$9,000.

The Company paid an agent a cash commission of \$115,301 and issued 341,633 warrants (the "Agent Warrants") and incurred \$67,067 of costs relating to the financing. Each Agent's Warrant is exercisable to purchase one common share at a price of \$0.45 on or before April 12, 2008. The Company also issued 62,500 units, at a fair value of \$0.45 per unit, for corporate finance fees (the "Corporate Finance Units"). Each Corporate Finance Unit, comprising of one common share and one share purchase warrant, having the same terms as the Agent's Warrants; and

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2006 AND 2005**

**17. SUBSEQUENT EVENTS** (continued)

- (b) On November 17, 2006, Metanor and the Company agreed to a new agreement (the "Revised Metanor Purchase") under which Metanor has now agreed to purchase the Company's 50% interest in the Bachelor Lake JV for total consideration of \$4 million, as follows:
- i) \$2 million cash (received);
  - ii) \$500,000 cash on or before March 30, 2007; and
  - iii) \$500,000 in cash or common shares of Metanor each on or before May 31, 2007, August 31, 2007 and November 30, 2007.

Metanor continues to be responsible for all on-going costs, expenses and obligations of the Bachelor Lake JV. In addition Metanor has granted the Company a 1% NSR and the Company will retain its beneficial interest in the Bachelor Lake JV until completion of the sale.

The Company will recognize a further write-down of approximately \$225,000 in fiscal 2007 to reflect the terms of the Revised Metanor Agreement.

- (c) On December 3, 2006, the Company and EL entered into a formal purchase agreement (the "Quarter Moon Purchase Agreement") under which the Company has agreed to purchase a 100% interest in ten mining claims, including the original five mining claims under the Quarter Moon LOI, in north-central Manitoba, for \$90,000 cash and the issuance of 160,000 common shares of the Company. EL will hold a 1% NSR, of which a 0.5% NSR can be purchased at any time for \$500,000. Closing of the Quarter Moon Purchase Agreement is scheduled to occur on January 12, 2007.
- (d) On November 27, 2006, the Company cancelled 790,000 stock options with an exercise price of \$0.70 per share, 150,000 stock options with an exercise price of \$0.65 per share and 50,000 stock options with an exercise price of \$0.45 per share. The Company also extended the expiry date of 450,000 stock options with an exercise price of \$0.60 per share, from May 31, 2007 to May 31, 2009. In addition, the Company granted 1,547,000 stock options with an exercise price of \$0.45 per share, expiring November 27, 2009.

SCHEDULE I

**HALO RESOURCES LTD.**  
**SCHEDULE OF UNPROVEN MINERAL INTERESTS**  
**FOR THE YEARS ENDED AUGUST 31**

	2006				2005	
	Duport Property \$	Bachelor Lake Property \$	Sherridon VMS Project \$	Red Lake Property \$	Total \$	Total \$
<b>BALANCE - BEGINNING OF YEAR</b>	16,834,784	5,585,956	338,593	-	22,759,333	75,906
<b>AMOUNTS INCURRED DURING THE YEAR</b>						
<b>EXPLORATION EXPENDITURES</b>						
Accounting	-	13,272	-	-	13,272	-
Airborne surveying	-	-	350,270	-	350,270	250,268
Assays	-	23,065	9,445	-	32,510	56,036
Camp and equipment costs	110,727	115,474	13,050	-	239,251	209,549
Consulting	63,114	211,082	420,284	3,201	697,681	301,200
Data	-	-	25,000	-	25,000	-
Drilling	-	296,768	-	-	296,768	1,373,524
Due diligence	6,054	-	8,160	-	14,214	23,296
Engineering	26,856	23,020	-	-	49,876	-
Exploration office costs	27,843	16,545	19,595	-	63,983	25,018
Field personnel	41,252	126,517	-	-	167,769	179,253
Field supplies	-	-	4,456	2,103	6,559	41,332
Filing	-	2,250	1,000	-	3,250	14,035
Geological	-	-	-	-	-	199,030
Insurance	-	16,719	-	-	16,719	-
Maintenance	-	16,388	-	-	16,388	-
Mobilization, demobilization	-	6,132	-	-	6,132	88,766
Rent and utilities	-	106,577	-	-	106,577	30,669
Site preparation	-	-	-	-	-	232,706
Surveying	3,573	-	-	-	3,573	16,223
Technical report	-	-	10,859	-	10,859	10,000
Telephone	949	7,176	1,455	-	9,580	4,847
Travel	28,865	49,389	49,575	4,712	132,541	118,720
Reimbursement / Recoveries	-	(211,950)	(16,758)	-	(228,708)	1,818,123
	<u>309,233</u>	<u>818,424</u>	<u>896,391</u>	<u>10,016</u>	<u>2,034,064</u>	<u>4,992,595</u>
<b>OTHER ITEMS</b>						
Acquisition costs and payments	-	165,782	66,462	-	232,244	11,260,000
Claims staking and lease rental costs	5,165	-	142,237	-	147,402	12,458
Legal	-	15,282	107,206	38,952	161,440	385,207
Capitalized dividend	50,000	-	-	-	50,000	41,667
Future income tax adjustment	-	-	-	-	-	5,091,000
Asset retirement obligation	-	-	-	-	-	900,500
	<u>55,165</u>	<u>181,064</u>	<u>315,905</u>	<u>38,952</u>	<u>591,086</u>	<u>17,690,832</u>
<b>BALANCE BEFORE WRITE-DOWN</b>	17,199,182	6,585,444	1,550,889	48,968	25,384,483	22,759,333
<b>WRITE-DOWN (Note 5(b))</b>	-	(1,538,655)	-	-	(1,538,655)	-
<b>BALANCE - END OF YEAR</b>	<u>17,199,182</u>	<u>5,046,789</u>	<u>1,550,889</u>	<u>48,968</u>	<u>23,845,828</u>	<u>22,759,333</u>