
HALO RESOURCES LTD.

(An Exploration Stage Company)

INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Halo Resources Ltd. for the six months ended February 28, 2006, have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

HALO RESOURCES LTD.
(An Exploration Stage Company)
INTERIM BALANCE SHEETS
(Unaudited - Prepared by Management)

	February 28, 2006 \$	August 31, 2005 \$
A S S E T S		
CURRENT ASSETS		
Cash	650,856	893,525
Amounts receivable and prepaids	<u>247,670</u>	<u>197,507</u>
	898,526	1,091,032
CAPITAL ASSETS (Note 3)	261,961	32,761
UNPROVEN MINERAL INTERESTS (Note 4)	24,326,993	22,759,333
DEFERRED SHARE ISSUE COSTS (Note 6(a))	<u>-</u>	<u>45,556</u>
	<u><u>25,487,480</u></u>	<u><u>23,928,682</u></u>
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	147,317	584,221
REDEEMABLE PREFERRED SHARES (Note 5)	8,000,000	8,000,000
ASSET RETIREMENT OBLIGATION (Note 10)	976,500	938,500
FUTURE INCOME TAX LIABILITY	<u>5,583,633</u>	<u>5,328,000</u>
	<u>14,707,450</u>	<u>14,850,721</u>
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (Note 6)	31,345,713	28,487,576
SHARE SUBSCRIPTIONS RECEIVED (Note 6(a))	-	958,950
CONTRIBUTED SURPLUS (Note 7)	1,098,464	738,642
DEFICIT	<u>(21,664,147)</u>	<u>(21,107,207)</u>
	<u>10,780,030</u>	<u>9,077,961</u>
	<u><u>25,487,480</u></u>	<u><u>23,928,682</u></u>

NATURE OF OPERATIONS (Note 1)

SUBSEQUENT EVENTS (Note 11)

APPROVED BY THE BOARD

"Marc Cernovitch" , Director

"Nick DeMare" , Director

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

HALO RESOURCES LTD.
(An Exploration Stage Company)

INTERIM STATEMENTS OF LOSS AND DEFICIT

(Unaudited - Prepared by Management)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2006 \$	2005 \$	2006 \$	2005 \$
REVENUES				
Interest and other	3,498	12,323	8,148	12,766
EXPENSES				
Accretion (Note 10)	19,000	-	38,000	-
Amortization of capital assets	8,100	562	10,210	562
General and administrative	267,478	324,942	718,145	444,658
General exploration	3,911	-	3,911	-
Stock-based compensation	166,439	409,960	359,822	544,056
	464,928	735,464	1,130,088	989,276
LOSS BEFORE INCOME TAX	(461,430)	(723,141)	(1,121,940)	(976,510)
FUTURE INCOME TAX RECOVERY	215,000	1,209,000	565,000	1,209,000
NET INCOME (LOSS) FOR THE PERIOD	(246,430)	485,859	(556,940)	232,490
DEFICIT - BEGINNING OF PERIOD	(21,417,717)	(20,992,466)	(21,107,207)	(20,739,097)
DEFICIT - END OF PERIOD	(21,664,147)	(20,506,607)	(21,664,147)	(20,506,607)
EARNING (LOSS) PER COMMON SHARE				
- BASIC AND DILUTED	\$(0.01)	\$0.03	\$(0.02)	\$0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
	27,157,198	14,926,390	26,373,973	12,169,979

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

HALO RESOURCES LTD.
(An Exploration Stage Company)
INTERIM STATEMENTS OF CASH FLOW
(Unaudited - Prepared by Management)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH PROVIDED FROM (USED FOR)				
OPERATING ACTIVITIES				
Net income (loss) for the period	(246,430)	485,859	(556,940)	232,490
Items not involving cash				
Accretion	19,000	-	38,000	-
Amortization of capital assets	8,100	562	10,210	562
Professional fees	-	-	60,000	-
Stock-based compensation	166,439	409,960	359,822	544,056
Future income tax recovery	(215,000)	(1,209,000)	(565,000)	(1,209,000)
Increase in amounts receivable and prepaids	(14,501)	(203,378)	(50,163)	(216,436)
Increase (decrease) in accounts payable and accrued liabilities	<u>(518,829)</u>	<u>181,598</u>	<u>(436,904)</u>	<u>202,190</u>
	<u>(801,221)</u>	<u>(334,399)</u>	<u>(1,140,975)</u>	<u>(446,138)</u>
FINANCING ACTIVITIES				
Common shares issued for cash	310,833	6,704,797	2,962,549	6,704,797
Warrant exercises received	-	101,600	-	101,600
Common share issue costs	<u>-</u>	<u>(614,923)</u>	<u>(257,173)</u>	<u>(647,423)</u>
	<u>310,833</u>	<u>6,191,474</u>	<u>2,705,376</u>	<u>6,158,974</u>
INVESTING ACTIVITIES				
Additions to resource interests	(602,384)	(1,061,700)	(1,567,660)	(1,181,516)
Purchase of capital assets	<u>(47,370)</u>	<u>(14,412)</u>	<u>(239,410)</u>	<u>(14,412)</u>
	<u>(649,754)</u>	<u>(1,076,112)</u>	<u>(1,807,070)</u>	<u>(1,195,928)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,140,142)	4,780,963	(242,669)	4,516,908
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>1,790,998</u>	<u>65,010</u>	<u>893,525</u>	<u>329,065</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>650,856</u></u>	<u><u>4,845,973</u></u>	<u><u>650,856</u></u>	<u><u>4,845,973</u></u>

SUPPLEMENTARY CASH FLOW INFORMATION - See Note 9.

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

HALO RESOURCES LTD.
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INTERIM SCHEDULE OF UNPROVEN MINERAL INTERESTS

(Unaudited - Prepared by Management)

	February 28, 2006				August 31, 2005	
	Duport Property \$	Bachelor Lake Property \$	Quarter Moon Lake Property \$	Sherridon Project \$	Total \$	Total \$
BALANCE - BEGINNING OF PERIOD	16,834,784	5,585,956	338,593	-	22,759,333	75,906
AMOUNTS INCURRED DURING THE PERIOD						
EXPLORATION EXPENDITURES						
Accounting	-	9,460	-	-	9,460	-
Airborne surveying	-	-	-	-	-	250,268
Assays	-	22,658	-	-	22,658	56,036
Camp and equipment costs	98,387	84,605	-	-	182,992	209,549
Consulting	44,236	176,763	8,444	92,315	321,758	301,200
Data	-	-	-	25,000	25,000	-
Drilling	-	258,381	-	-	258,381	1,373,524
Due diligence	6,054	-	-	8,160	14,214	23,296
Engineering	5,751	23,020	-	-	28,771	-
Exploration office costs	28,427	43,963	-	1,243	73,633	25,018
Field personnel	29,215	107,292	-	-	136,507	179,253
Field supplies	-	-	-	-	-	41,332
Filing	-	1,197	-	1,000	2,197	14,035
Geological	-	-	-	-	-	199,030
Insurance	-	25,403	-	-	25,403	-
Maintenance	-	13,284	-	-	13,284	-
Mobilization, demobilization	-	6,089	-	-	6,089	88,766
Rent and utilities	-	73,527	-	-	73,527	30,669
Site preparation	-	-	-	-	-	232,706
Surveying	3,573	-	-	-	3,573	16,223
Technical report	-	-	-	10,859	10,859	10,000
Telephone	-	6,656	-	-	6,656	4,847
Travel	22,002	44,400	1,299	9,456	77,157	118,720
Reimbursement / Recoveries	-	(74,389)	(14,288)	-	(88,677)	1,818,123
	<u>237,645</u>	<u>822,309</u>	<u>(4,545)</u>	<u>148,033</u>	<u>1,203,442</u>	<u>4,992,595</u>
OTHER ITEMS						
Acquisition costs and payments	-	100,000	-	30,000	130,000	11,260,000
Claims staking and lease rental costs	-	-	-	116,690	116,690	12,458
Legal	1,809	19,348	-	71,371	92,528	385,207
Capitalized dividend on redeemable preferred shares	25,000	-	-	-	25,000	41,667
Future income tax adjustment	-	-	-	-	-	5,091,000
Asset retirement obligation	-	-	-	-	-	900,500
	<u>26,809</u>	<u>119,348</u>	<u>-</u>	<u>218,061</u>	<u>364,218</u>	<u>17,690,832</u>
	<u>264,454</u>	<u>941,657</u>	<u>(4,545)</u>	<u>366,094</u>	<u>1,567,660</u>	<u>22,683,427</u>
BALANCE - END OF PERIOD	<u>17,099,238</u>	<u>6,527,613</u>	<u>334,048</u>	<u>366,094</u>	<u>24,326,993</u>	<u>22,759,333</u>

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

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim financial statements and accompanying notes. Actual results could differ from those estimates. The interim financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality. These interim financial statements should be read in conjunction with the most recent annual financial statements. The significant accounting policies follow that of the most recently reported annual financial statements.

3. CAPITAL ASSETS

	February 28, 2006		August 31, 2005	
	Costs	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Office furniture and equipment	8,600	1,371	7,229	5,693
Computer and telephone equipment	20,398	4,543	15,855	15,512
Mine equipment and facility	<u>247,305</u>	<u>8,428</u>	<u>238,877</u>	<u>11,556</u>
	<u>276,303</u>	<u>14,342</u>	<u>261,961</u>	<u>32,761</u>

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(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

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4. UNPROVEN MINERAL INTERESTS

	February 28, 2006			August 31, 2005		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$
Duport	14,929,053	2,170,185	17,099,238	14,902,244	1,932,540	16,834,784
Bachelor Lake	2,876,228	3,651,385	6,527,613	2,756,880	2,829,076	5,585,956
Quarter Moon Lake	107,614	226,434	334,048	107,614	230,979	338,593
Sherridon	218,061	148,033	366,094	-	-	-
	<u>18,130,956</u>	<u>6,196,037</u>	<u>24,326,993</u>	<u>17,766,738</u>	<u>4,992,595</u>	<u>22,759,333</u>

(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 5). 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 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 1% NSR for \$2.5 million cash.

The Company has also acquired, through staking, ten mineral claims in the area of the Duport property, covering an area of approximately 1,700 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 to earn a 50% interest in the Bachelor Lake Property by paying \$650,000 cash and issuing 1,400,000 common shares, at a fair 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 \$1,293,123 cash and issued 700,000 common shares, at a fair value of \$525,000. If the Company exercises the option, and after 50,000 ounces of gold or gold equivalent have been produced from the Bachelor Lake Property, the Company shall pay to Wolfden a bonus payment of \$250,000 cash and issue to Wolfden 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.

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

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4. UNPROVEN MINERAL INTERESTS (continued)

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 can 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 \$100,000.

(c) Quarter Moon Lake Property, Manitoba

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 has the right to acquire an initial 51% interest in the Quarter Moon Lake Property in which the Company paid \$40,000 cash, issued 50,000 common shares of the Company, at a fair value of \$60,000, and is required to complete a \$250,000 minimum work commitment on or before March 9, 2006, paying a further \$40,000 cash and issuing 50,000 common shares on or before March 9, 2006, and completing a further \$250,000 work commitment on or before February 9, 2007. The Company has the option to earn an additional 29% interest by providing notice after the initial earn-in by completing an additional \$1.5 million in exploration and development over a subsequent two year period, and paying an additional \$40,000 and issuing 50,000 common shares on or before February 9, 2008. The Quarter Moon Lake Property will then be held 80% by the Company and 20% by EL. The Company will be responsible for advancing the property to production and will recover all costs out of production prior to sharing profits on an 80/20 basis. EL will hold a 1% NSR which can be purchased at any time for \$1 million.

The Company and EL are currently negotiating a restructuring of the Quarter Moon LOI which will result in revised payment terms.

(d) Sherridon VMS Project, Manitoba

The Sherridon VMS Project comprises approximately 13,915 hectares located in the Sherridon area, north-central Manitoba, and comprises the following:

- i) 51 unproven claims covering approximately 9,900 hectares, staked by the Company;
- ii) 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 payments, issuance of 250,000 common shares of the Company and expending a total of \$170,000 in work expenditures over a four year period. Subsequent to February 28, 2006, the Company paid a \$15,000 cash payment and issued 25,000 common shares, at a fair value of \$18,250; and

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

4. UNPROVEN MINERAL INTERESTS (continued)

- iii) three option agreements (the "HBED Options"), dated February 27, 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 3,478 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 25% of the option payments may be paid in common shares of the Company.

- (e) See also Note 11(b).

5. 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 4(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

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

5. REDEEMABLE PREFERRED SHARES (continued)

- (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 the six months ended February 28, 2006, the Company recorded \$25,000 of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at February 28, 2006, \$4,167 of accrued dividends were included as part of accounts payable and accrued liabilities.

6. SHARE CAPITAL

Authorized: unlimited common shares without par value
unlimited preferred shares

Issued common shares:	<u>February 28, 2006</u>		<u>August 31, 2005</u>	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of period	<u>21,005,765</u>	<u>28,487,576</u>	<u>9,443,859</u>	<u>20,914,102</u>
Issued during the period				
For cash				
Private placements	5,273,236	3,493,249	7,324,894	6,688,797
Exercise of warrants	1,653,000	428,250	1,048,500	253,100
Corporate finance	85,715	60,000	40,000	34,000
For unproven mineral interests	-	-	3,150,000	2,845,000
Cancellation of escrow shares	<u>-</u>	<u>-</u>	<u>(1,488)</u>	<u>-</u>
	7,011,951	3,981,499	11,561,906	9,820,897
Less: flow-through share renunciation	-	(820,633)	-	(1,566,000)
share issue costs	<u>-</u>	<u>(302,729)</u>	<u>-</u>	<u>(681,423)</u>
	<u>7,011,951</u>	<u>2,858,137</u>	<u>11,561,906</u>	<u>7,573,474</u>
Balance, end of period	<u><u>28,017,716</u></u>	<u><u>31,345,713</u></u>	<u><u>21,005,765</u></u>	<u><u>28,487,576</u></u>

- (a) During the six months ended February 28, 2006 the Company completed a non-brokered 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 (the "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

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(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

6. SHARE CAPITAL (continued)

one common share and one share purchase warrant entitling the holder to purchase one further common share of the Company, for a period of two years at a price of \$0.70 per share. The Company paid a total of \$262,194 for commissions, incurred legal and filing costs totalling \$40,535 and issued 523,323 warrants ("Finders' Warrants"). The Finder's Warrants have the same terms as the private placement warrants. A director of the Company purchased 20,000 flow-through shares for gross proceeds of \$14,000.

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.

- (b) During the six months ended February 28, 2006 the Company granted 1,768,000 stock options to its employees, directors and consultants and recorded compensation expense of \$359,822.

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	3.24% - 3.43%
Estimated volatility	61.41% - 64.96%
Expected life	1.5 years
Expected dividend yield	0%

The fair value per share of stock options, calculated using the Black-Scholes option pricing model, granted during the period to the Company's employees, directors and consultants was \$0.20 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 February 28, 2006 and the changes for the six months ended February 28, 2006 is presented below:

	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	1,688,000	0.80
Granted	1,768,000	0.60
Expired	<u>(753,000)</u>	0.96
Balance, end of period	<u><u>2,703,000</u></u>	0.61

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

6. SHARE CAPITAL (continued)

The following table summarizes information about the stock options outstanding and exercisable at February 28, 2006:

Options Outstanding and Exercisable	Exercise Price \$	Expiry Date
600,000	0.60	May 31, 2007
60,000	0.75	July 22, 2007
150,000	0.70	September 27, 2007
125,000	0.75	February 17, 2008
200,000	0.75	September 28, 2008
655,000	0.75	September 29, 2008
<u>913,000</u>	0.45	February 2, 2009
<u><u>2,703,000</u></u>		

- (c) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at February 28, 2006 and the changes for the six months ended February 28, 2006, is as follows:

	Number
Balance, beginning of period	10,331,859
Issued pursuant to private placements	1,980,166
Issued as finders warrants	523,323
Issued for corporate finance fee	85,715
Exercised	<u>(1,653,000)</u>
Balance, end of period	<u><u>11,268,063</u></u>

Common shares reserved pursuant to warrants outstanding at February 28, 2006, are as follows:

Number	Exercise Price \$	Expiry Date
550,000	0.25	March 4, 2006
2,395,500	0.40	April 15, 2006
2,313,182	1.50	December 23, 2006
2,698,530	1.35	December 23, 2006
20,000	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>11,268,063</u></u>		

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

6. SHARE CAPITAL (continued)

(d) See also Note 11.

7. CONTRIBUTED SURPLUS

Contributed surplus is comprised of the following:

	February 28, 2006	August 31, 2005
	\$	\$
Balance, beginning of period	738,642	179,611
Stock-based compensation (Note 6(b))	<u>359,822</u>	<u>559,031</u>
Balance, end of period	<u><u>1,098,464</u></u>	<u><u>738,642</u></u>

8. RELATED PARTY TRANSACTIONS

(a) During the six months ended February 28, 2006, the Company incurred \$119,700 for management, professional, accounting and administrative services provided by companies controlled by directors of the Company. As at February 28, 2006, accounts payable and accrued liabilities include \$7,666 due to these related parties.

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

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

9. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash financing activities were conducted by the Company during the six months ended February 28, 2006 and 2005 are as follows:

	2006	2005
	\$	\$
Financing activities		
Common shares issued for corporate finance fee	-	34,000
Common share issue costs	-	(34,000)
Share capital - future income tax adjustment	(820,633)	(1,566,000)
Future tax liability	<u>820,633</u>	<u>1,566,000</u>
	<u><u>-</u></u>	<u><u>-</u></u>
Investing activity		
Unproven mineral interests - accrued dividend	<u><u>(4,167)</u></u>	<u><u>-</u></u>

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

9. SUPPLEMENTARY CASH FLOW INFORMATION (continued)

	2006 \$	2005 \$
Operating activities		
Accrued dividend payable	4,167	-
Other supplementary cash flow information:		
	2006 \$	2005 \$
Interest paid in cash	-	-
Income taxes paid in cash	-	-

10. ASSET RETIREMENT OBLIGATION

	February 28, 2006 \$	August 31, 2005 \$
Balance, beginning of period	938,500	-
Liabilities assumed on acquisition	-	900,500
Accretion expense	38,000	38,000
	976,500	938,500

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.

11. SUBSEQUENT EVENTS

- (a) Subsequent to February 28, 2006, the Company:
- (i) issued 2,945,500 common shares on the exercise of warrants for proceeds of \$1,095,700; and
 - (ii) issued 150,000 common shares on the exercise of stock options for proceeds of \$112,500.
- (b) 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 60% interests in the Middle Property (64 unpatented claims) and the Pipestone Property (6 unpatented claims) and a 30% interest in the Biron Bay Property (10 patented claims) (collectively the "Red Lake Properties"). Under the terms of the Red Lake LOI the Company has 60 days to conduct its due diligence. Should the Company confirm that

HALO RESOURCES LTD.
(An Exploration Stage Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006

(Unaudited - Prepared by Management)

11. SUBSEQUENT EVENTS (continued)

it wishes to proceed, both parties will enter into a formal option agreement (the "Definitive Agreement") and the Company will earn its interest in the Red Lake Properties by spending \$3.0 million, as follows:

	\$
Year 1	750,000
Year 2	1,000,000
Year 3	<u>1,250,000</u>
	<u><u>3,000,000</u></u>

The Company will be committed to spend the initial \$750,000 required upon signing the Definitive Agreement. Upon spending the \$3.0 million, the Company will be able to exercise the option, at which time Goldcorp can reacquire 25% interests in the Middle Property and the Pipestone Property and a 12.5% interest in the Biron Bay Property by paying \$6 million to the Company (the "Back-In Right"). If Goldcorp does not exercise its Back-In Right the Company will then issue 1 million common shares of its share capital to Goldcorp.