
HALO RESOURCES LTD.

(An Exploration Stage Company)

INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
MAY 31, 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 nine months ended May 31, 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)

	May 31, 2006 \$	August 31, 2005 \$
A S S E T S		
CURRENT ASSETS		
Cash	924,879	893,525
Amounts receivable and prepaids	<u>166,997</u>	<u>197,507</u>
	1,091,876	1,091,032
CAPITAL ASSETS (Note 3)	249,908	32,761
UNPROVEN MINERAL INTERESTS (Note 4)	23,321,634	22,759,333
DEFERRED SHARE ISSUE COSTS (Note 6(a))	<u>-</u>	<u>45,556</u>
	<u><u>24,663,418</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	124,680	584,221
REDEEMABLE PREFERRED SHARES (Note 5)	8,000,000	8,000,000
ASSET RETIREMENT OBLIGATION (Note 12)	995,500	938,500
FUTURE INCOME TAX LIABILITY	<u>5,403,633</u>	<u>5,328,000</u>
	<u>14,523,813</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)	32,527,163	28,487,576
SHARE SUBSCRIPTIONS RECEIVED (Note 6(a))	-	958,950
CONTRIBUTED SURPLUS (Note 8)	1,098,464	738,642
DEFICIT	<u>(23,486,022)</u>	<u>(21,107,207)</u>
	<u>10,139,605</u>	<u>9,077,961</u>
	<u><u>24,663,418</u></u>	<u><u>23,928,682</u></u>
COMMITMENT (Note 10)		
SUBSEQUENT EVENT (Note 4(e))		
APPROVED BY THE BOARD		
<u>"Marc Cernovitch"</u> _____ , Director		
<u>"Nick DeMare"</u> _____ , 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 May 31,		Nine Months Ended May 31,	
	2006 \$	2005 \$	2006 \$	2005 \$
REVENUES				
Interest and other	4,513	13,016	12,661	25,782
EXPENSES				
Accretion (Note 12)	19,000	-	57,000	-
Amortization of capital assets	12,053	1,946	22,263	2,508
General and administrative	282,356	384,882	1,000,501	829,540
General exploration	11,780	2,611	15,691	2,611
Stock-based compensation	-	14,975	359,822	559,031
Write-down of unproven mineral interest (Note 4(b))	1,681,199	-	1,681,199	-
	2,006,388	404,414	3,136,476	1,393,690
LOSS BEFORE INCOME TAX	(2,001,875)	(391,398)	(3,123,815)	(1,367,908)
FUTURE INCOME TAX RECOVERY	180,000	134,000	745,000	1,343,000
NET LOSS FOR THE PERIOD	(1,821,875)	(257,398)	(2,378,815)	(24,908)
DEFICIT - BEGINNING OF PERIOD	(21,664,147)	(20,506,607)	(21,107,207)	(20,739,097)
DEFICIT - END OF PERIOD	(23,486,022)	(20,764,005)	(23,486,022)	(20,764,005)
 LOSS PER COMMON SHARE				
- BASIC AND DILUTED	\$(0.06)	\$(0.01)	\$(0.09)	\$(0.00)
 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	29,903,906	18,771,405	27,563,547	14,397,226

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 May31,		Nine Months Ended May 31,	
	2006 \$	2005 \$	2006 \$	2005 \$
CASH PROVIDED FROM (USED FOR)				
OPERATING ACTIVITIES				
Net loss for the period	(1,821,874)	(257,398)	(3,123,815)	(24,908)
Items not involving cash				
Accretion	19,000	-	57,000	-
Amortization of capital assets	12,053	1,946	22,263	2,508
Professional fees	-	-	60,000	-
Stock-based compensation	-	14,975	359,822	559,031
Write-down of unproven mineral interest	1,681,199	-	1,681,199	-
Future income tax recovery	(180,000)	(134,000)	(745,000)	(1,343,000)
Decrease (increase) in amounts receivable and prepaids	80,673	(15,586)	30,510	(232,022)
Increase (decrease) in accounts payable and accrued liabilities	<u>(22,637)</u>	<u>459,844</u>	<u>(459,541)</u>	<u>662,034</u>
	<u>(231,587)</u>	<u>69,781</u>	<u>(1,372,562)</u>	<u>(376,357)</u>
FINANCING ACTIVITIES				
Common shares issued for cash	1,163,200	105,000	4,125,749	6,911,397
Common share issue costs	<u>-</u>	<u>-</u>	<u>(257,173)</u>	<u>(647,423)</u>
	<u>1,163,200</u>	<u>105,000</u>	<u>3,868,576</u>	<u>6,263,974</u>
INVESTING ACTIVITIES				
Additions to resource interests	(657,590)	(3,692,729)	(2,225,250)	(4,874,245)
Purchase of capital assets	<u>-</u>	<u>(22,481)</u>	<u>(239,410)</u>	<u>(36,893)</u>
	<u>(657,590)</u>	<u>(3,715,210)</u>	<u>(2,464,660)</u>	<u>(4,911,138)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	274,023	(3,540,429)	31,354	976,479
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>650,856</u>	<u>4,845,973</u>	<u>893,525</u>	<u>329,065</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>924,879</u></u>	<u><u>1,305,544</u></u>	<u><u>924,879</u></u>	<u><u>1,305,544</u></u>

SUPPLEMENTARY CASH FLOW INFORMATION - See Note 11.

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)

	May 31, 2006					August 31, 2005	
	Duport Property \$	Bachelor Lake Property \$	Quarter Moon Lake Property \$	Sherridon Project \$	Red Lake Property \$	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	-	13,272	-	-	-	13,272	-
Airborne surveying	-	-	-	187,650	-	187,650	250,268
Assays	-	23,065	-	-	-	23,065	56,036
Camp and equipment costs	110,727	97,224	-	-	-	207,951	209,549
Consulting	53,688	194,202	8,444	198,909	1,455	456,698	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	26,856	23,020	-	-	-	49,876	-
Exploration office costs	26,790	54,332	-	6,387	-	87,509	25,018
Field personnel	38,752	126,517	-	-	-	165,269	179,253
Field supplies	-	-	-	-	-	-	41,332
Filing	-	2,250	-	1,000	-	3,250	14,035
Geological	-	-	-	-	-	-	199,030
Insurance	-	16,719	-	-	-	16,719	-
Maintenance	-	15,178	-	-	-	15,178	-
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	12,125	-	-	-	13,074	4,847
Travel	22,231	48,985	1,299	23,878	3,239	99,632	118,720
Reimbursement / Recoveries	-	(91,449)	(14,288)	-	-	(105,737)	1,818,123
	<u>289,620</u>	<u>906,530</u>	<u>(4,545)</u>	<u>461,843</u>	<u>4,694</u>	<u>1,658,142</u>	<u>4,992,595</u>
OTHER ITEMS							
Acquisition costs and payments	-	165,782	-	63,250	-	229,032	11,260,000
Claims staking and lease rental costs	4,876	-	-	147,690	-	152,566	12,458
Legal	1,809	49,597	-	100,713	14,141	166,260	385,207
Capitalized dividend	37,500	-	-	-	-	37,500	41,667
Future income tax adjustment	-	-	-	-	-	-	5,091,000
Asset retirement obligation	-	-	-	-	-	-	900,500
	<u>44,185</u>	<u>215,379</u>	<u>-</u>	<u>311,653</u>	<u>14,141</u>	<u>585,358</u>	<u>17,690,832</u>
BALANCE BEFORE WRITE-DOWN	17,168,589	6,707,865	334,048	773,496	18,835	25,002,833	22,759,333
WRITE-DOWN (Note 4(b))	-	(1,681,199)	-	-	-	(1,681,199)	-
BALANCE - END OF PERIOD	<u>17,168,589</u>	<u>5,026,666</u>	<u>334,048</u>	<u>773,496</u>	<u>18,835</u>	<u>23,321,634</u>	<u>22,759,333</u>

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

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 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

	May 31, 2006		August 31, 2005
	Costs	Accumulated Depreciation	Net Book Value
	\$	\$	\$
Office furniture and equipment	8,600	1,792	6,808
Computer and telephone equipment	20,398	5,762	14,636
Mine equipment and facility	<u>247,305</u>	<u>18,841</u>	<u>228,464</u>
	<u>276,303</u>	<u>26,395</u>	<u>249,908</u>
			<u>32,761</u>

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
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(Unaudited - Prepared by Management)

4. UNPROVEN MINERAL INTERESTS

	May 31, 2006			August 31, 2005		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$
Duport	14,946,429	2,222,160	17,168,589	14,902,244	1,932,540	16,834,784
Bachelor Lake	1,291,060	3,735,606	5,026,666	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	311,653	461,843	773,496	-	-	-
Red Lake	14,141	4,694	18,835	-	-	-
	<u>16,678,987</u>	<u>6,650,737</u>	<u>23,321,634</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 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 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 \$1,818,123 by paying \$1,293,123 cash and issuing 700,000 common shares, at a fair 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 is 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.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2006

(Unaudited - Prepared by Management)

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 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, 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 Property in consideration of \$3.5 million cash, \$750,000 in common shares of Metanor and a 1% NSR in favour of the Company.

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) September 2, 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 payment of \$3.5 million cash and common shares of Metanor with a fair value of \$750,000, for total consideration of \$4.25 million. Accordingly, during the nine months ended May 31, 2006, the Company recognized an impairment of \$1,681,199.

To date Metanor has not notified the Company that it has arranged the necessary financing to complete the purchase of the Company's 50% interest in the Bachelor Lake Property.

(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

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(Unaudited - Prepared by Management)

4. UNPROVEN MINERAL INTERESTS (continued)

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 additional claims to be acquired and 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 (\$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
- 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.

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4. UNPROVEN MINERAL INTERESTS (continued)

(e) Red Lake Property, Manitoba

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, as follows:

Date	\$
December 31, 2006	750,000
December 31, 2007	1,000,000
December 31, 2008	<u>1,250,000</u>
	<u><u>3,000,000</u></u>

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.

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.

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5. REDEEMABLE PREFERRED SHARES (continued)

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 the nine months ended May 31, 2006, the Company recorded \$37,500 of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at May 31, 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:	May 31, 2006		August 31, 2005	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of period	21,005,765	28,487,576	9,443,859	20,914,102
Issued during the period				
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
Corporate finance	85,715	60,000	40,000	34,000
For unproven mineral interests	25,000	18,250	3,150,000	2,845,000
Cancellation of escrow shares	-	-	(1,488)	-
	10,132,451	5,162,949	11,561,906	9,820,897
Less: flow-through share renunciation	-	(820,633)	-	(1,566,000)
share issue costs	-	(302,729)	-	(681,423)
	10,132,451	4,039,587	11,561,906	7,573,474
Balance, end of period	31,138,216	32,527,163	21,005,765	28,487,576

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(Unaudited - Prepared by Management)

6. SHARE CAPITAL (continued)

- (a) During the nine months ended May 31, 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 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) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at May 31, 2006, and the changes for the nine months ended May 31, 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>(4,598,500)</u>
Balance, end of period	<u><u>8,322,563</u></u>

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

Number	Exercise Price \$	Expiry Date
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>8,322,563</u></u>		

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7. 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 TSXV. During the nine months ended May 31, 2006, the Company granted 2,168,000 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 nine months ended May 31, 2006:

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 nine months ended May 31, 2006, 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 May 31, 2006, and the changes for the nine months ended May 31, 2006, is presented below:

	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	1,688,000	0.80
Granted	2,168,000	0.54
Exercised	(150,000)	0.75
Expired	<u>(753,000)</u>	0.96
Balance, end of period	<u><u>2,953,000</u></u>	0.58

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7. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)

The following table summarizes information about the stock options outstanding and exercisable at May 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	0.75	September 28, 2008
630,000	630,000	0.75	September 29, 2008
913,000	913,000	0.45	February 2, 2009
<u>400,000</u>	<u>-</u>	0.45	March 10, 2011
<u><u>2,953,000</u></u>	<u><u>2,553,000</u></u>		

8. CONTRIBUTED SURPLUS

Contributed surplus is comprised of the following:

	May 31, 2006 \$	August 31, 2005 \$
Balance, beginning of period	738,642	179,611
Stock-based compensation (Note 7)	<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>

9. RELATED PARTY TRANSACTIONS

(a) During the nine months ended May 31, 2006, the Company incurred \$176,275 for management, professional, accounting and administrative services provided by companies controlled by directors of the Company. As at May 31, 2006, accounts payable and accrued liabilities include \$9,124 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.

10. COMMITMENT

On May 17, 2006, the Company entered into an office lease agreement for its exploration office located in Flin Flon, Manitoba. The gross rent under the agreement is \$16,150 per annum.

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11. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash financing activities were conducted by the Company during the nine months ended May 31, 2006 and 2005, are as follows:

	2006	2005
	\$	\$
Financing activities		
Common shares issued for mineral interests	18,250	-
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	820,633	1,566,000
	<u>18,250</u>	<u>-</u>
Investing activity		
Unproven mineral interests	<u>(22,417)</u>	<u>-</u>
Operating activities		
Accrued dividend payable	<u>4,167</u>	<u>-</u>
Other supplementary cash flow information:		
	2006	2005
	\$	\$
Interest paid in cash	<u>-</u>	<u>-</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

12. ASSET RETIREMENT OBLIGATION

	May 31,	August 31,
	2006	2005
	\$	\$
Balance, beginning of period	938,500	-
Liabilities assumed on acquisition	-	900,500
Accretion expense	<u>57,000</u>	<u>38,000</u>
	<u>995,500</u>	<u>938,500</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.