HALO RESOURCES LTD.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2007 AND 2006

D+H Group LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Halo Resources Ltd.

We have audited the balance sheets of Halo Resources Ltd. as at August 31, 2007 and 2006 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, 2007 and 2006 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

On December 7, 2007, we reported separately to the shareholders of Halo Resources Ltd. on the financial statements as at August 31, 2007 and 2006 and for the years ended August 31, 2007, 2006 and 2005 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 7, 2007, except as to
Note 16(a) which is as of December 18, 2007

"D&H Group LLP"
Chartered Accountants

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HALO RESOURCES LTD.
BALANCE SHEETS
AS AT AUGUST 31

	2007 $	2006 $
A S S E T S		
CURRENT ASSETS		
Cash	2,102,498	271,935
Amounts receivable and prepaids (Note 3)	214,642	136,275
	2,317,140	408,210
CAPITAL ASSETS (Note 4)	330,926	298,630
UNPROVEN MINERAL INTERESTS (Note 5)	24,139,099	23,845,828
	26,787,165	24,552,668
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	474,375	256,688
REDEEMABLE PREFERRED SHARES (Note 6)	8,000,000	8,000,000
ASSET RETIREMENT OBLIGATION (Note 15)	1,014,500	1,014,500
FUTURE INCOME TAX LIABILITY (Note 10)	4,886,000	4,832,000
	14,374,875	14,103,188
LEASE COMMITMENTS (Note 14)		
S H A R E H O L D E R S' E Q U I T Y		
SHARE CAPITAL (Note 7)	35,766,585	32,395,855
CONTRIBUTED SURPLUS (Note 9)	2,149,234	1,360,767
DEFICIT	(25,503,529)	(23,307,142)
	12,412,290	10,449,480
	26,787,165	24,552,668

SUBSEQUENT EVENTS (Note 16)

APPROVED BY THE BOARD

"Lynda Bloom" , 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

	2007 $	2006 $
EXPENSES		
Accretion (Note 15)	-	76,000
Amortization of capital assets	32,978	39,373
General and administrative	1,637,589	1,267,825
General exploration	40,269	17,627
Stock-based compensation (Note 8)	679,122	550,817
Part XII.6 tax expense	-	43,000
Write-down of unproven mineral interest (Note 5)	340,000	1,538,655
	2,729,958	3,533,297
LOSS BEFORE OTHER ITEM	(2,729,958)	(3,533,297)
OTHER ITEM		
Interest and other	63,071	16,729
LOSS BEFORE INCOME TAXES	(2,666,887)	(3,516,568)
FUTURE INCOME TAX RECOVERY (Note 10)	470,500	1,316,633
NET LOSS FOR THE YEAR	(2,196,387)	(2,199,935)
DEFICIT - BEGINNING OF YEAR	(23,307,142)	(21,107,207)
DEFICIT - END OF YEAR	(25,503,529)	(23,307,142)
LOSS PER COMMON SHARE - BASIC AND DILUTED	$(0.06)	$(0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	35,293,394	28,447,710

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

HALO RESOURCES LTD.

STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED AUGUST 31

	2007 $	2006 $
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(2,196,387)	(2,199,935)
Items not involving cash		
Accretion	-	76,000
Amortization of capital assets	32,978	39,373
Stock-based compensation	679,122	550,817
Write-down of unproven mineral interests	340,000	1,538,655
Future income tax recovery	(470,500)	(1,316,633)
(Increase) decrease in amounts receivable and prepaids	(78,367)	61,232
Increase (decrease) in accounts payable and accrued liabilities	(17,073)	(495,278)
	(1,710,227)	(1,745,769)
FINANCING ACTIVITIES		
Common shares issued for cash	4,288,350	4,125,749
Common share issue costs	(372,775)	(257,173)
	3,915,575	3,868,576
INVESTING ACTIVITIES		
Proceeds from disposition of unproven mineral interests	3,825,000	-
Additions to unproven mineral interests	(4,134,511)	(2,469,647)
Purchase of capital assets	(65,274)	(274,750)
	(374,785)	(2,744,397)
INCREASE (DECREASE) IN CASH DURING THE YEAR	1,830,563	(621,590)
CASH - BEGINNING OF YEAR	271,935	893,525
CASH - END OF YEAR	2,102,498	271,935

SUPPLEMENTAL CASH FLOW INFORMATION - See Note 13.

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

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.

These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

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 amortization, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Capital Assets

Capital assets are recorded at cost. Amortization 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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

Earnings (Loss) Per Share

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

Recent Accounting Pronouncements

CICA Handbook Section 1530: *"Comprehensive Income"*, effective for fiscal years beginning on or after October 1, 2006, establishes standards for reporting comprehensive income, defined as a change in value of net assets that is not due to owner activities, by introducing a new requirement to temporarily present certain gains and losses outside of net income.

CICA Handbook Section 3251: *"Equity"*, effective for fiscal years beginning on or after October 1, 2006, establishes standards for the presentation of equity and changes in equity during the reporting period.

CICA Handbook Section 3855: "*Financial Instruments - Recognition and Measurement*", effective for fiscal years beginning on or after October 1, 2006, establishes standards for the recognition, classification and measurement of financial instruments including the presentation of any resulting gains or losses. Assets classified as available-for-sale securities will have revaluation gains and losses included in other comprehensive income until these assets are no longer included on the balance sheet.

CICA Handbook Section 1506: *"Accounting Changes"* (CICA 1506"), effective for fiscal years beginning on or after January 1, 2007, establishes standards and new disclosures requirements for the reporting of changes in accounting policies and estimates and the reporting of error corrections. CICA1506 clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application of prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable, with a corresponding adjustment made to opening retained earnings.

The Company will be required to adopt the above new accounting pronouncements for its fiscal period beginning September 1, 2007. The adoption of these new pronouncements is not expected to have an effect on the Company's financial position or results of operations.

3. AMOUNTS RECEIVABLE AND PREPAIDS

	2007 $	2006 $
Goods and services taxes receivable	144,525	43,424
Prepaids	50,680	55,011
Other	19,437	37,840
	214,642	136,275

4. CAPITAL ASSETS

	2007			2006
	Costs $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Office furniture and equipment	53,843	15,912	37,931	40,417
Computer and telephone equipment	62,661	19,653	43,008	21,430
Field equipment and facility	279,381	33,716	245,665	226,700
Leasehold improvements	11,524	7,202	4,322	10,083
	407,409	76,483	330,926	298,630

5. UNPROVEN MINERAL INTERESTS

	2007			2006		
	Acquisition Costs $	Deferred Exploration Costs $	Total Costs $	Acquisition Costs $	Deferred Exploration Costs $	Total Costs $
Duport	15,237,502	2,299,678	17,537,180	14,957,409	2,241,773	17,199,182
Bachelor Lake	881,789	-	881,789	1,399,289	3,647,500	5,046,789
Sherridon	722,886	4,399,631	5,122,517	423,519	1,127,370	1,550,889
West Red Lake	38,952	558,661	597,613	38,952	10,016	48,968
	16,881,129	7,257,970	24,139,099	16,819,169	7,026,659	23,845,828

(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.

5. UNPROVEN MINERAL INTERESTS (continued)

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 into 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 April 27, 2006, as amended August 17, 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. 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.

On November 17, 2006, as amended August 22, 2007, Metanor and the Company agreed to revise the payment terms of the Metanor Purchase (the "Revised Metanor Purchase") under which Metanor agreed to purchase the Company's 50% interest in the Bachelor Lake JV for total consideration of $3,825,000 cash and 125,000 common shares of Metanor (the "Metanor Shares"). As of August 31, 2007, all of the cash payments have been made by Metanor. In September 2007, the Company received the Metanor Shares.

During fiscal 2007, the Company recognized a further write-down of $340,000 to reflect the terms of the Revised Metanor Agreement.

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

(c) Sherridon VMS Project, Manitoba

The Company now holds, through staking and various acquisition agreements, an interest in 20,876 hectares located in the Sherridon area, north-central Manitoba. Details of the acquisitions are as follows:

i) 76 mining claims covering approximately 14,789 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 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.

On December 3, 2006, the Company and EL entered into a formal purchase agreement (the "Quarter Moon Purchase Agreement"), under which the Company purchased a 100% interest in ten mining claims, including the original five mining claims under the Quarter Moon LOI, covering a total of 2,072 hectares in north-central Manitoba, for $90,000 cash and issuance of 160,000 common shares, at a value of $64,000. EL holds a 1% NSR, of which a 0.5% NSR can be purchased at any time for $500,000.

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 mining claims, covering 536 hectares, as follows:

Date	Option Payments $	Share Issuances	Work Expenditures $
On signing	15,000 (paid)	25,000 (issued)	-
February 9, 2007	20,000 (paid)	50,000 (issued)	10,000
February 9, 2008	25,000	75,000	10,000
February 9, 2009	30,000	100,000	50,000
February 9, 2010	-	-	100,000
	90,000	250,000	170,000

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 mining claims and one mining lease covering approximately 3,479 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:

5. UNPROVEN MINERAL INTERESTS (continued)

Date	Option Payments $		Work Expenditures $
On signing	30,000	(paid)	-
March 19, 2007	70,000	(paid)	30,000
March 19, 2008	120,000		100,000
March 19, 2009	80,000		790,000
March 19, 2010	350,000		3,380,000
	650,000		4,300,000

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. As of August 31, 2007, all option payments and work expenditure commitments have been met.

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) West Red Lake Property, Ontario

Pursuant to option agreements dated June 20, 2006 and April 20, 2007, (the “West Red Lake Option”) with Goldcorp. Inc. (“Goldcorp”) the Company has 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 “West Red Lake Property”) located in Ball Township, Red Lake, Ontario. Under the terms of the West Red Lake Option, the Company is required to perform minimum exploration programs totalling $3 million on or before December 31, 2009, as follows:

Date	Expenditure Commitments $
December 31, 2007	750,000
December 31, 2008	1,000,000
December 31, 2009	1,250,000
	3,000,000

Once the Company has incurred $3 million of expenditures the Company can elect to proceed with a formal joint venture on the subject claims. 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.

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 $320,000, 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 2007, the Company recorded $275,000 (2006 - $50,000) of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at August 31, 2007, $26,667 (2006 - $4,167) of accrued dividends were included as part of accounts payable and accrued liabilities.

7. SHARE CAPITAL

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

Issued common shares:

	2007		2006	
	Shares	Amount $	Shares	Amount $
Balance, beginning of year	31,138,216	32,395,855	21,005,765	28,487,576
Issued during the year				
For cash				
Private placements	9,328,965	4,288,350	5,273,236	3,493,249
Exercise of options	-	-	150,000	67,500
Exercise of warrants	-	-	4,598,500	1,523,950
For fiscal advisory services	-	-	85,715	32,458
For corporate finance fee	62,500	28,125	-	-
For unproven mineral interests	210,000	89,000	25,000	18,250
Reallocation from contributed surplus on exercise of options	-	-	-	69,413
	9,601,465	4,405,475	10,132,451	5,204,820
Less: flow-through share renunciation	-	(524,500)	-	(820,633)
share issue costs	-	(510,245)	-	(475,908)
	9,601,465	3,370,730	10,132,451	3,908,279
Balance, end of year	40,739,681	35,766,585	31,138,216	32,395,855

(a) During fiscal 2007, the Company completed private placements as follows:

i) 3,612,632 flow-through units, at a price of $0.475 per flow-through unit and 2,300,000 non-flow-through units, at a price of $0.45 per non-flow-through unit, for total gross proceeds of $2,751,000. 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 common share for a period eighteen months at a price of $0.65 per share . Each non-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 shares for a period of eighteen months at a price of $0.60 per share. The Company can require the holders of these warrants to exercise the warrants in the event the 20 day weighted average closing trading price of the common shares is $0.85 or above. The President of the Company purchased 25,000 flow-through units for $11,875.

The Company paid the agents a cash commission of $163,997 and issued 470,763 warrants (the “Agents’ Warrants”) and incurred $29,114 of costs relating to the financing. Each Agents’ Warrant is exercisable to purchase one common share for a period of eighteen months at a price of $0.60 per share. The fair value of the Agent’s Warrants has been estimated using the Black-Scholes option price model. The assumptions used were: dividend yield of 0%; expected volatility of 64.13%; a risk-free interest rate of 4.55%; and an expected life of one and one-half years. The value assigned to the Agent’s Warrants was $74,398.

7. SHARE CAPITAL (continued)

ii) 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 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 the agent a cash commission of $115,301 and issued 341,633 warrants (the "Agent Warrants") and incurred $64,363 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 fair value of the Agent's Warrants has been estimated using the Black-Scholes option price model. The assumptions used were: dividend yield of 0%; expected volatility of 79.42%; a risk-free interest rate of 4.00%; and an expected life of one and one-half years. The value assigned to the Agent's Warrants was $29,542.

The Company also issued 62,500 units (the "Corporate Finance Units"), at a value of $28,125, for corporate finance fees. Each Corporate Finance Unit, consisted of one common share and one share purchase warrant entitling the holder to purchase one common share at a price of $0.45 per share on or before April 12, 2008. 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 79.42%; a risk-free interest rate of 4.00%; and an expected life of one and one-half years. The value assigned to the warrants was $5,405.

(b) 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.

The Company incurred a total of $40,535 for legal, filing and other share issue costs relating to the private placement. A director of the Company purchased 20,000 flow-through shares for $14,000.

7. SHARE CAPITAL (continued)

(c) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at August 31, 2007 and 2006 and the changes for the years ending on those dates is as follows:

	2007	2006
Balance, beginning of year	8,322,563	10,331,859
Pursuant to private placements	5,539,378	2,589,204
Exercised	-	(4,598,500)
Expired	(5,733,359)	-
Balance, end of year	8,128,582	8,322,563

Common shares reserved pursuant to warrants outstanding at August 31, 2007, are as follows:

Number	Exercise Price $	Expiry Date
2,071,015	0.70	September 14, 2007
432,474	0.70	September 29, 2007
85,715	0.75	October 14, 2007
1,708,166	0.60	April 12, 2008
404,133	0.45	April 12, 2008
1,091,316	0.65	January 4, 2009
1,509,763	0.60	January 4, 2009
665,000	0.65	January 11, 2009
111,000	0.60	January 11, 2009
50,000	0.65	July 20, 2009
8,128,582		

(d) See also Note 16.

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 2007, the Company granted 2,452,000 stock options (2006 - 2,168,000) to its employees, officers, directors and consultants and recorded total compensation expense of $679,122 (2006 - $550,817) on these stock options granted and on stock options which vested during fiscal 2007. In addition the Company amended the terms of 450,000 (2006 - nil) stock options whereby the Company recorded compensation expense of $37,641 (2006 - $nil), which is included in the total compensation expense above.

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

The fair values of the stock options granted, vested or amended are estimated using the Black-Scholes option pricing model with the following assumptions:

	2007	2006
Risk-free interest rate	3.82% - 4.53%	3.38% - 4.11%
Estimated volatility	67.19% - 85.48%	61.41% - 85.48%
Expected life	3 years - 5 years	3 years - 5 years
Expected dividend yield	0%	0%

The weighted average fair value of all stock options, calculated using the Black-Scholes option pricing model, granted, vested or amended during the fiscal year was $0.21 (2006 - $0.25) 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, 2007 and 2006, and the changes for the fiscal years ending on those dates is presented below:

	2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance, beginning of year	2,903,000	0.56	1,688,000	0.80
Granted	2,452,000	0.48	2,168,000	0.54
Exercised	-	-	(150,000)	0.75
Cancelled / Expired	(1,540,000)	0.62	(803,000)	0.95
Balance, end of year	3,815,000	0.48	2,903,000	0.56

The following table summarizes information about the stock options outstanding and exercisable at August 31, 2007:

Options Outstanding	Options Exercisable	Exercise Price $	Expiry Date
450,000	450,000	0.60	May 31, 2009
913,000	913,000	0.45	February 2, 2009
1,547,000	1,484,500	0.45	November 27, 2009
150,000	-	0.50	July 18, 2010
755,000	755,000	0.52	July 24, 2012
3,815,000	3,602,500		

9. CONTRIBUTED SURPLUS

Contributed surplus for fiscal 2007 and 2006 is comprised of the following:

	2007 $	2006 $
Balance, beginning of year	1,360,767	738,642
Stock options exercised	-	(69,413)
Stock-based compensation on stock options (Note 8)	679,122	550,817
Stock-based compensation on warrants (Note 7)	109,345	140,721
Balance, end of year	2,149,234	1,360,767

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:

	2007 $	2006 $
Future income tax assets:		
Financing costs	294,000	272,000
Capital assets	26,000	15,000
Losses available for future periods	2,204,000	1,630,000
	2,524,000	1,917,000
Future income tax liabilities:		
Difference between book value and income tax costs of unproven mineral interests	(7,410,000)	(6,749,000)
Net future income tax liabilities	(4,886,000)	(4,832,000)

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:

	2007 $	2006 $
Combined federal and provincial income tax rate	34.12%	34.12%
Expected income tax recovery	910,000	1,205,600
Non-deductible stock-based compensation	(231,700)	(188,000)
Write-down of unproven mineral interest	(116,000)	(525,000)
Effect of change in tax rates	-	(48,000)
Unrecognized tax losses	(569,300)	(497,900)
Recovery of valuation allowance	398,600	1,316,633
Other	78,900	53,300
Future income tax recovery	470,500	1,316,633

10. INCOME TAXES (continued)

As at August 31, 2007, the Company has accumulated non-capital losses of approximately $6.5 million and cumulative resource and other tax pools of approximately $3.7 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 2008 through 2027. The cumulative resource and certain other tax pools can be carried forward indefinitely.

In fiscal 2007, the Company issued 3,612,632 flow-through common shares for gross proceeds of $1,716,000 (see Note 7(a)(i)). 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 Company anticipates it will renounce this amount to its investors effective December 31, 2007. 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.

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:

	2007 $	2006 $
Accounting and administration	93,600	99,700
Professional and consulting	120,900	116,400
Compensation and benefits	180,500	93,000
Directors fees	9,500	-
	404,500	309,100

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

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

As at August 31, 2007, accounts payable and accrued liabilities include $24,344 (2006 - $4,637) due to these related parties.

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

12. FINANCIAL INSTRUMENTS

The fair values of financial instruments at August 31, 2007 and 2006, 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, 2007 and 2006, 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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash operating, financing and investing activities were conducted by the Company during fiscal 2007 and 2006 as follows:

	2007 $	2006 $
Operating activities		
Accounts payable for unproven mineral interests	372,013	137,253
Accounts payable for capital assets	-	30,492
	372,013	167,745
Financing activities		
Issuance of common shares for unproven mineral interests	89,000	18,250
Issuance of common shares for fees	22,720	60,000
Common share issue costs	(146,120)	(60,000)
Contributed surplus	123,400	-
Share capital - future income tax adjustment	(524,500)	(820,633)
Future income tax liability	524,500	820,633
	89,000	18,250
Investing activities		
Accounts payable for unproven mineral interest	(372,013)	(137,253)
Accounts payable for capital assets	-	(30,492)
Common shares issued for unproven mineral interests	(89,000)	(18,250)
	(461,013)	(185,995)

Other supplemental cash flow information:

	2007 $	2006 $
Interest paid in cash	-	-
Dividends paid in cash	252,500	50,000
Income taxes paid in cash	-	-

14. 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	$
2008	101,176
2009	38,394
2010	606
	140,176

15. ASSET RETIREMENT OBLIGATION

	2007 $	2006 $
Balance, beginning of year	1,014,500	938,500
Accretion expense	-	76,000
	1,014,500	1,014,500

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. See also Note 5(b).

16. SUBSEQUENT EVENTS

(a) The Company has agreed to conduct a non-brokered private placement of up to 4,675,000 flow-through shares, at a price of $0.47 per flow-through share, and up to 3,500,000 non-flow-through units, at a price of $0.42 per non-flow-through unit, for total gross proceeds of up to $3,667,250. Each non-flow-through unit will consist of one common share and one-half share purchase warrant, with each full warrant entitling the holder to purchase one further common share for a period of twenty-four months at a price of $0.60 per share. To date, the Company has completed an initial closing of 4,001,607 flow-through shares and 3,106,642 non-flow-through units.

(b) Subsequent to August 31, 2007, warrants to purchase 2,503,489 common shares of the Company at $0.70 per share and 85,715 common shares at $0.75 per share expired without exercise.

(c) See also Note 5(b).

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

	2007					2006
	Duport Property $	Bachelor Lake Property $	Sherridon VMS Project $	Red Lake Property $	Total $	Total $
BALANCE - BEGINNING OF YEAR	17,199,182	5,046,789	1,550,889	48,968	23,845,828	22,759,333
AMOUNTS INCURRED DURING THE YEAR						
EXPLORATION EXPENDITURES						
Accounting	-	-	-	-	-	13,272
Assays	-	-	64,471	3,896	68,367	32,510
Camp and equipment costs	-	-	-	-	-	239,251
Consulting	37,342	-	147,157	52,181	236,680	697,681
Data	-	-	-	-	-	25,000
Drafting	4,033	-	40,716	7,877	52,626	-
Drilling	1,613	-	1,963,864	-	1,965,477	296,768
Due diligence	-	-	-	-	-	14,214
Engineering	-	-	-	-	-	49,876
Exploration office costs	3,004	-	355,974	74,631	433,609	180,140
Field personnel	1,270	-	188,802	62,516	252,588	167,769
Field supplies	912	-	41,625	5,349	47,886	6,559
Filing	-	-	-	-	-	3,250
Geological	140	-	181,112	24,714	205,966	-
Geophysical survey	4,066	-	168,054	159,525	331,645	353,843
Land management	-	-	3,284	-	3,284	-
Line cutting	-	-	-	52,177	52,177	-
Insurance	-	-	-	-	-	16,719
Maintenance	-	-	-	-	-	16,388
Mobilization, demobilization	-	-	-	-	-	6,132
Technical report	-	-	-	-	-	10,859
Travel	5,525	-	214,782	105,779	326,086	132,541
Reimbursement / Recoveries	-	(3,825,000)	(97,580)	-	(3,922,580)	(228,708)
	57,905	(3,825,000)	3,272,261	548,645	53,811	2,034,064
OTHER ITEMS						
Acquisition costs and payments	-	-	269,000	-	269,000	232,244
Claims staking and lease rental costs	5,093	-	11,928	-	17,021	147,402
Legal	-	-	18,439	-	18,439	161,440
Capitalized dividend	275,000	-	-	-	275,000	50,000
	280,093	-	299,367	-	579,460	591,086
BALANCE BEFORE WRITE-DOWN	17,537,180	1,221,789	5,122,517	597,613	24,479,099	25,384,483
WRITE-DOWN (Note 5(b))	-	(340,000)	-	-	(340,000)	(1,538,655)
BALANCE - END OF YEAR	17,537,180	881,789	5,122,517	597,613	24,139,099	23,845,828