
HALO RESOURCES LTD.

INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
MAY 31, 2007

(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, 2007, 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.
INTERIM BALANCE SHEETS
(Unaudited - Prepared by Management)

	May 31, 2007	August 31, 2006
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash	500,308	271,935
Amounts receivable and prepaids	<u>159,027</u>	<u>136,275</u>
	659,335	408,210
CAPITAL ASSETS (Note 3)	327,895	298,630
UNPROVEN MINERAL INTERESTS (Note 4)	<u>23,614,925</u>	<u>23,845,828</u>
	<u><u>24,602,155</u></u>	<u><u>24,552,668</u></u>
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	384,706	256,688
REDEEMABLE PREFERRED SHARES (Note 5)	8,000,000	8,000,000
ASSET RETIREMENT OBLIGATION	1,014,500	1,014,500
FUTURE INCOME TAX LIABILITY	<u>4,807,500</u>	<u>4,832,000</u>
	<u>14,206,706</u>	<u>14,103,188</u>
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (Note 6)	33,283,094	32,395,855
CONTRIBUTED SURPLUS (Note 8)	1,751,915	1,360,767
DEFICIT	<u>(24,639,560)</u>	<u>(23,307,142)</u>
	<u>10,395,449</u>	<u>10,449,480</u>
	<u><u>24,602,155</u></u>	<u><u>24,552,668</u></u>

SUBSEQUENT EVENTS (Note 12)

APPROVED BY THE BOARD

"Lynda Bloom" , Director

"Marc Cernovitch" , Director

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

HALO RESOURCES LTD.
INTERIM STATEMENTS OF LOSS AND DEFICIT
(Unaudited - Prepared by Management)

	<u>Three Months Ended</u> <u>May 31,</u>		<u>Nine Months Ended</u> <u>May 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
EXPENSES				
Accretion	-	19,000	-	57,000
Amortization of capital assets	8,777	12,053	22,486	22,263
General and administrative	401,818	282,356	1,262,734	1,000,501
General exploration	14,502	11,780	40,269	15,691
Stock-based compensation (Note 7)	94,222	-	356,201	359,822
Write-down of unproven mineral interest (Note 4(b))	-	1,681,199	225,000	1,681,199
	<u>519,319</u>	<u>2,006,388</u>	<u>1,906,690</u>	<u>3,136,476</u>
LOSS BEFORE OTHER ITEMS	(519,319)	(2,006,388)	(1,906,690)	(3,136,476)
OTHER ITEM				
Interest and other	<u>5,906</u>	<u>4,513</u>	<u>25,272</u>	<u>12,661</u>
LOSS BEFORE INCOME TAX	(513,413)	(2,001,875)	(1,881,418)	(3,123,815)
FUTURE INCOME TAX RECOVERY	<u>270,000</u>	<u>180,000</u>	<u>549,000</u>	<u>745,000</u>
NET LOSS FOR THE PERIOD	(243,413)	(1,821,875)	(1,332,418)	(2,378,815)
DEFICIT - BEGINNING OF PERIOD	<u>(24,396,147)</u>	<u>(21,664,147)</u>	<u>(23,307,142)</u>	<u>(21,107,207)</u>
DEFICIT - END OF PERIOD	<u>(24,639,560)</u>	<u>(23,486,022)</u>	<u>(24,639,560)</u>	<u>(23,486,022)</u>
LOSS PER COMMON SHARE				
- BASIC AND DILUTED	<u>\$(0.01)</u>	<u>\$(0.06)</u>	<u>\$(0.04)</u>	<u>\$(0.09)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
	<u>34,827,049</u>	<u>29,903,906</u>	<u>34,197,151</u>	<u>27,563,547</u>

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

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>May31,</u>		<u>May 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
CASH PROVIDED FROM (USED FOR)				
OPERATING ACTIVITIES				
Net loss for the period	(243,413)	(1,821,875)	(1,332,418)	(2,378,815)
Items not involving cash				
Accretion	-	19,000	-	57,000
Amortization of capital assets	8,777	12,053	22,486	22,263
Professional fees	-	-	-	60,000
Stock-based compensation	9,422	-	356,201	359,822
Write-down of unproven mineral interest	-	1,681,199	225,000	1,681,199
Future income tax recovery	(270,000)	(180,000)	(549,000)	(745,000)
Decrease (increase) in amounts receivable and prepaids	27,376	80,673	(22,752)	30,510
Increase (decrease) in accounts payable and accrued liabilities	<u>60,538</u>	<u>(22,637)</u>	<u>(61,593)</u>	<u>(459,541)</u>
	<u>(407,300)</u>	<u>(231,587)</u>	<u>(1,362,076)</u>	<u>(1,372,562)</u>
FINANCING ACTIVITIES				
Common shares issued for cash	-	1,163,200	1,537,350	4,125,749
Common share issue costs	<u>-</u>	<u>-</u>	<u>(179,664)</u>	<u>(257,173)</u>
	<u>-</u>	<u>1,163,200</u>	<u>1,357,686</u>	<u>3,868,576</u>
INVESTING ACTIVITIES				
Proceeds from sale of unproven mineral interests	1,000,000	-	3,025,000	-
Additions to resource interests	(1,539,952)	(657,590)	(2,740,486)	(2,225,250)
Purchase of capital assets	<u>(32,200)</u>	<u>-</u>	<u>(51,751)</u>	<u>(239,410)</u>
	<u>(572,152)</u>	<u>(657,590)</u>	<u>232,763</u>	<u>(2,464,660)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(979,452)	274,023	228,373	31,354
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>1,479,760</u>	<u>650,856</u>	<u>271,935</u>	<u>893,525</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>500,308</u></u>	<u><u>924,879</u></u>	<u><u>500,308</u></u>	<u><u>924,879</u></u>

SUPPLEMENTARY CASH FLOW INFORMATION - See Note 10.

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

HALO RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2007
(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. 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

	<u>May 31, 2007</u>		<u>August 31, 2006</u>	
	Costs	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Office furniture and equipment	53,843	13,228	40,615	40,417
Computer and telephone equipment	61,624	16,273	45,351	21,430
Field equipment and facility	266,895	30,728	236,167	226,700
Leasehold improvements	<u>11,524</u>	<u>5,762</u>	<u>5,762</u>	<u>10,083</u>
	<u>393,886</u>	<u>65,991</u>	<u>327,895</u>	<u>298,630</u>

HALO RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
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(Unaudited - Prepared by Management)

4. UNPROVEN MINERAL INTERESTS

	May 31, 2007			August 31, 2006		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$
Duport	15,157,502	2,272,673	17,430,175	14,957,409	2,241,773	17,199,182
Bachelor Lake	1,174,289	622,500	1,796,789	1,399,289	3,647,500	5,046,789
Sherridon	708,007	3,291,472	3,999,479	423,519	1,127,370	1,550,889
Red Lake	38,952	349,530	388,482	38,952	10,016	48,968
	<u>17,078,750</u>	<u>6,536,175</u>	<u>23,614,925</u>	<u>16,819,169</u>	<u>7,026,659</u>	<u>23,845,828</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, 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.

HALO RESOURCES LTD.
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4. UNPROVEN MINERAL INTERESTS (continued)

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

On November 17, 2006, Metanor and the Company agreed to a new agreement (the "Revised Metanor Purchase") under which Metanor has now agreed to purchase the Company's 50% interest in the Bachelor Lake JV for total consideration of \$4 million, as follows:

- i) \$2 million cash (received);
- ii) \$500,000 cash on or before March 30, 2007 (received); and
- iii) \$500,000 in cash or common shares of Metanor each on or before May 31, 2007 (cash received), August 31, 2007 and November 30, 2007.

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

During the nine months ended May 31, 2007, the Company recognized a further write-down of \$225,000 to reflect the terms of the Revised Metanor Agreement.

(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 unproven 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 covering a total of 1,072 hectares and is located 75 kilometres northeast of Flin Flon and 61 kilometres northwest of Snow Lake. Under the terms of the Quarter Moon LOI, the Company had the right to acquire an initial 51% interest in the Quarter Moon Lake Property in which the Company has paid \$40,000 cash, issued 50,000 common shares of the Company, at a value of \$60,000, and was required to complete a \$500,000 work commitment, pay a further \$40,000 cash and issue 50,000 common shares.

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4. UNPROVEN MINERAL INTERESTS (continued)

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, 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 unproven mineral claims, covering 536 hectares, for \$90,000 cash (\$35,000 paid), issuance of 250,000 common shares of the Company (75,000 shares issued) and expending a total of \$170,000 in work expenditures over a four year period; and

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 25 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)	-
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	<u>350,000</u>	<u>3,380,000</u>
	<u>650,000</u>	<u>4,300,000</u>

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

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

HALO RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
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(Unaudited - Prepared by Management)

4. UNPROVEN MINERAL INTERESTS (continued)

(d) Red Lake Property, Ontario

On June 20, 2006, the Company completed a formal option agreement (the "Red Lake Option") 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. Under the terms of the Red Lake Option, the Company is required to perform minimum exploration programs totalling \$3 million on or before December 31, 2008. Upon spending the \$3 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 \$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.

HALO RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
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(Unaudited - Prepared by Management)

5. REDEEMABLE PREFERRED SHARES (continued)

During the nine months ended May 31, 2007, the Company recorded \$195,000 of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at May 31, 2007, \$26,667 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 (Note 5)

Issued common shares:	<u>Nine Months ended May 31, 2007</u>		<u>Year-Ended August 31, 2006</u>	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of period	<u>31,138,216</u>	<u>32,395,855</u>	<u>21,005,765</u>	<u>28,487,576</u>
Issued during the period				
For cash				
Private placements	3,416,333	1,537,350	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 fees	62,500	22,720	-	-
For unproven mineral interests	210,000	89,000	25,000	18,250
Reallocation from contributed surplus on exercise of options	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,413</u>
	3,688,833	1,649,070	10,132,451	5,204,820
Less: flow-through share renunciation	-	(524,500)	-	(820,633)
share issue costs	<u>-</u>	<u>(237,331)</u>	<u>-</u>	<u>(475,908)</u>
	<u>3,688,833</u>	<u>887,239</u>	<u>10,132,451</u>	<u>3,908,279</u>
Balance, end of period	<u><u>34,827,049</u></u>	<u><u>33,283,094</u></u>	<u><u>31,138,216</u></u>	<u><u>32,395,855</u></u>

(a) During the nine months ended May 31, 2007 the Company completed a brokered private placement and issued 3,416,333 flow-through units at a price of \$0.45 per flow-through unit, for total gross proceeds of \$1,537,350. Each flow-through unit consisted of one common share and one-half share purchase warrant with each full warrant entitling the holder to purchase one further common share of the Company 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.

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6. SHARE CAPITAL (continued)

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

	2007	2006
Balance, beginning of period	8,322,563	10,331,859
Issued pursuant to private placements	1,708,166	1,980,166
Issued as agent's or finders warrants	341,633	523,323
Issued for corporate finance fee	62,500	85,715
Exercised	-	(4,598,500)
Expired	<u>(5,733,359)</u>	<u>-</u>
Balance, end of period	<u><u>4,701,503</u></u>	<u><u>8,322,563</u></u>

Common shares reserved pursuant to warrants outstanding at May 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
<u>404,133</u>	0.45	April 12, 2008
<u><u>4,701,503</u></u>		

- (c) See also Note 12.

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 TSX Venture Exchange.

During the nine months ended May 31, 2007 the Company granted 1,547,000 stock options (2006 - 2,168,000) to its employees, directors and consultants and recorded compensation expense of \$256,899 (2006 - \$359,822) on these stock options and on stock options which vested during the nine months ended May 31, 2007. In addition the Company amended terms of 450,000 (2006 - nil) stock options in which the Company recorded compensation expense of \$99,302 (2006 - \$nil).

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

The fair value of stock options granted to employees, directors and consultants is estimated on the dates of grants using the Black-Scholes option pricing model with the following assumptions used for the grants made during the nine months ended May 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	3.93 - 4.00%	3.24% - 3.43%
Estimated volatility	48.55% - 78.74%	61.41% - 64.96%
Expected life	2.5 years - 3 years	1.5 years
Expected dividend yield	0%	0%

The weighted average fair value of all stock options, calculated using the Black-Scholes option pricing model, granted during the period to the Company's employees, directors and consultants was \$0.17 (2006 - \$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, 2007 and 2006, and the changes for the nine months ending on those dates is presented below:

	<u>2007</u>		<u>2006</u>	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	2,903,000	0.56	1,688,000	0.80
Granted	1,547,000	0.45	2,168,000	0.54
Exercised	-	-	(150,000)	0.75
Cancelled / Expired	<u>(1,390,000)</u>	0.63	<u>(753,000)</u>	0.96
Balance, end of period	<u>3,060,000</u>	0.47	<u>2,953,000</u>	0.58

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

Options Outstanding	Options Exercisable	Exercise Price \$	Expiry Date
450,000	450,000	0.60	May 31, 2009
150,000	150,000	0.45	September 28, 2008
913,000	913,000	0.45	February 2, 2009
<u>1,547,000</u>	<u>1,422,000</u>	0.45	November 27, 2009
<u>3,060,000</u>	<u>2,935,000</u>		

See also Note 12(b).

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8. CONTRIBUTED SURPLUS

Contributed surplus is comprised of the following:

	Nine Months Ended May 31, 2007 \$	Year Ended August 31, 2006 \$
Balance, beginning of period	1,360,767	738,642
Stock options exercised	-	(69,413)
Stock-based compensation on stock options (Note 7)	356,201	550,817
Stock-based compensation on warrants (Note 6)	<u>34,947</u>	<u>140,721</u>
Balance, end of period	<u><u>1,751,915</u></u>	<u><u>1,360,767</u></u>

9. RELATED PARTY TRANSACTIONS

During the nine months ended May 31, 2007 and 2006 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	73,000	81,225
Professional and consulting	87,300	87,300
Compensation and benefits	113,500	63,288
Directors fees	<u>3,000</u>	<u>-</u>
	<u><u>276,800</u></u>	<u><u>231,813</u></u>

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

As at May 31, 2007, accounts payable and accrued liabilities include \$22,367 (2006 - \$9,124) due to these related parties.

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

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

10. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash financing activities were conducted by the Company during the nine months ended May 31, 2007 and 2006 are as follows:

	2007 \$	2006 \$
Operating activity		
Accrued payable for unproven mineral interests	<u><u>189,611</u></u>	<u><u>4,167</u></u>

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10. SUPPLEMENTARY CASH FLOW INFORMATION (continued)

	2007 \$	2006 \$
Financing activities		
Issuance of common shares for unproven mineral interests	89,000	18,250
Issuance of common shares for fees	22,720	-
Common share issue costs	(57,667)	-
Contributed surplus	34,947	-
Share capital - future income tax adjustment	-	(820,633)
Future tax liability	-	820,633
	<u>89,000</u>	<u>18,250</u>
Investing activities		
Accounts payable for unproven mineral interests	(189,611)	(4,167)
Unproven mineral interests	(89,000)	(18,250)
	<u>(278,611)</u>	<u>(22,417)</u>
Other supplementary cash flow information:		
	2007 \$	2006 \$
Interest paid in cash	<u>-</u>	<u>-</u>
Dividends paid in cash	<u>172,500</u>	<u>37,500</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

11. SEGMENTED INFORMATION

The unproven mineral interest and the Company's corporate assets are located in Canada. Identifiable assets, revenues and net loss in each of these areas are as follows:

	<u>May 31, 2007</u>		
	Identifiable Assets \$	Revenues \$	Net Loss \$
Mineral operations	23,614,925	-	(225,000)
Corporate	<u>987,230</u>	<u>25,272</u>	<u>(1,107,418)</u>
	<u>24,602,155</u>	<u>25,272</u>	<u>(1,332,418)</u>
	<u>August 31, 2006</u>		
	Identifiable Assets \$	Revenues \$	Net Loss \$
Mineral operations	23,845,828	-	(1,538,655)
Corporate	<u>706,840</u>	<u>16,729</u>	<u>(661,280)</u>
	<u>24,552,668</u>	<u>16,729</u>	<u>(2,199,935)</u>

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12. SUBSEQUENT EVENTS

- (a) In July 2007, the Company completed a non-brokered private placement and issued 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 warrants 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"). Each Agents' Warrant is exercisable to purchase one common share for a period of eighteen months at a price of \$0.60 per share.

- (b) The Company granted 150,000 stock options to a consultant to purchase 150,000 common shares at \$0.50 per share for a period of three years and 755,000 stock options to directors and consultants of the Company, exercisable at \$0.52 per share for a period of five years.

SCHEDULE I

**HALO RESOURCES LTD.
SCHEDULE OF UNPROVEN MINERAL INTERESTS**

	Nine Months Ended May 31, 2007					Year Ended August 31, 2006
	Duport Property \$	Bachelor Lake Property \$	Sherridon VMS Project \$	Red Lake Property \$	Total \$	Total \$
BALANCE - BEGINNING OF PERIOD	17,199,182	5,046,789	1,550,889	48,968	23,845,828	22,759,333
AMOUNTS INCURRED DURING THE PERIOD						
EXPLORATION EXPENDITURES						
Accounting	-	-	-	-	-	13,272
Assays	-	-	34,290	3,896	38,186	32,510
Camp and equipment costs	-	-	545	-	545	239,251
Consulting	14,534	-	134,163	43,659	192,356	697,681
Data	-	-	-	-	-	25,000
Drafting	179	-	35,629	3,285	39,093	-
Drilling	1,613	-	1,386,014	56	1,387,685	296,768
Due diligence	-	-	-	-	-	14,214
Engineering	-	-	-	-	-	49,876
Exploration office costs	5,695	-	227,232	58,967	291,894	244,123
Field personnel	1,270	-	128,515	-	129,785	167,769
Field supplies	912	-	5,822	2,128	8,862	6,559
Filing	-	-	-	-	-	3,250
Geological	140	-	85,047	10,303	95,490	-
Geophysical survey	4,066	-	94,800	159,525	258,391	353,843
Land management	-	-	3,284	-	3,284	-
Line cutting	-	-	-	51,941	51,941	-
Insurance	-	-	-	-	-	16,719
Maintenance	-	-	-	-	-	16,388
Mobilization, demobilization	-	-	-	-	-	6,132
Technical report	-	-	-	-	-	10,859
Travel	2,491	-	78,714	5,754	86,959	132,541
Reimbursement / Recoveries	-	(3,025,000)	(49,953)	-	(3,074,953)	(228,708)
	<u>30,900</u>	<u>(3,025,000)</u>	<u>2,164,102</u>	<u>339,514</u>	<u>(490,484)</u>	<u>2,034,064</u>
OTHER ITEMS						
Acquisition costs and payments	-	-	269,000	-	269,000	232,244
Claims staking and lease rental costs	5,093	-	9,801	-	14,894	147,402
Legal	-	-	5,687	-	5,687	161,440
Capitalized dividend	195,000	-	-	-	195,000	50,000
Future income tax adjustment	-	-	-	-	-	-
Asset retirement obligation	-	-	-	-	-	-
	<u>200,093</u>	<u>-</u>	<u>284,488</u>	<u>-</u>	<u>484,581</u>	<u>591,086</u>
BALANCE BEFORE WRITE-DOWN	17,430,175	2,021,789	3,999,479	388,482	23,839,925	25,384,483
WRITE-DOWN (Note 4(b))	<u>-</u>	<u>(225,000)</u>	<u>-</u>	<u>-</u>	<u>(225,000)</u>	<u>(1,538,655)</u>
BALANCE - END OF PERIOD	<u><u>17,430,175</u></u>	<u><u>1,796,789</u></u>	<u><u>3,999,479</u></u>	<u><u>388,482</u></u>	<u><u>23,614,925</u></u>	<u><u>23,845,828</u></u>