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**HALO RESOURCES LTD.**

FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
AUGUST 31, 2008 AND 2007

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## AUDITORS' REPORT

To the Shareholders of  
Halo Resources Ltd.

We have audited the balance sheets of Halo Resources Ltd. as at August 31, 2008 and 2007 and the statements of loss and comprehensive loss, shareholders' equity 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, 2008 and 2007 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

***"D&H Group LLP"***

Vancouver, B.C.  
December 17, 2008

**Chartered Accountants**

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash	532,902	2,102,498
Amounts receivable and prepaids (Note 3)	<u>150,163</u>	<u>214,642</u>
	683,065	2,317,140
<b>CAPITAL ASSETS</b> (Note 4)	245,854	330,926
<b>UNPROVEN MINERAL INTERESTS</b> (Note 5)	<u>30,630,082</u>	<u>24,139,099</u>
	<u><u>31,559,001</u></u>	<u><u>26,787,165</u></u>
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	1,081,039	474,375
<b>REDEEMABLE PREFERRED SHARES</b> (Note 6)	8,000,000	8,000,000
<b>ASSET RETIREMENT OBLIGATION</b> (Note 5(d))	-	1,014,500
<b>FUTURE INCOME TAX LIABILITY</b> (Note 11)	<u>4,943,000</u>	<u>4,886,000</u>
	<u>14,024,039</u>	<u>14,374,875</u>
<b>LEASE COMMITMENTS</b> (Note 14)		
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
<b>SHARE CAPITAL</b> (Note 7)	40,909,189	35,766,585
<b>CONTRIBUTED SURPLUS</b> (Note 9)	2,420,917	2,149,234
<b>DEFICIT</b>	<u>(25,795,144)</u>	<u>(25,503,529)</u>
	<u>17,534,962</u>	<u>12,412,290</u>
	<u><u>31,559,001</u></u>	<u><u>26,787,165</u></u>

**NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN** (Note 1)

**SUBSEQUENT EVENTS** (Note 15)

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 COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED AUGUST 31**

	2008 \$	2007 \$
<b>EXPENSES</b>		
Amortization of capital assets	57,527	32,978
General and administrative	1,407,177	1,637,589
General exploration	82,976	40,269
Stock-based compensation (Note 8)	85,614	679,122
Part XII.6 tax expense	7,339	-
Write-down of unproven mineral interest (Note 5(d))	-	340,000
	<u>1,640,633</u>	<u>2,729,958</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(1,640,633)</u>	<u>(2,729,958)</u>
<b>OTHER ITEMS</b>		
Interest income and other	25,897	63,071
Gain on sale of marketable securities (Note 5(d))	48,521	-
	<u>74,418</u>	<u>63,071</u>
<b>LOSS BEFORE INCOME TAXES</b>	(1,566,215)	(2,666,887)
<b>FUTURE INCOME TAX RECOVERY</b> (Note 11)	<u>1,274,600</u>	<u>470,500</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>(291,615)</u>	<u>(2,196,387)</u>
<b>LOSS PER COMMON SHARE</b>		
<b>- BASIC AND DILUTED</b>	<u>\$(0.01)</u>	<u>\$(0.06)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>		
	<u>51,760,136</u>	<u>35,293,394</u>

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

**HALO RESOURCES LTD.**  
**STATEMENT OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED AUGUST 31**

	Share Capital		Contributed Surplus \$	Deficit \$
	Shares	Amount \$		
Balance, August 31, 2006	31,138,216	32,395,855	1,360,767	(23,307,142)
Common shares issued for:				
Private placements	9,328,965	4,288,350	-	-
Corporate finance fee	62,500	28,125	-	-
Unproven mineral interests	210,000	89,000	-	-
Flow-through share renunciation	-	(524,500)	-	-
Share issue costs	-	(510,245)	-	-
Stock-based compensation on stock options	-	-	679,122	-
Stock-based compensation on warrants	-	-	109,345	-
Net loss and comprehensive loss for the year	-	-	-	(2,196,387)
Balance, August 31, 2007	40,739,681	35,766,585	2,149,234	(25,503,529)
Common shares issued for:				
Private placement	7,926,047	3,561,578	-	-
Public offering	16,425,558	4,044,971	-	-
Warrants exercised	16,061	7,227	-	-
Unproven mineral interests	125,000	32,250	-	-
Flow-through share renunciation	-	(1,331,600)	-	-
Share issue costs	-	(1,171,822)	-	-
Stock-based compensation on warrants	-	-	93,369	-
Stock-based compensation on stock options	-	-	85,614	-
Stock-based compensation on compensation options	-	-	92,700	-
Net loss and comprehensive loss for the year	-	-	-	(291,615)
Balance at August 31, 2008	65,232,347	40,909,189	2,420,917	(25,795,144)

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

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

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(291,615)	(2,196,387)
Items not involving cash		
Amortization of capital assets	57,527	32,978
Stock-based compensation	85,614	679,122
Write-down of unproven mineral interests	-	340,000
Gain on sale of marketable securities	(48,521)	-
Future income tax recovery	<u>(1,274,600)</u>	<u>(470,500)</u>
	(1,471,595)	(1,614,787)
(Increase) decrease in amounts receivable and prepaids	64,479	(78,367)
Increase (decrease) in accounts payable and accrued liabilities	<u>259,770</u>	<u>(17,073)</u>
	<u>(1,147,346)</u>	<u>(1,710,227)</u>
<b>FINANCING ACTIVITIES</b>		
Common shares issued for cash	7,613,776	4,288,350
Common share issue costs	<u>(900,753)</u>	<u>(372,775)</u>
	<u>6,713,023</u>	<u>3,915,575</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposition of unproven mineral interests	-	3,825,000
Additions to unproven mineral interests	(7,078,629)	(4,134,511)
Purchase of capital assets	(190,165)	(65,274)
Proceeds from sale of marketable securities	<u>133,521</u>	<u>-</u>
	<u>(7,135,273)</u>	<u>(374,785)</u>
<b>INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	(1,569,596)	1,830,563
<b>CASH - BEGINNING OF YEAR</b>	<u>2,102,498</u>	<u>271,935</u>
<b>CASH - END OF YEAR</b>	<u><u>532,902</u></u>	<u><u>2,102,498</u></u>

**SUPPLEMENTAL CASH FLOW INFORMATION** - See Note 13.

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

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

**1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN**

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. As at August 31, 2008, the Company has not earned any production revenue, nor found proved reserves on any of its unproven mineral interests.

The Company is in the process of exploring and evaluating its mineral interests. 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.

At August 31, 2008 the Company had a working capital deficiency of \$397,974, had not yet achieved profitable operations, has accumulated losses of \$25,795,144 and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on its mineral interests, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. 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 generally accepted accounting principles ("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.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

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

On a periodic basis, management reviews the carrying values of deferred unproven mineral interest acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value.

Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of mineral interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral interest costs or recoveries when the payments are made or received.

***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% - 30%
Field equipment and facility	10% - 30%
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.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

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

*Stock-Based Compensation*

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

*Income Taxes*

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

*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.

*Financial Instruments*

Effective September 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments - Recognition and Measurement, Section 3861, Financial Instruments - Disclosure and Presentation and Section 3865, Hedges. These sections apply to fiscal years beginning on or after October 1, 2006 and provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A statement of comprehensive income has not been presented as no components of comprehensive income have been identified and therefore have not affected the current or comparative period balances on the financial statements. Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available for sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

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

Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financings will be expensed in the period incurred.

Upon adoption of this new standard the Company has designated its cash and marketable securities as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and preferred shares are classified as other financial liabilities, which are measured at amortized cost.

*New Accounting Pronouncements*

*Assessing Going Concern*

The Accounting Standards Board (“AcSB”) amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

*Financial Instruments*

The AcSB issued CICA Handbook Section 3862, Financial Instruments - Disclosures, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, Financial Instruments - Recognition and Measurement, Section 3863, Financial Instruments - Presentation, and Section 3865, Hedges. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued CICA Handbook Section 3863, Financial Instruments - Presentation, which is to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

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

*Capital Disclosures*

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The Company is currently assessing the impact of the above new accounting standards on the Company's financial position and results of operations.

*International Financial Reporting Standards ("IFRS")*

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**3. AMOUNTS RECEIVABLE AND PREPAIDS**

	2008	2007
	\$	\$
Goods and services tax receivable	76,033	144,525
Prepays	12,479	50,680
Deposits with suppliers	45,521	-
Other	16,130	19,437
	<u>150,163</u>	<u>214,642</u>

**4. CAPITAL ASSETS**

	2008		
	Costs	Accumulated	Net Book
	\$	Amortization	Value
	\$	\$	\$
Office furniture and equipment	54,343	26,726	27,617
Computer and telephone equipment	74,253	41,470	32,783
Field equipment and facility	215,554	30,100	185,454
	<u>344,150</u>	<u>98,296</u>	<u>245,854</u>

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

**4. CAPITAL ASSETS (continued)**

	<u>2007</u>		
	Costs \$	Accumulated Amortization \$	Net Book Value \$
Office furniture and equipment	53,843	15,912	37,931
Computer and telephone equipment	62,661	19,653	43,008
Field equipment and facility	279,381	33,716	245,665
Leasehold improvements	11,524	7,202	4,322
	<u>407,409</u>	<u>76,483</u>	<u>330,926</u>

**5. UNPROVEN MINERAL INTERESTS**

	<u>2008</u>			<u>2007</u>		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$
Sherridon	895,769	10,284,550	11,180,319	722,886	4,399,631	5,122,517
West Red Lake	70,622	1,556,769	1,627,391	38,952	558,661	597,613
Duport	15,450,835	2,371,537	17,822,372	15,237,502	2,299,678	17,537,180
Bachelor Lake	-	-	-	881,789	-	881,789
	<u>16,417,226</u>	<u>14,212,856</u>	<u>30,630,082</u>	<u>16,881,129</u>	<u>7,257,970</u>	<u>24,139,099</u>

(a) Sherridon VMS Project, Manitoba

The Company 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.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

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

On December 3, 2006, the Company and EL entered into a formal 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% net smelter return royalty (“NSR”), of which a 0.5% NSR can be purchased at any time for \$500,000.

- iii) heads of agreement 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 (incurred)
February 9, 2008	25,000 (paid)	75,000 (issued)	10,000 (incurred)
February 9, 2009	30,000	100,000	50,000
February 9, 2010	-	-	100,000
	<u>90,000</u>	<u>250,000</u>	<u>170,000</u>

- 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:

Date	Option Payments \$	Work Expenditures \$
On signing	30,000 (paid)	-
March 19, 2007	70,000 (paid)	30,000 (incurred)
March 19, 2008	120,000 (paid)	100,000 (incurred)
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. As of August 31, 2008, 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.

**HALO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 and 2007**

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

(b) West Red Lake Property, Ontario

The Company entered into various option agreements to earn mineral interest located in the West Red Lake Property, in Ball Township, Red Lake Mining Division, as follows:

- (i) option agreements dated June 20, 2006 and April 20, 2007, (the “West Red Lake Option”) with Goldcorp. Inc. (“Goldcorp”) whereby 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 (incurred)
December 31, 2008	1,000,000
December 31, 2009	<u>1,250,000</u>
	<u><u>3,000,000</u></u>

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.

- (ii) letter of intent (the “Tribute LOI”), dated June 3, 2008, whereby the Company was granted an option to earn up to a 75% interest in nine claim units. The Company can earn an initial 65% interest by making total cash payments of \$50,000 and issuance of 400,000 common shares, as follows:

Date	Option Payments \$	Share Issuances	Work Expenditures \$
On signing	25,000	50,000 (issued)	-
September 16, 2009	25,000	50,000	25,000
September 16, 2010	<u>-</u>	<u>300,000</u>	<u>25,000</u>
	<u><u>50,000</u></u>	<u><u>400,000</u></u>	<u><u>50,000</u></u>

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

The Company can then earn an additional 10% interest by funding exploration and development to the point of delivering a bankable feasibility study.

The initial \$25,000 option payment required on signing was made subsequent to August 31, 2008.

- (iii) letter agreement (the “Rubicon Agreement”) dated July 10, 2008, whereby the Company was granted an option to earn up to a 75% interest in 87 mining claim units. The Company can earn an initial 60% interest by making total cash payments of \$120,000, issuing 100,000 common shares and make expenditures of \$1,000,000, as follows:

Date	Option Payments \$	Share Issuances	Work Expenditures \$
On signing	20,000 (paid)	50,000	-
July 31, 2009	20,000	-	75,000
July 31, 2010	40,000	-	225,000
July 31, 2011	40,000	50,000	300,000
July 31, 2012	-	-	400,000
	<u>120,000</u>	<u>100,000</u>	<u>1,000,000</u>

The Company can then earn an additional 15% interest by funding exploration and development to point of delivering a bankable feasibility study.

The Company issued the initial 50,000 common shares subsequent to August 31, 2008.

(c) Duport Property, Ontario

Pursuant to an agreement (the “Duport Purchase 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 Company has agreed to pay a 2.5% 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 also acquired, through staking, 10 mineral claims in the area of the Duport Property, covering an area of approximately 1,744 hectares.

On October 7, 2008, the Company entered into agreements with Sheridan and Hays Lake Gold Inc. (“Hays Lake”) whereby the Company granted Hays Lake an option to earn up to a 75% interest in the Duport Property. See Note 15(a).

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

(d) Bachelor Lake Property, Quebec

On April 27, 2006, as amended August 17, 2006, the Company and Metanor Resources Inc. ("Metanor") entered into a purchase agreement (the "Metanor Purchase") whereby Metanor agreed to purchase the Company's 50% interest in a joint venture over two mining concessions and 51 mineral claims for a total of 1,851 hectares (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. 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 Agreement") 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. During fiscal 2007, the Company recognized a further write-down of \$340,00 to reflect the terms of the Revised Metanor Agreement.

In September 2007, the Company received the Metanor Shares and completed the sale of its 50% interest in the Bachelor Lake JV, eliminating the \$1,014,500 asset retirement obligation estimate for the anticipated reclamation obligation on the Bachelor Lake Property. In April 2008, the Company sold the Metanor Shares for cash proceeds of \$133,521 and realized a gain of \$48,521.

**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(c). 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.

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**6. REDEEMABLE PREFERRED SHARES (continued)**

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 2008, the Company informed Sheridan that it would not make the \$80,000 quarterly dividend payment which was due on July 31, 2008, nor would it make any further payments if the Company was unable to find another party to participate in the exploration of the Duport Property. Although the non-payment of the July 31, 2008 dividend payment was an "event of default" under the Duport Purchase Agreement, Sheridan was aware of the Company's efforts and did not deliver a "notice of default". See Note 15(a).

During fiscal 2008, the Company recorded \$213,333 (2007 - \$275,000) of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at August 31, 2008, \$nil (2007 - \$26,667) of accrued dividends were included as part of accounts payable and accrued liabilities.

**7. SHARE CAPITAL**

(a) Authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares.

(b) During fiscal 2008, the Company completed:

- i) a public offering of 12,331,000 flow-through common shares, at a price of \$0.25 per common share, and 4,094,558 non-flow-through units, at a price of \$0.235 per non-flow-through unit, for total gross proceeds of \$4,044,971. 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 share, at a price of \$0.30 per share, until November 6, 2009.

The Company paid the agent a cash commission of \$323,598 and granted compensation options (the "Compensation Options") entitling the agent to purchase, until November 6, 2009, up to 1,231,522 units, at an exercise price of \$0.235 per unit. The exercise price and term of the underlying warrants to the units issuable upon the exercise of the Compensation Options are the same as the warrants under the non-flow-through units under the private placement. The fair value of the Compensation Options has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility 66.65%; a risk-free interest rate of 2.57%; and an expected life of 1.5 years. The value assigned to the Compensation Options was \$92,700. The Compensation Options remain unexercised at August 31, 2008.

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**7. SHARE CAPITAL (continued)**

The Company also agreed to pay a corporate finance fee of \$125,000. As at August 31, 2008, the Company has paid \$40,000 and the remaining balance of \$85,000 has been included in accounts payable and accrued liabilities. The Company also paid a further \$219,509 for legal and filing costs associated with this offering; and

- ii) a private placement of 4,652,755 flow-through common shares, at a price of \$0.47 per common share, and 3,273,292 non-flow-through units, at a price of \$0.42 per non-flow-through unit, for total gross proceeds of \$3,561,578. 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 share, at a price of \$0.60 per share, for a period of two years. Directors of the Company purchased 133,192 flow-through shares for \$62,600.

The Company paid the agents a cash commission of \$262,423, issued 752,688 warrants (the "Agents' Warrants") and incurred costs of \$55,223 relating to this financing. Each Agents' Warrant is exercisable to purchase one common share, at a price of \$0.60 per share, for a period of two years. The fair value of the Agents' Warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility 80.65%; a risk-free interest rate of 3.94%; and an expected life of two years. The value assigned to the Agents' Warrants was \$93,369.

- (c) During fiscal 2007, the Company completed:

- i) a private placement of 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; and

- ii) a private placement of 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.

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**7. SHARE CAPITAL (continued)**

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.

- (d) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at August 31, 2008 and 2007, and the changes for the years ending on those dates is as follows:

	2008	2007
Balance, beginning of year	8,128,582	8,322,563
Pursuant to private placements	4,436,613	5,539,378
Exercised	(16,061)	-
Expired	<u>(4,685,442)</u>	<u>(5,733,359)</u>
Balance, end of year	<u><u>7,863,692</u></u>	<u><u>8,128,582</u></u>

Common shares reserved pursuant to warrants outstanding at August 31, 2008, are as follows:

Number	Exercise Price \$	Expiry Date
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
2,224,230	0.60	December 14, 2009
33,200	0.60	December 18, 2009
131,904	0.60	December 21, 2009
<u>2,047,279</u>	0.30	November 6, 2009
<u><u>7,863,692</u></u>		

- (e) See also Note 15(b).

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**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 minimum 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 2008, the Company granted 775,000 stock options to its employees, directors and consultants and recorded compensation expense of \$62,901. In addition the Company recorded compensation expense of \$22,713 expense for the vesting of stock options. During fiscal 2007, the Company recorded total compensation expense of \$679,122, for the granting of 2,452,000 stock options to its employees, directors and consultants, on stock options which vested during fiscal 2007 and the amendment of the terms of 450,000 stock options.

The fair value of stock options granted, amended and vested to employees, directors and consultants is estimated using the Black-Scholes option pricing model with the following assumptions made during fiscal 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	2.76% - 4.09%	3.82 - 4.53%
Estimated volatility	71.07% - 74.04%	67.19% - 85.48%
Expected life	2 years - 3 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 during the period to the Company's employees, directors and consultants was \$0.11 (2007 - \$0.21) 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, 2008 and 2007, and the changes for the year ending on those dates is presented below:

	<u>2008</u>		<u>2007</u>	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of year	3,815,000	0.48	2,903,000	0.56
Granted	775,000	0.40	2,452,000	0.48
Expired	<u>(470,000)</u>	0.47	<u>(1,540,000)</u>	0.62
Balance, end of year	<u>4,120,000</u>	0.47	<u>3,815,000</u>	0.48

The following table summarizes information about the stock options outstanding and exercisable at August 31, 2008:

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

Options Outstanding	Options Exercisable	Exercise Price \$	Expiry Date
450,000	450,000	0.60	May 31, 2009
853,000	853,000	0.45	February 2, 2009
1,287,000	1,287,000	0.45	November 27, 2009
775,000	475,000	0.40	March 26, 2011
<u>755,000</u>	<u>755,000</u>	0.52	July 24, 2012
<u><u>4,120,000</u></u>	<u><u>3,820,000</u></u>		

**9. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of the following:

	2008 \$	2007 \$
Balance, beginning of year	2,149,234	1,360,767
Stock-based compensation on stock options (Note 8)	85,614	679,122
Stock-based compensation on warrants (Note 7)	93,369	109,345
Stock-based compensation on Compensation Options (Note 7(b)(i))	<u>92,700</u>	<u>-</u>
Balance, end of year	<u><u>2,420,917</u></u>	<u><u>2,149,234</u></u>

**10. RELATED PARTY TRANSACTIONS**

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

	2008 \$	2007 \$
Accounting and administration	92,875	93,600
Professional and consulting	202,056	120,900
Compensation and benefits	279,250	180,500
Directors fees	<u>15,000</u>	<u>9,500</u>
	<u><u>589,181</u></u>	<u><u>404,500</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 August 31, 2008, accounts payable and accrued liabilities include \$77,989 (2007 - \$24,344) due to these related parties.

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

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**11. 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:

	2008 \$	2007 \$
Future income tax assets:		
Financing costs	431,000	294,000
Capital assets	35,000	26,000
Losses available for future periods	<u>2,467,000</u>	<u>2,204,000</u>
	2,933,000	2,524,000
Future income tax liabilities:		
Difference between book value and income tax costs of unproven mineral interests	<u>(7,876,000)</u>	<u>(7,410,000)</u>
Net future income tax liabilities	<u><u>(4,943,000)</u></u>	<u><u>(4,886,000)</u></u>

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

	2008 \$	2007 \$
Combined federal and provincial income tax rate	<u>32.20%</u>	<u>34.12%</u>
Expected income tax recovery	504,300	910,000
Non-deductible stock-based compensation	(27,600)	(231,700)
Write-down of unproven mineral interest	-	(116,000)
Effect of change in tax rates	(132,700)	-
Unrecognized tax losses	(518,800)	(569,300)
Recovery of valuation allowance	1,257,500	398,600
Other	<u>191,900</u>	<u>78,900</u>
Future income tax recovery	<u><u>1,274,600</u></u>	<u><u>470,500</u></u>

As at August 31, 2008, the Company has accumulated non-capital losses of approximately \$7.7 million and cumulative resource and other tax pools of approximately \$7.6 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 2009 through 2028. The cumulative resource and certain other tax pools can be carried forward indefinitely.

In fiscal 2008, the Company issued 12,331,000 flow-through common shares for gross proceeds of \$3,082,750 (see Note 7(b)(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, 2008. 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.

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**12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial instruments at August 31, 2008, 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, 2008, 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 due to their relative short periods to maturity. The fair value of preferred shares approximates carrying value because the stated dividend rate reflects recent market conditions.

The Company may be subject to currency risk due to the fluctuations of exchange rates between the Canadian dollar and other foreign currencies. However, the Company is not subject to significant interest and credit risks arising from these instruments.

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash operating, financing and investing activities were conducted by the Company are as follows:

	2008 \$	2007 \$
Operating activity		
Accounts payable for unproven mineral interests and share issue costs	<u>718,907</u>	<u>372,013</u>
Financing activities		
Issuance of common shares for unproven mineral interests	32,250	89,000
Issuance of common shares for fees	-	22,720
Common share issue costs	(271,069)	(146,120)
Contributed surplus	186,069	123,400
Share capital - future income tax adjustment	(1,331,600)	(524,500)
Future income tax liability	1,331,600	524,500
Termination of asset retirement obligations	<u>1,014,500</u>	<u>-</u>
	<u>961,750</u>	<u>89,000</u>
Investing activities		
Accounts payable for unproven mineral interest	(633,907)	(372,013)
Common shares issued for unproven mineral interests	(32,250)	(89,000)
Marketable securities received	85,000	-
Disposition of capital assets	(217,711)	-
Disposition of unproven mineral interests	<u>(881,789)</u>	<u>-</u>
	<u>(1,680,657)</u>	<u>(461,013)</u>

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**13. SUPPLEMENTAL CASH FLOW INFORMATION (continued)**

Other supplemental cash flow information:

	<b>2008</b>	<b>2007</b>
	\$	\$
Interest paid in cash	<u>-</u>	<u>-</u>
Dividends paid in cash	<u>240,000</u>	<u>252,000</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

**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	\$
2009	54,010
2010	16,339
2011	16,084
2012	16,205
2013	<u>12,425</u>
	<u>115,062</u>

**15. SUBSEQUENT EVENTS**

(a) On October 7, 2008, the Company completed agreements with Sheridan and Hays Lake under which:

(i) Hays Lake issued 2,000,000 common shares of its share capital to the Company for the right to earn up to a 75% interest in the Duport Property. Hays Lake can earn an initial 51% interest by incurring \$1,500,000 in exploration on or before May 1, 2010, and an additional 24% interest by incurring a further \$3,500,000 on or before October 31, 2010. In addition Hays Lake is required to make the following option payments:

- for the year, commencing November 1, 2008, quarterly option payments of \$12,500, commencing January 30, 2009 and ending October 30, 2009;
- for each of the three years, commencing November 1, 2009, quarterly option payments of \$60,000, commencing January 31, 2010 and ending October 31, 2012; and
- on or before October 31, 2012, and, provided that Hays Lake has incurred all of the expenditures required, Hays Lake will pay the Company \$6,000,000 and upon such payment Hays Lake will have earned a 75% interest.

(ii) the Duport Purchase Agreement was amended (the "Duport Amending Agreement") enabling the Company to enter into the option agreement with Hays Lake under which the Company transferred 1,000,000 common shares of the 2,000,000 common shares of Hays Lake which it had received and the terms of the Redeemable Preferred Shares were amended, as follows:

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**15. SUBSEQUENT EVENTS** (continued)

- each of the \$80,000 quarterly dividends which were due on July 31, 2008 and October 31, 2008 will be \$nil;
- for the years commencing November 1, 2008, an annual dividend of \$50,000 will be payable in quarterly installments, commencing February 1, 2009 and ending November 1, 2009;
- for each of the three years, commencing November 1, 2009, an annual dividend of \$240,000 will be payable in quarterly installments, commencing February 1, 2010 and ending November 1, 2012; and
- the Redeemable Preferred Shares are redeemable in whole or in part at any time prior to November 1, 2012.

In addition the NSR was amended to a 1.5% NSR on the first 1,000,000 ounces of gold produced and a 5% NSR on the excess.

- (b) Subsequent to August 31, 2008, the Company completed a number of private placements as follows:
- (i) 2,750,000 flow-through common shares, at a price of \$0.12 per common share and 1,000,000 non-flow-through units at a price of \$0.10 per unit, for total gross proceeds of \$430,000. 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 additional common share, on or before September 12, 2010, at a price of \$0.15 per share. The Company also issued 220,000 flow-through common shares and 80,000 non-flow-through units as payment of a \$34,400 finder's fee. These finder's units have the same terms as the units issued under the private placement;
  - (ii) 680,000 non-flow through units at a price of \$0.10 per unit, for total gross proceeds of \$68,000. 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 additional common share, on or before October 9, 2010, at a price of \$0.15 per share; and
  - (iii) 17,492,140 units, at a price of \$0.05 per unit for total gross proceeds of \$874,607. Each unit consisted of one flow-through common share and one-half share purchase warrant, with each full warrant entitling the holder to purchase one non-flow-through common share at a price of \$0.15 per share, on or before November 7, 2009, and thereafter at an exercise price of \$0.20 on or before November 7, 2010. The Company also issued 874,607 units ("Finder's Units") and 1,749,214 options (the "Finder's Options") as payment of a finder's fee. Each Finder's Unit has the same terms as the units issued under the private placement, except that the common shares partly comprising the Finder's Units are non-flow-through. Each Finder's Option is exercisable to acquire an additional Finder's Unit at an exercise price of \$0.05 per Finder's Unit on or before November 7, 2010.
- (c) See also Note 5(b).

**SCHEDULE I**

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

	<u>2008</u>				<u>2007</u>	
	<u>Duport Property \$</u>	<u>Bachelor Lake Property \$</u>	<u>Sherridon VMS Project \$</u>	<u>Red Lake Property \$</u>	<u>Total \$</u>	<u>Total \$</u>
<b>BALANCE - BEGINNING OF YEAR</b>	<u>17,537,180</u>	<u>881,789</u>	<u>5,122,517</u>	<u>597,613</u>	<u>24,139,099</u>	<u>23,845,828</u>
<b>AMOUNTS INCURRED DURING THE YEAR</b>						
<b>EXPLORATION EXPENDITURES</b>						
Airborne geophysics	-	-	14,041	-	14,041	43,607
Camp and associated costs	5,043	-	464,434	81,019	550,496	153,629
Consulting	8,853	-	163,986	20,301	193,140	236,680
Drafting	-	-	-	-	-	52,626
Drilling	-	-	2,531,852	426,961	2,958,813	1,965,477
Environmental	-	-	19,704	-	19,704	-
Exploration office costs	6,486	-	278,033	17,632	302,151	433,609
Field personnel	23,030	-	902,162	177,101	1,102,293	252,588
Field supplies	1,255	-	192,899	6,510	200,664	47,886
Geochemistry	138	-	637,242	81,946	719,326	68,367
Geological	16,884	-	349,614	111,673	478,171	205,966
Ground geophysics	-	-	224,604	62,565	287,169	288,038
Land management	5,353	-	11,498	300	17,151	3,284
Line cutting	-	-	19,271	10,460	29,731	52,177
Technical report	-	-	110,573	-	110,573	-
Transportation	-	-	43,800	-	43,800	-
Travel and accommodations	4,817	-	15,868	1,640	22,325	172,457
Reimbursement / Recoveries	-	-	(94,662)	-	(94,662)	(3,922,580)
	<u>71,859</u>	<u>-</u>	<u>5,884,919</u>	<u>998,108</u>	<u>6,954,886</u>	<u>53,811</u>
<b>OTHER ITEMS</b>						
Acquisition costs and payments	-	-	169,750	31,670	201,420	269,000
Claims staking and lease rental costs	-	-	3,133	-	3,133	17,021
Legal	-	-	-	-	-	18,439
Capitalized dividend	213,333	-	-	-	213,333	275,000
	<u>213,333</u>	<u>-</u>	<u>172,883</u>	<u>31,670</u>	<u>417,886</u>	<u>579,460</u>
<b>BALANCE BEFORE WRITE-DOWN</b>	<u>17,822,372</u>	<u>881,789</u>	<u>11,180,319</u>	<u>1,627,391</u>	<u>31,511,871</u>	<u>24,479,099</u>
<b>WRITE-DOWN</b>	-	-	-	-	-	(340,000)
<b>DISPOSITION (Note 5(d))</b>	-	(881,789)	-	-	(881,789)	-
<b>BALANCE - END OF YEAR</b>	<u><u>17,822,372</u></u>	<u><u>-</u></u>	<u><u>11,180,319</u></u>	<u><u>1,627,391</u></u>	<u><u>30,630,082</u></u>	<u><u>24,139,099</u></u>