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**HALO RESOURCES LTD.**

FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
NOVEMBER 30, 2009

*(Unaudited - Prepared by Management)*

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## **MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of Halo Resources Ltd. for the three months ended November 30, 2009, 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.**  
**BALANCE SHEETS**  
*(Unaudited - Prepared by Management)*

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
	\$	\$
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,722,529	265,181
Amounts receivable and prepaids (Note 3)	<u>66,669</u>	<u>79,924</u>
	1,789,198	345,105
<b>INVESTMENT</b> (Note 4)	206,251	25,000
<b>CAPITAL ASSETS</b> (Note 5)	159,743	171,939
<b>UNPROVEN MINERAL INTERESTS</b> (Note 6)	<u>26,209,739</u>	<u>25,990,527</u>
	<u><u>28,364,931</u></u>	<u><u>26,532,571</u></u>
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	439,117	689,990
<b>REDEEMABLE PREFERRED SHARES</b> (Note 7)	8,000,000	8,000,000
<b>FUTURE INCOME TAX LIABILITY</b>	<u>3,043,000</u>	<u>3,160,300</u>
	<u>11,482,117</u>	<u>11,850,290</u>
<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 8)	44,126,132	42,074,537
<b>CONTRIBUTED SURPLUS</b> (Note 10)	2,574,632	2,497,442
<b>DEFICIT</b>	(29,999,201)	(29,889,698)
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<u>181,251</u>	<u>-</u>
	<u>16,882,814</u>	<u>14,682,281</u>
	<u><u>28,364,931</u></u>	<u><u>26,532,571</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 interim financial statements.*

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

	<b>Three Months Ended November 30</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>EXPENSES</b>		
Amortization of capital assets	12,196	18,665
General and administrative	211,637	201,173
General exploration	-	2,794
Part XII.6 tax expense	2,970	-
	<u>226,803</u>	<u>222,632</u>
<b>LOSS BEFORE OTHER ITEM AND INCOME TAXES</b>	(226,803)	(222,632)
<b>OTHER ITEM</b>		
Interest income	-	1,050
<b>LOSS BEFORE INCOME TAXES</b>	(226,803)	(221,582)
<b>FUTURE INCOME TAX RECOVERY</b>	<u>117,300</u>	<u>88,000</u>
<b>NET LOSS FOR THE PERIOD</b>	(109,503)	(133,582)
<b>OTHER COMPREHENSIVE INCOME</b>	<u>181,251</u>	<u>-</u>
<b>COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<u><u>(71,748)</u></u>	<u><u>(133,582)</u></u>
<b>LOSS PER COMMON SHARE - BASIC AND DILUTED</b>	<u><u>\$(0.00)</u></u>	<u><u>\$(0.00)</u></u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u><u>125,815,231</u></u>	<u><u>74,082,258</u></u>

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

**HALO RESOURCES LTD.**  
**INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY**  
*(Unaudited - Prepared by Management)*

	<u>Share Capital</u>		Contributed Surplus \$	Deficit \$	Accumulated Other Comprehensive Income \$
	Shares	Amount \$			
Balance at August 31, 2008	65,232,347	40,909,189	2,420,917	(25,795,144)	-
Common shares issued for:					
Private placements	45,482,140	2,550,607	-	-	-
Unproven mineral interests	3,068,115	132,550	-	-	-
Finders' fees	1,174,607	64,844	-	-	-
Flow-through share renunciation	-	(1,344,000)	-	-	-
Share issue costs	-	(238,653)	-	-	-
Stock-based compensation on warrants	-	-	76,525	-	-
Loss for the year	-	-	-	(4,094,554)	-
Balance at August 31, 2009	114,957,209	42,074,537	2,497,442	(29,889,698)	-
Common shares issued for:					
Private placements	48,040,000	2,402,000	-	-	-
Share issue costs	-	(350,405)	-	-	-
Stock-based compensation on warrants	-	-	77,190	-	-
Loss for the period	-	-	-	(109,503)	-
Unrealized gain on available-for-sale investment	-	-	-	-	181,251
Balance at November 30, 2009	<u>162,997,209</u>	<u>44,126,132</u>	<u>2,574,632</u>	<u>(29,999,201)</u>	<u>181,251</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)*

	<b>Three Months Ended</b>	
	<b>November 30</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(109,503)	(133,582)
Items not involving cash		
Amortization of capital assets	12,196	18,665
Future income tax recovery	(117,300)	(88,000)
Decrease in amounts receivable and prepaids	(214,607)	(202,917)
Increase (decrease) in accounts payable and accrued liabilities	13,255	68,561
	64,003	(22,466)
	(137,349)	(156,822)
<b>FINANCING ACTIVITIES</b>		
Common shares issued for cash	2,402,000	1,372,607
Common share issue costs	(273,215)	(54,455)
	2,128,785	1,318,152
<b>INVESTING ACTIVITY</b>		
Additions to unproven mineral interests	(534,088)	(921,069)
<b>INCREASE IN CASH DURING THE PERIOD</b>	1,457,348	240,261
<b>CASH - BEGINNING OF PERIOD</b>	265,181	532,902
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	1,722,529	773,163
 <b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash	587,879	773,163
Short-term deposits	1,134,650	-
	1,722,529	773,163

**SUPPLEMENTAL CASH FLOW INFORMATION** - See Note 14.

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

**HALO RESOURCES LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**  
*(Unaudited - Prepared by Management)*

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

Halo Resources Ltd. (the "Company") is a junior resource exploration company which is engaged in the acquisition, exploration and development of unproven mineral interests in Canada. 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 November 30, 2009, the Company had not yet achieved profitable operations, has accumulated losses of \$29,999,201 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.

See also Note 15.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). 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.

*Adoption of New Accounting Standards*

Effective September 1, 2009, the Company adopted the following new accounting policy on a prospective basis without restatement of prior periods.

*Goodwill and Intangible Assets*

Section 3064, *Goodwill and Intangible Assets*, establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Section 3064 does not have a material impact on the Company's financial position and results of operations under current operating conditions.

**HALO RESOURCES LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**  
*(Unaudited - Prepared by Management)*

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

*Future Accounting Policies*

*Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company does not anticipate the above new standards to have an impact 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. Companies will be required to provide comparative IFRS information for the previous fiscal year. 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**

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
	\$	\$
Goods and services tax receivable	21,696	22,857
Prepays	3,629	17,341
Deposits with suppliers	27,195	27,195
Other	14,149	12,531
	<u>66,669</u>	<u>79,924</u>

**HALO RESOURCES LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**  
*(Unaudited - Prepared by Management)*

**4. INVESTMENT**

	<b>November 30, 2009</b>		
	<b>Cost</b>	<b>Comprehensive</b>	<b>Carrying</b>
	\$	Gain	Value
	\$	\$	\$
Everton Resources Inc. ("Everton")	25,000	181,251	206,251
	<b>August 31, 2009</b>		
	<b>Cost</b>	<b>Comprehensive</b>	<b>Carrying</b>
	\$	Gain	Value
	\$	\$	\$
Hays Lake Gold Inc. ("Hays Lake")	25,000	-	25,000

During fiscal 2009 the Company received common shares of Hays Lake as partial consideration of an option on the Company's Duport Property. In September 2009, Hays Lake completed a corporate reorganization with Everton and the Company's holdings in Hays Lake were exchanged for 1,006,104 common shares of Everton and have been designated as available-for-sale. See also Note 6(c).

**5. CAPITAL ASSETS**

	<b>November 30, 2009</b>		
	<b>Costs</b>	<b>Accumulated</b>	<b>Net Book</b>
	\$	Amortization	Value
	\$	\$	\$
Office furniture and equipment	54,343	43,459	10,884
Computer and telephone equipment	75,001	69,658	5,343
Field equipment and facility	215,554	72,038	143,516
	344,898	185,155	159,743
	<b>August 31, 2009</b>		
	<b>Costs</b>	<b>Accumulated</b>	<b>Net Book</b>
	\$	Amortization	Value
	\$	\$	\$
Office furniture and equipment	54,343	40,491	13,852
Computer and telephone equipment	75,001	68,046	6,955
Field equipment and facility	215,554	64,422	151,132
	344,898	172,959	171,939

**HALO RESOURCES LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**  
*(Unaudited - Prepared by Management)*

**6. UNPROVEN MINERAL INTERESTS**

	November 30, 2009			August 31, 2009		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total Costs \$
Sherridon	910,069	11,043,739	11,953,808	910,069	10,830,011	11,740,080
Red Lake District	(6,561)	2,241,580	2,235,019	158,872	2,087,125	2,245,997
Duport	<u>12,020,283</u>	<u>629</u>	<u>12,020,912</u>	<u>12,004,450</u>	<u>-</u>	<u>12,004,450</u>
	<u><u>12,923,791</u></u>	<u><u>13,285,948</u></u>	<u><u>26,209,739</u></u>	<u><u>13,073,391</u></u>	<u><u>12,917,136</u></u>	<u><u>25,990,527</u></u>

(a) Sherridon VMS Project, Manitoba

The Company holds, or has options to earn, an interest in 20,876 hectares located in the Sherridon area, north-central Manitoba. Details of the mineral interests are as follows:

- i) 76 mining claims covering approximately 14,789 hectares staked by the Company;
- ii) the Company has purchased a 100% interest in ten mining claims from Endowment Lakes (2002) Limited Partnership ("EL"). 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) the Company has acquired a 100% undivided interest in three mining claims, covering 536 hectares, from W. Bruce Dunlop Limited NPL and W. Bruce Dunlop (collectively "Dunlop"). Dunlop holds NSR royalties of between 0.5% - 3%, some of which are subject to maximum aggregate NSR payments of \$1,000,000 and \$2,500,000 and others in which the Company can purchase up to a 1% NSR at any time for \$500,000 per 0.5% NSR; and
- iv) the Company has entered into three option agreements (the "HBED Options") with Hudson Bay Exploration and Development Company Limited ("HBED"), a subsidiary of HudBay Minerals inc, whereby the Company was granted options to acquire 100% interests in 24 mining claims and one mining lease.

During fiscal 2009 the Company determined to write-off \$601,282 for acquisition and exploration costs relating to one claim group for nine mining claims covering approximately 205 hectares. As at November 30, 2009, all option payments and work expenditure commitments for the two remaining claim groups have been met. In order to earn 100% interests in the remaining 15 mineral claims and the mining lease, covering approximately 3,274 hectares, the Company will be required to make a further option payment of \$150,000, in cash or the equivalent value of common shares, and incur expenditures totalling \$2,230,000 (\$1,121,000 incurred) before March 19, 2010.

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.

See also Note 15(a).

**HALO RESOURCES LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**  
*(Unaudited - Prepared by Management)*

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

(b) Red Lake District, Ontario

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

- (i) option agreement dated June 20, 2006, and amended April 2, 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 was required to perform minimum exploration programs totalling \$3 million on or before December 31, 2009.

On September 4, 2009, the West Red Lake Option was amended (the “West Red Lake Amended Option”) under which the Company has agreed to increase its minimum exploration programs by \$250,000. Under the revised terms of the West Red Lake Amended Option the Company has met its \$1,750,000 expenditure commitment of December 31, 2008, and must incur a further \$1,500,000, as follows:

Date	Expenditure Commitments \$
December 31, 2009	220,000
December 31, 2010	550,000
December 31, 2011	<u>730,000</u>
	<u><u>1,500,000</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.

See also Note 6(b)(ii).

- (ii) option agreement (the “Tribute Option”), dated September 16, 2008, whereby the Company was granted an option to earn up to a 75% interest in nine claim units (the “Bridget Lake Property”). 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	-
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>

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

**6. 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.

As at November 30, 2009, all option payment, share issuance and work expenditure commitments have been met.

Under the terms of the West Red Lake Amended Option, referred to in Note 6(b)(i), Goldcorp also paid \$165,433 for a 40% interest in the Bridget Lake Property once the Company has earned the initial 65% interest under the Tribute Option. The West Red Lake Amended Option also requires the Company to acquire the initial 65% interest in the Bridget Lake Property on or before September 5, 2010, to keep the West Red Lake Amended Option in good standing.

- (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 claims. The Company can earn an initial 60% interest by making total option 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	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
	120,000	100,000	1,000,000

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

As at November 30, 2009, all option payments and share issuance commitments have been met.

(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.

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, as amended, the Company completed agreements with Sheridan and Hays Lake Gold Inc. (“Hays Lake”) under which:

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED NOVEMBER 30, 2009**  
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**6. UNPROVEN MINERAL INTERESTS** (continued)

- (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, 2012. 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; and
- (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. See also Note 7.

The Company ascribed an initial value of \$25,000 to the investment in Hays Lake. In September 2009, Hays Lake was acquired by Everton under which the Company was issued 1,006,104 common shares of Everton for its investment in Hays Lake. Everton is a public company with a listing on the TSX Venture Exchange (the "TSXV").

The Company has agreed to pay a 1.5% NSR on the first 1 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.

During fiscal 2009 the Company determined to record a \$5,800,000 write-down of its carrying costs on the Duport Property.

**7. 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 6(c). The Redeemable Preferred Shares had an initial term of five years. The Company subsequently entered into the Duport Amending Agreement under which the terms of the Redeemable Preferred Shares were amended, as follows:

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

**HALO RESOURCES LTD.**  
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*(Unaudited - Prepared by Management)*

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

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, 2012, 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, 2012, retract the Redeemable Preferred Shares in consideration of \$8 million plus accrued unpaid dividends (collectively the "Retraction Amount"), payable in cash or common shares of the Company based on a 15 trading day average price prior to the date of retraction.

During the three months ended November 30, 2009 the Company recorded \$28,333 (2008 - \$4,167) of dividends on the Redeemable Preferred Shares, which have been capitalized as part of resource interests. As at November 30, 2009, \$20,000 (2008 - \$4,167) of accrued dividends were included as part of accounts payable and accrued liabilities.

**8. 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 the three months ended November 30, 2009, the Company completed private placements as follows:
  - i) 2,600,000 units at a price of \$0.05 per unit for total gross proceeds of \$130,000. Each unit comprised one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of two years, at a price of \$0.075 per share in year one and \$0.10 per share in year two;
  - ii) 8,500,000 flow-through units at a price of \$0.05 per unit for total gross proceeds of \$425,000. Each flow-through unit comprised one flow-through common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase an additional non-flow-through common share for a period of two years, at a price of \$0.15 per share in year one and \$0.20 per share in year two.

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**8. SHARE CAPITAL** (continued)

The Company paid the finder a cash commission and due diligence fees totalling \$29,750 and issued compensation warrants to purchase 595,000 units on a non-flow-through basis at a price of \$0.05 per unit. Upon exercise each unit will comprise one common share and one-half share purchase warrant. Each full warrant will entitle the holder to purchase one further common share on the same terms as the warrants issued under the private placement. The fair value of the finder's compensation warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 129.92%; a risk-free interest rate of 1.32%; and an expected life of two years. The value assigned to the underlying compensation warrants was \$12,980. As at November 30, 2009 the compensation warrants remained outstanding; and

- (iii) 21,940,000 flow-through units and 15,000,000 non-flow-through units, all at \$0.05 per unit, for total gross proceeds of \$1,847,000. Each flow-through unit comprised one flow-through common share and one-half share purchase warrant, with each full warrant entitling the holder to purchase an additional non-flow-through common share for a period of two years, at a price of \$0.15 per share in year one and \$0.20 per share in year two. Each non-flow-through unit comprised one non-flow-through common share and one share purchase warrant which entitles the holder to purchase one additional non-flow-through common share for a period of two years, at a price of \$0.075 per share in year one and \$0.10 per share in year two.

The Company paid the agent a cash commission of \$129,290 and issued compensation warrants to the agent to purchase 2,585,800 non-flow-through units of the Company at \$0.05 per unit exercisable for a period of two years. The terms of the compensation warrants are the same as the terms of the non-flow-through warrants. The fair value of the finder's compensation warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 129.92%; a risk-free interest rate of 1.32%; and an expected life of two years. The value assigned to the underlying compensation warrants was \$64,210. As at November 30, 2009 the compensation warrants remained outstanding.

The Company incurred \$114,175 for legal and filings costs associated with these private placements.

- (c) A summary of the number of common shares reserved pursuant to the Company's warrants outstanding at November 30, 2009 and 2008 and the changes for the three months ending on those dates is as follows:

	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>Number</b>
Balance, beginning of period	26,044,187	7,863,692
Pursuant to private placements	32,820,000	10,063,374
Expired	<u>(2,047,279)</u>	<u>-</u>
Balance, end of period	<u><u>56,816,908</u></u>	<u><u>17,927,066</u></u>

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**8. SHARE CAPITAL** (continued)

Common shares reserved pursuant to warrants outstanding at November 30, 2009, are as follows:

Number	Exercise Price \$	Expiry Date
2,224,230	0.60	December 14, 2009
33,200	0.60	December 18, 2009
131,904	0.60	December 21, 2009
540,000	0.15	September 12, 2010
340,000	0.15	October 9, 2010
9,183,374	0.15 / 0.20	November 7, 2009 / 2010
750,000	0.10	December 19, 2010
2,000,000	0.075 / 0.10	May 26, 2010 / 2011
1,162,000	0.075 / 0.10	June 10, 2010 / 2011
5,290,000	0.075 / 0.10	June 29, 2010 / 2011
2,342,200	0.075 / 0.10	July 10, 2010 / 2011
2,600,000	0.075 / 0.10	September 11, 2010 / 2011
3,000,000	0.15 / 0.20	November 2, 2010 / 2011
1,250,000	0.15 / 0.20	November 13, 2010 / 2011
995,000	0.15 / 0.20	November 4, 2010 / 2011
9,975,000	0.15 / 0.20	November 26, 2010 / 2011
<u>15,000,000</u>	0.075 / 0.10	November 4, 2010 / 2011
<u><u>56,816,908</u></u>		

(d) See also Note 15.

**9. 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 TSXV.

During the three months ended November 30, 2009 and 2008, the Company did not grant any stock options.

A summary of the Company's stock options at November 30, 2009 and 2008, and the changes for the three months ending on those dates is presented below:

	<u>2009</u>		<u>2008</u>	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	2,292,000	0.47	4,120,000	0.47
Expired	<u>(1,212,000)</u>	0.45	<u>(300,000)</u>	0.40
Balance, end of period	<u><u>1,080,000</u></u>	0.48	<u><u>3,820,000</u></u>	0.48

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

The following table summarizes information about the stock options outstanding and exercisable at November 30, 2009:

Number	Exercise Price \$	Expiry Date
325,000	0.40	March 26, 2011
<u>755,000</u>	0.52	July 24, 2012
<u><u>1,080,000</u></u>		

**10. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of the following:

	Three Months Ended November 30, 2009 \$	Year Ended August 31, 2009 \$
Balance, beginning of period	2,497,442	2,420,917
Stock-based compensation on warrants	-	30,541
Stock-based compensation on compensation warrants (Note 8(b))	77,190	-
Stock-based compensation on finder's options	<u>-</u>	<u>45,984</u>
Balance, end of period	<u><u>2,574,632</u></u>	<u><u>2,497,442</u></u>

**11. RELATED PARTY TRANSACTIONS**

During the three months ended November 30, 2009 and 2008, the Company was charged for various services provided by companies controlled by directors and officers of the Company, as follows:

	2009 \$	2008 \$
Accounting and administration	38,000	31,550
Professional and consulting	54,500	66,100
Directors fees	<u>7,500</u>	<u>3,750</u>
	<u><u>100,000</u></u>	<u><u>101,400</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 November 30, 2009, accounts payable and accrued liabilities include \$94,698 (2008 - \$123,276) due to these related parties.

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**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, amounts receivable and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The carrying value of the common shares in investment approximates the fair value based on quoted prices. It is not practicable to estimate the fair value of the preferred shares.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is remote.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. Accounts payable and accrued liabilities are due within the current operating period. The Company intends to settle these with funds from its equity financings.

*Market Risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company has operations in Canada. The Company's operating expenses are incurred in Canadian Dollars. As such the Company does not incur any significant expenditures in foreign currencies.

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**13. CAPITAL MANAGEMENT**

The Company's objective when managing capital, defined as equity, is to safeguard the entity's ability to continue as a going concern, so that it can continue to acquire and explore mineral interests. The Company funds all administration and exploration programs from the issue of shares, generally through private placements. The Company prepares a budget for seasonal exploration programs and initiates equity offerings to ensure sufficient funds for each season's programs. If the Company is unsuccessful in raising sufficient capital, exploration programs are extended, delayed or cancelled. In order to conserve cash, the Company may issue shares to pay for properties or compensate directors, employees and contractors through stock options.

Any cash raised that is surplus to immediate requirements is invested in low-risk liquid instruments which may include Bankers' Acceptances or Guaranteed Investment Certificates.

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash activities conducted by the Company during the three months ended November 30, 2009 and 2008, are as follows:

	2009 \$	2008 \$
Operating activities		
Accrued payable for unproven mineral interests	(314,876)	404,959
Unrealized holding gain on investment	<u>(181,251)</u>	<u>-</u>
	<u>(496,127)</u>	<u>404,959</u>
Financing activities		
Issuance of common shares for unproven mineral interests	-	6,000
Issuance of common shares for finder's fees	-	64,844
Common share issue costs	(77,190)	(117,514)
Contributed surplus	<u>77,190</u>	<u>52,670</u>
	<u>-</u>	<u>6,000</u>
Investing activities		
Common shares issued for unproven mineral interests	-	(6,000)
Accounts payable for unproven mineral interests	314,876	(404,959)
Unproven mineral interests	-	(25,000)
Unrealized holding gain on investment	181,251	-
Investment received	<u>-</u>	<u>25,000</u>
	<u>496,127</u>	<u>(410,959)</u>
Other supplemental cash flow information:		
	2009 \$	2008 \$
Interest paid in cash	<u>-</u>	<u>-</u>
Dividends paid in cash	<u>-</u>	<u>-</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

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**15. SUBSEQUENT EVENTS**

- (a) On December 22, 2009, the Company entered into an option and joint venture agreement with Hudson Bay Mining and Smelting Co. Limited (“HudBay”), a subsidiary of HudBay Minerals Inc., on certain claims (the “Cold and Lost Lakes Claims”) located in the Sherridon VMS Project area, under which HudBay has the option to earn up to a 67.5% joint venture interest in the Cold and Lost Lake Claims. HudBay can earn an initial 51% interest by making cash payments totalling \$800,000 (\$250,000 received) and funding exploration programs totalling at least \$1,350,000, on or before December 22, 2011, as follows:

Date	Cash Amounts \$	Expenditure Commitments \$
December 22, 2009	250,000	-
December 22, 2010	150,000	350,000
December 22, 2011	<u>400,000</u>	<u>1,000,000</u>
	<u>800,000</u>	<u>1,350,000</u>

Upon earning its 51% interest, HudBay can increase its interests, as follows:

- i) an additional 9% interest by funding and completing a feasibility study and making a cash payment of \$2,000,000, all on or before December 22, 2012; and
- ii) a further 7.5% interest by making a cash payment of \$2,500,000 prior to commencement of commercial production.

If a production decision is made, HudBay will finance the Company’s proportionate share of the development costs and will be repaid from the Company’s proportionate share of revenues.

The option agreement also provides that the Company has the right to reacquire HudBay’s interests earned, by partially reimbursing HudBay’s total expenditures or granting HudBay a 1% NSR if the feasibility study and application for permitting are not complete by December 22, 2013.

- (b) Subsequent to November 30, 2009, the Company completed private placements totalling 6,000,000 flow-through units at a price of \$0.05 per unit for total gross proceeds of \$300,000. Each flow-through unit comprised one flow-through common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase an additional non-flow-through common share for a period of two years, at a price of \$0.15 per share in year one and \$0.20 per share in year two.

The Company paid the finder a cash commission and due diligence fees totalling \$21,000 and issued compensation warrants to purchase 420,000 units on a non-flow-through basis at a price of \$0.05 per unit. Upon exercise each unit will comprise one common share and one-half share purchase warrant. Each full warrant will entitle the holder to purchase one further common share on the same terms as the warrants issued under the private placement.

- (c) Subsequent to November 30, 2009, the Company issued 685,000 shares for \$51,375 on the exercise of warrants. In addition warrants to purchase 2,389,334 common shares of the Company at \$0.60 per share expired without exercise.

**SCHEDULE I**

**HALO RESOURCES LTD.**  
**INTERIM SCHEDULE OF UNPROVEN MINERAL INTERESTS**  
*(Unaudited - Prepared by Management)*

	<b>Three Months Ended November 30, 2009</b>				<b>Year Ended August 31, 2009</b>
	<b>Sherridon VMS Project \$</b>	<b>Red Lake District \$</b>	<b>Duport Property \$</b>	<b>Total \$</b>	<b>Total \$</b>
<b>BALANCE - BEGINNING OF PERIOD</b>	<u>11,740,080</u>	<u>2,245,997</u>	<u>12,004,450</u>	<u>25,990,527</u>	<u>30,630,082</u>
<b>AMOUNTS INCURRED DURING THE PERIOD</b>					
<b>EXPLORATION EXPENDITURES</b>					
Airborne geophysics	-	-	-	-	8,500
Camp and associated costs	22,813	20,986	437	44,236	183,217
Consulting	20,950	4,050	-	25,000	227,046
Drilling	44,010	-	-	44,010	33,409
Environmental	-	-	-	-	11,869
Exploration office costs	33,775	28,362	-	62,137	192,826
Field personnel	41,043	56,226	192	97,461	567,095
Field supplies	-	-	-	-	6,931
Geochemistry	16,964	31,240	-	48,204	127,677
Geological	27,450	12,129	-	39,579	175,539
Ground geophysics	-	-	-	-	48,278
Land management	1,877	-	-	1,877	7,913
Technical report	-	-	-	-	15,424
Travel and accommodations	4,846	1,462	-	6,308	8,601
Reimbursement / Recoveries	-	-	-	-	(34,315)
	<u>213,728</u>	<u>154,455</u>	<u>629</u>	<u>368,812</u>	<u>1,580,010</u>
<b>OTHER ITEMS</b>					
Acquisition costs and payments	-	-	-	-	202,550
Shares received	-	-	-	-	(25,000)
Option payments received	-	(165,433)	(12,500)	(177,933)	(37,500)
Capitalized dividend	-	-	28,333	28,333	41,667
	<u>-</u>	<u>(165,433)</u>	<u>15,833</u>	<u>(149,600)</u>	<u>181,717</u>
<b>BALANCE BEFORE DISPOSITION</b>	11,953,808	2,235,019	12,020,912	26,209,739	32,391,809
<b>WRITE-OFF</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,401,282)</u>
<b>BALANCE - END OF PERIOD</b>	<u><u>11,953,808</u></u>	<u><u>2,235,019</u></u>	<u><u>12,020,912</u></u>	<u><u>26,209,739</u></u>	<u><u>25,990,527</u></u>