

# Canoro

RESOURCES LTD.



Discovering a New World of Opportunity

2005 ANNUAL REPORT

## CORPORATE PROFILE

**Canoro Resources Ltd. is a Canadian-based, international oil and gas company. As one of the largest independent operators in northeast India, Canoro is developing opportunities for growth in India and the surrounding region. By leveraging management's extensive international experience, Canoro is successfully operating the Amguri development block and the AA-ON/7 exploration block in the prolific Assam-Arakan basin of northeast India.**

**At the suspended Amguri oil and gas field, Canoro is testing and rehabilitating existing wells to establish reserves, production and cash flow. The goal at Amguri is to increase production over time through full field development. The Company is also drilling its first exploration well at the South Jorhat prospect on the AA-ON/7 exploration block. This large, multi-zone oil prospect is just one of several large identified prospects on the block that is surrounded by significant oil discoveries. Together, these two blocks will provide the foundation for Canoro's growth.**

**Common shares of Canoro trade on the TSX Venture Exchange under the symbol CNS. As of July 18, 2005, Canoro has approximately 59 million common shares outstanding with a market capitalization of over \$70 million. With cash resources of about \$20 million as at March 31, 2005, and no debt, Canoro has the financial capacity to support its planned development and exploration activities.**

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### Abbreviations

bbl	- barrel of oil	mmcf	- million cubic feet
bbls/d	- barrels of oil per day	mmcf/d	- million cubic feet per day
mbbls	- thousand barrels	boe	- barrel of oil equivalent
mmbbl	- million barrels	boe/d	- barrel of oil equivalent per day
bcf	- billion cubic feet	NELP V	- India's fifth New Exploration Licensing Policy
mcf	- thousand cubic feet	ONGC	- Oil and Natural Gas Corporation (Indian state oil company)
mcf/d	- thousand cubic feet per day	PSC	- Production Sharing Contract

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## ACHIEVEMENTS OF 2004/2005 FISCAL YEAR

### Amguri

- ◆ Recognized on production sharing contract, mining lease as a joint-venture partner and as operator
- ◆ Secured control over the field in November, including production from one producing gas well
- ◆ Secured service rig and equipment for workover program
- ◆ Began re-entry and testing program on suspended wells

### AA-ON/7

- ◆ Completed seismic acquisition and interpretation
- ◆ Selected the South Jorhat drilling location for first exploration well
- ◆ Secured drilling rig for exploration well
- ◆ Completed Dergaon 1 re-entry and test
- ◆ Exceeded minimum work program under Phase I exploration period

### Corporate

- ◆ Set up project offices and teams in India (corporate office in New Delhi and field office in Jorhat, Assam)
- ◆ Raised equity financing in excess of \$12.8 million through private placements, exercise of warrants and options
- ◆ Strengthening of the Board – Doug Martin and Nolan Blades appointed in June 2004, Harley Winger appointed in October 2004
- ◆ Strengthening of management – addition of Dinesh Dattani in April 2004
- ◆ Enhanced business and government relationships in India

## GOALS FOR 2005/2006 FISCAL YEAR

### Amguri

- ◆ Re-enter, test and rehabilitate production from three suspended wells
- ◆ Engineer and redesign producing facilities
- ◆ Establish gross production up to 1,000 boe/d
- ◆ Acquire 3-D seismic over the block
- ◆ Create and initiate a development program

### AA-ON/7

- ◆ Drill, log and test South Jorhat exploration well
- ◆ Acquire 2-D seismic over Dergaon structure and western half of block
- ◆ Begin preparing for next exploration/appraisal location

### Corporate

- ◆ Obtain interest in another block under NELP V
- ◆ Continue business development activities in India and greater region
- ◆ Obtain financing for additional work programs
- ◆ Continue enhancing business and government relationships

## MESSAGE TO THE SHAREHOLDERS

Fellow shareholders, over the last twelve months we achieved a major milestone – the transition from business development to commencing operations in India. This transition means we are making great strides towards delivering on past promises, as seen with the significant activity at the Amguri field and the AA-ON/7 exploration block.

Over the past couple of years, we have been implementing a threefold plan for Canoro. In the short-term, we expect to test new potential zones, rehabilitate production from the previously discovered Amguri oil and gas field and drill the first exploration well on AA-ON/7. In the mid-term, we plan to fully develop the Amguri discovery and completely evaluate and test our AA-ON/7 exploration block. Looking further out in the future, we will use Amguri and AA-ON/7 as a foundation for the company, combined with our extensive international experience, to generate more opportunities for growth within India and the greater region.

Moving the focus to the Amguri development block, we became operator of the Amguri field on February 13, 2004, with the physical hand over occurring in November 2004. With the hand over came 0.3 to 0.5 mmcf/d (gross) of natural gas production from the Amguri 8A well. The gas is being sold to Gas Authority of India. We have started implementing a work program for the rehabilitation of production from the field through re-entering and testing existing producing and newly identified potential hydrocarbon zones on three suspended wells. This program is underway with final results expected in the fall. Work has commenced on engineering and redesign work for upgrading the Amguri gathering system and facilities, with completion planned by year-end.

To create the most effective field development plan, we have budgeted for 3-D seismic acquisition over the block during the next dry season. The seismic will help us further understand the structure and visualize all of the faulting occurring on the block for the best placement of infill well locations. Through this year we expect to establish production and cash flow from Amguri, providing a revenue base for the Company.

We have also been active on the AA-ON/7 exploration block, just south of Amguri. We completed the seismic commitments under the first exploration phase by acquiring approximately 125 km of 2-D seismic and reprocessing over 500 km of existing 2-D seismic. During September 2004, we entered phase two of the exploration period, requiring the commitment of one exploration well and the relinquishment of 25% of the block. The seismic acquisition and reprocessing resulted in the South Jorhat prospect being selected for our commitment well under phase two.

South Jorhat, a large, multi-zone oil prospect, is one of several large Miocene/Eocene era structures identified on the block. This structure is on trend with other analogous oil discoveries in the basin. We have started drilling this prospect with results expected in the fall. Any success at South Jorhat would be followed up with another exploration well on one of multiple look-alike prospects on the block or an appraisal well.

During February 2005, we began re-entry and testing operations on the Dergaon 1 well, also on the AA-ON/7 block. This exploration well, drilled in 1973, encountered gas (late Cretaceous) in a number of zones and we believe it is not optimally located on the structure. Due to well bore problems, we were only able to test three of seven potential zones. We have budgeted for the acquisition of additional 2-D seismic over the area, which will allow us to better understand the Dergaon structure and solidify other prospects on the western half of the block. The Dergaon 1 well test confirmed that a producible hydrocarbon system exists at this location.

Proved reserves are the main asset of any oil and gas company, and this last year we established Canoro's first proved reserves. With the hand over of the Amguri field in November, with its one producing gas well, we were able to book a minor amount of proved reserves for that well only. Once the Amguri workover program is complete on the suspended wells, we expect to significantly increase Canoro's proved reserves for both oil and gas. The re-entry and testing at Dergaon 1 has allowed us to increase probable reserves for the Dergaon structure by 40% to

approximately 18 bcf. Exploration success on Canoro's large undeveloped acreage would substantially increase proved and probable reserves. Further to this, we are encouraged by a recent Government of India directive that increases the floor price for gas from Rs. 1,700 per thousand cubic meters (US\$1.10/mcf) to Rs. 3,200 per thousand cubic meters (US\$2.07/mcf) beginning in April 2006. At these pricing levels, the economics for gas production are dramatically improved.

We are committed to the task of growing Canoro into a significant producer of oil and gas in India and are already one of the largest independent operators in northeast India. Our approach to business development is one that recognizes the need to grow in a manner that uncovers projects which add significant shareholder value. At the same time, we do not want to divert resources away from our core Indian properties. We continue to look for additional business opportunities in India and are also developing a business strategy for the greater region. We want to take advantage of existing resources in place and the highly prospective basins located in that part of the world. This is where our core expertise lies and these areas have enormous hydrocarbon potential at a reasonable cost.

To expand our acreage position in India, we submitted a bid on one parcel under India's latest NELP V licensing round, which closed on May 31, 2005. A consortium composed of Canoro (30%), GeoPetrol International (30%) (a French oil and gas company), and NTPC (40%) (India's largest power company) bid on a 295 km<sup>2</sup> onshore block in Arunachal Pradesh, northeast India. GeoPetrol is currently a joint operator in an adjoining producing block. The Government of India is expected to announce the NELP V block winners by July 31, 2005.

With the changing business environment in Russia, we have determined that it is no longer appropriate to pursue business development opportunities in this market. Effective June 1, 2005, Canoro closed its Moscow office.

As a debt free company with a strong balance sheet and significant cash resources, we are now well positioned to take advantage of the opportunities in India. During this past fiscal year, we successfully raised over \$12.8 million of equity in the Canadian markets to fund our programs going forward. At March 31, 2005, we had cash resources of approximately \$20 million to fund future programs. In addition, we had 8.6 million warrants outstanding that if fully exercised, would realize an additional \$11 million of funding for development at Amguri, exploration activities on AA-ON/7, and any other opportunities that may arise.

Over the last year, the composition of the Board of Directors has gone through a major transformation. On June 29, 2004, Doug Martin joined as a director and became Chairman of the Board, and Nolan Blades also joined as a director. On October 8, 2004, we welcomed Harley Winger as a director of Canoro. We would like to thank the contributions of the outgoing directors who left Canoro on June 29, 2004: Vaughan Armstrong (Chairman), Philip Coleman, Kenneth Jones and Douglas McArthur.

Finally, without the hard work, dedication, creativity and professionalism of our employees, both in Canada and India, we would have great difficulty in achieving any of the above accomplishments. We sincerely thank them for their efforts.

On behalf of Management and the Board of Directors,



Les Kondratoff  
President and CEO



Douglas R. Martin  
Chairman of the Board

July 18, 2005

## WHY INDIA?

### “SIGNIFICANT RESOURCE POTENTIAL AND VERY ATTRACTIVE FISCAL TERMS”

The Assam region in northeast India, where our properties are located, has been producing and refining oil since the late 1800's. Currently, over 40 fields are producing in the region. These fields, with average oil-in-place of almost 200 million barrels, are substantially larger compared to the average 4 million barrel field size in Alberta. Adding to the resource potential, is the high onshore exploration drilling success rate at over 40% in 2002/2003. Northeast India, about a third the size of Alberta, has only 1,400 development wells compared to the 130,000 in Alberta, leaving lots of room for future success. Finally, there have been a number of recent world-class oil and gas discoveries throughout India, both onshore and offshore.

For northeast India, downstream infrastructure is in place with four refineries and connecting trunk pipelines, allowing quick access to multiple markets for production. For all of India, approximately US\$100 billion is planned for pipeline and refinery expansions over the next 20 years.

From political and legal perspectives, India is also an appealing place to operate. Being the largest democracy in the world with a stable fiscal regime, property rights are protected and contracts are honored. It is also easy to repatriate any earnings back to Canada. To encourage foreign investment and increase production, the government has created very attractive contract terms compared to other countries. On our blocks, these attractive terms include 100% cost recovery with a maximum government profit sharing of 20% on our exploration block and 35% on our development block. We pay fixed low royalties of approximately US\$4.45/bbl of oil and 10% for gas on the development block and no royalties on the exploration block. These low rates plus low operating costs will generate very attractive netbacks, even more so at current commodity prices.

India supplies only 25% of its oil demand. With over a billion people and one of the highest GDP growth rates in the world, India's oil demand is projected to soar. This increasing demand, coupled with relatively unexplored oil and gas basins and recent large discoveries, creates an attractive atmosphere for exploration that excites Canoro.

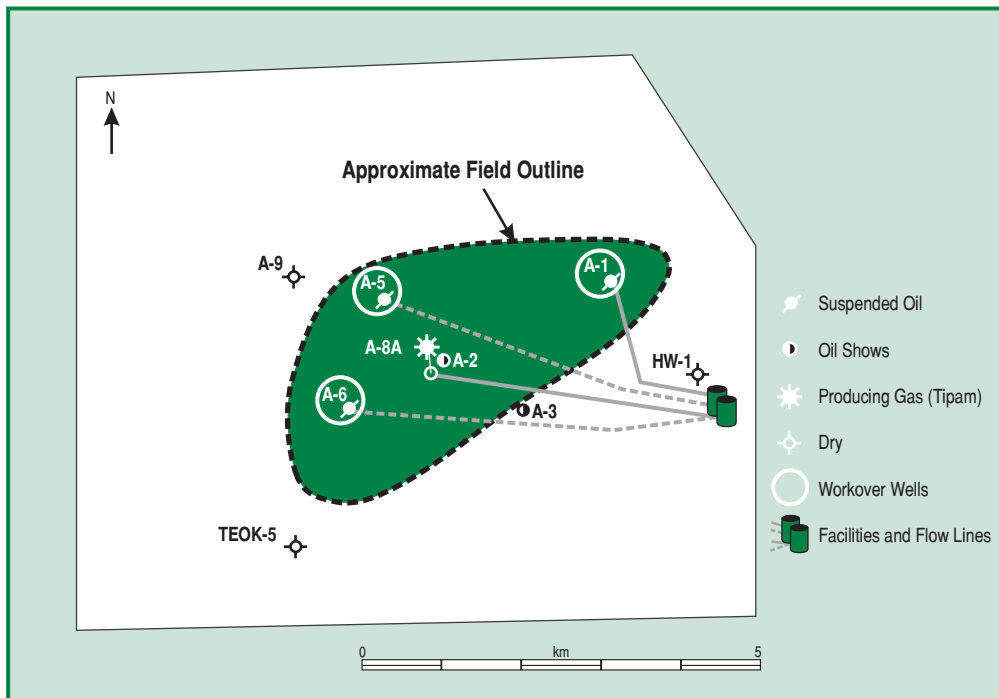
## OPERATIONAL REVIEW

### Amguri Development Block

Our 52.75 km<sup>2</sup> Amguri Development Block contains the previously discovered Amguri oil and gas field. Found in 1971, the field contains five drilled wells, with Amguri 8A producing gas. Three wells are suspended oil producers (Amguri 1, 5 and 6) and one well discovered oil but proper testing was never conducted before abandonment (Amguri 2). There were another four wells drilled on the block, all abandoned. The field is productive in the two main regional producing formations - the shallower Tipam and the deeper Barail sandstones. The field currently produces between 0.3 and 0.5 mmcf/d of gas and previously produced a high-quality, sweet light oil.

We are using western expertise and technology to exploit the upside potential of this block. The areas where we see the greatest initial benefits are through infill drilling, improving recovery factors and well productivity, acquiring 3-D seismic and finding additional pools on the block.

Our early plans for the field include rehabilitating the suspended oil wells and testing a number of new potential hydrocarbon zones. The work program on the suspended wells commenced in the spring of 2005 and is expected to last until late fall, with a delay while we drill the South Jorhat exploration well on AA-ON/7. In addition to restoring production from the wells, we have commenced engineering and redesign work for upgrading of the gathering system and facilities. This work is ahead of schedule with an expected completion by year-end. Initial oil production will be trucked from Amguri to a transfer point on the main oil pipeline approximately 7 km away. Natural gas is being sold to five local tea estates through Gas Authority of India, with more markets developing.



The structure is lowest at Amguri 1 and rises through Amguri 5 and Amguri 6

All of the existing seismic that is available for reprocessing has been processed and preliminary results indicate that the structurally highest part of the Amguri field has not yet been drilled. A 3-D seismic acquisition program has been budgeted for later this year to provide the best possible mapping of the field, enabling future development wells to be properly located.

Together, these operations will be the basis for creating a solid development plan for the block. With this block we are creating a reserve, production and cash flow base for Canoro, providing a foundation for future growth.

### Planned Operational Timeline

Major Tasks	2003	2004	2005				2006			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
◆ Increase interest and operatorship	█									
◆ Obtain services for workover program	█		█							
◆ Workover program			█	█	█	█				
◆ Upgrade production facilities			█	█	█	█				
◆ Begin oil production				█	█	█	█	█		
◆ Acquire 3-D seismic over block						█	█	█		
◆ Create field development program and approval								█	█	█
◆ Begin development program										█

This timeline is subject to change depending upon a number of factors, such as timely receipt of approvals, well results, and other factors outside the reasonable control of management.

The contractual terms for Amguri are very attractive, especially when compared with other production sharing contracts from around the world. With 100% cost recovery, every barrel produced in a year can go towards covering operating and capital expenditures. Profit sharing with the government will not occur until all of Canoro's capital costs have been recovered. These capital costs are front loaded with the initial workovers, the 3-D seismic, upgrading of facilities and any infill drilling. The low royalties of approximately US\$4.45/bbl and 10% for gas are fixed and do not vary with volume or price. Finally, the profit sharing with the government reaches a maximum of 35%, and only after Canoro has achieved a return of 300% of the capital invested.

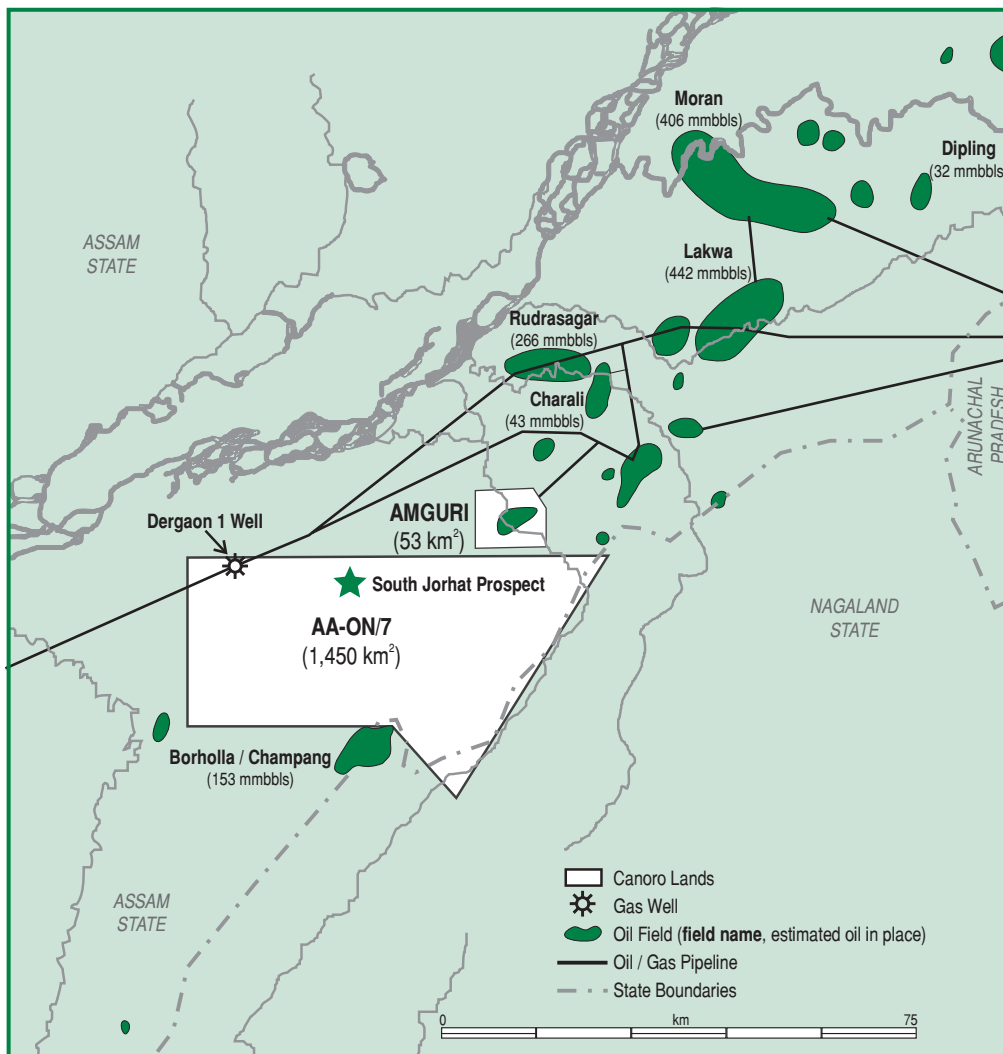
### Profit Sharing based on the "R" Ratio

Investment Multiple	Government Share	Contractor Share
<1	0%	100%
1.0 to <2.0	10%	90%
2.0 to <2.5	20%	80%
2.5 to <3.0	30%	70%
3.0 and >	35%	65%

### AA-ON/7 Exploration Block

The AA-ON/7 Exploration Block covers an area of 1,450 km<sup>2</sup> and is near the Amguri Development Block. The block is in the Assam-Arakan basin and lies on trend with a number of large oil fields (greater than 400 million barrels of oil-in-place). To date, only five wells have been drilled on the entire block. One well, (Dergaon 1) has evidence of multiple zone hydrocarbon potential. This block also contains more than 1,000 km of existing 2-D seismic. Our working interest is 65% and we operate the block. If a commercial discovery is declared, ONGC (the state oil company) has a back-in provision of 30%, thereby reducing Canoro's working interest to 45.5%.

The AA-ON/7 Production Sharing Contract (PSC) has three exploratory phases. The first phase, which expired in September 2004, called for the reprocessing of a minimum of 100 km of 2-D seismic and the acquisition of 50 km of 2-D seismic. We exceeded this commitment by reprocessing over 500 km of 2-D seismic and acquiring approximately 125 km of 2-D seismic. For the second phase, 25% of the area had to be relinquished and one exploration well drilled. We have reduced the block size from 1,934 km<sup>2</sup> to 1,450 km<sup>2</sup> by relinquishing the mountainous terrain on the eastern portion of the block. The drilling of the South Jorhat prospect will fulfill the



Canoro's South Jorhat prospect is on trend with other analogous large oil discoveries

exploration well commitment, which must be met by March 2006. During phase three, the minimum work program will comprise of a second exploratory well, acquisition of another 100 km of 2-D seismic and relinquishment of another 50% of the original area of the block.

We completed our processing, analysis and interpretation of the new and existing seismic on the block. This work identified three main play types and a number of large prospects. We selected the South Jorhat prospect for Canoro’s first exploration well because it is a large, multi-zone oil prospect on trend with and analogous to other significant oil discoveries in the basin. Of the multiple prospects identified on the block, South Jorhat was considered to have the best chance of success based on the information currently available. Drilling operations will commence July 19, 2005 and it is expected to take approximately two months to drill, log, and test this well. On the block there are a number of other structures that can be drilled.

Prior to the commencement of any drilling, an environmental impact assessment is required. This study was completed April 2005 and approved by the authorities in June 2005. In India, land is not leased but purchased and is a process that takes some time as negotiations are dependent on the number of land owners affected. For the South Jorhat access road and well site, negotiations with 30 separate landowners were conducted for 800 meters of road. The lease construction was completed in early June, with the rig moved on location later in June.

A long-term deliverability test on the Dergaon 1 gas discovery was completed in March 2005. This well was drilled in 1973 by ONGC. The re-entry program, although inconclusive because of a poor cement job, has confirmed the existence of producible hydrocarbons in zones other than the main Tipam and Barail producing formations of the region. Log analysis also indicated a potential shallow gas zone, but the absence of cement at this level of the well bore prevented any testing for safety reasons. Based on current seismic coverage, we are unable to determine if the Dergaon 1 well was optimally located.

A new 200 km 2-D seismic acquisition program is budgeted for the upcoming dry season (November to April). This program will focus on the northwestern half of the block, including the area around the Dergaon 1 well. The new seismic is expected to identify the full extent of the Dergaon play, other structures in the area, and to further develop leads found using the existing seismic coverage. This new seismic acquisition along with past seismic acquisitions and reprocessing will exceed the minimum work requirements for all three exploratory phases.

**Planned Operational Timeline**

Major Tasks	2003	2004				2005				2006	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
◆ Increase interest and operatorship	[Timeline bar spanning 2003 Q1 to 2003 Q2]										
◆ Acquire approximately 125 km of 2-D seismic	[Timeline bar spanning 2003 Q2 to 2003 Q3]										
◆ Process and interpret new and existing seismic, select location	[Timeline bar spanning 2003 Q3 to 2004 Q1]										
◆ Obtain services for Dergaon 1 and South Jorhat	[Timeline bar spanning 2004 Q1 to 2004 Q3]										
◆ Re-enter and test Dergaon 1	[Timeline bar spanning 2004 Q3 to 2005 Q1]										
◆ Drill South Jorhat exploration well	[Timeline bar spanning 2005 Q1 to 2005 Q2]										
◆ Acquire 200 km of 2-D seismic	[Timeline bar spanning 2005 Q2 to 2005 Q4]										
◆ Next exploration well	[Timeline bar spanning 2005 Q4 to 2006 Q1]										
◆ Phase III election	[Timeline bar spanning 2006 Q1 to 2006 Q2]										

This timeline is subject to change depending upon a number of factors, such as timely receipt of approvals, well results, and other factors outside the reasonable control of management.

The contractual terms under the AA-ON/7 PSC are even more attractive than the terms we have for the Amguri block. Both blocks allow for 100% cost recovery, where every barrel produced in a year can go towards covering operating and capital expenditures. Profit sharing with the government will not occur until all of Canoro's capital costs have been recovered. These capital costs are front loaded with the initial seismic, the exploration drilling and any follow-up drilling on success. There are no royalties for either oil or gas on this block. The profit sharing with the government does not begin until 200% of the capital invested has been paid out. It reaches a maximum of 20%, and only once we have achieved a return of 300% of the capital invested. We also have a seven-year corporate tax holiday.

#### Profit Sharing based on the "R" Ratio

Investment Multiple	Government Share	Contractor Share
<1	0%	100%
1.0 to <2.0	0%	100%
2.0 to <2.5	10%	90%
2.5 to <3.0	15%	85%
3.0 and >	20%	80%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the years ended March 31, 2005 and 2004 and is effective July 18, 2005.

### Operations and Capital Expenditures

The Company is a Canadian-based, international oil and gas company exploring for and developing hydrocarbon resources primarily in India. The Company has interests in, and is the operator of, two Production Sharing Contracts (PSC) - the Amguri Field Development Block and AA-ON/7 Exploration Block. Both blocks are located in northeast India, principally in the State of Assam. In addition, the Company continues to seek new business opportunities in India and the greater region.

### AA-ON/7 Exploration Block

The Company has a 65% interest in and is the operator of the AA-ON/7 Exploration Block. This interest is subject to a 30% back-in by Oil and Natural Gas Corporation Limited (ONGC, a company majority owned by the Government of India), which, if exercised, would reduce the Company's interest to 45.5%, following declaration of commerciality. Originally, the block was approximately 1,934 km<sup>2</sup> in area with 25% relinquished in September 2004 as required under the terms of the PSC. The block is now approximately 1,450 km<sup>2</sup> in area. The block has a seven year exploration period spread over three phases and a 25-year term once commerciality is declared, with the possibility of extensions.

During the year ended March 31, 2005 and to date, the Company continued with seismic acquisition and interpretation on the block. Approximately 550 km of the existing seismic on the block was reprocessed, with about 125 km of new seismic acquired in April 2004. The new seismic has been integrated with the existing seismic database, and interpretation of the data has been carried out. Several prospective horizons have been mapped from this interpretation. The Company has fulfilled its work commitments under Phase I of the exploration period, which expired on September 26, 2004.

Effective September 27, 2004, the Company entered Phase II of the exploration period under the PSC and committed to funding the drilling of one exploration well on the block. Three different play types have been developed with several drillable prospects identified. The South Jorhat prospect, a large, multi-zone oil prospect that is analogous to other oil discoveries in the basin, was chosen for the exploration well. Land for the access road has been acquired and site preparation and pad construction has been completed. As at the effective date of this report, the commencement of the drilling of the South Jorhat exploration well was imminent. It is expected to take approximately two months to drill, log, and test this well. Furthermore, there are other structures on the block that can be drilled.

During February and March 2005, the Company began re-entry and testing operations on the Dergaon 1 well, a previous gas discovery drilled on the block in 1973. As a result of well bore problems, the Company was only able to test three of seven potential zones during the re-entry. A 2-D seismic acquisition program is planned over the area, which will allow a better understanding of the Dergaon structure and solidify other prospects on the western part of the block.

### Amguri Development Block

The Company has a 60% interest in and is the operator of the 53 km<sup>2</sup> Amguri development block in the State of Assam, India. The Amguri block contains the discovered Amguri field in which one well is currently producing natural gas and three previously producing oil wells are currently suspended. There have been nine wells drilled in the Amguri block over the years. The PSC has a 25-year term with the option for extensions.

The mining lease for the Amguri block was granted on November 27, 2003. During September 2004, the Government of Assam approved the amendment to the Petroleum Mining Lease which recognizes the Company's 60% participation and operatorship of the block, and substitutes the Company's interest from the interests of past participants. On October 29, 2004, the Company and ONGC signed an agreement to hand over the Amguri field to the Company and the Company took over operations effective November 29, 2004. The Company has now secured control over production from the one gas well that is currently producing on the block. Revenues generated from this one well are presently treated as pre-production at this stage and are offset against capital expenditures.

The Company has started implementing a work program for the rehabilitation of production from the field through re-entering and testing existing producing and newly identified potential hydrocarbon zones on the three suspended wells. This program is currently underway with final results expected in the fall. Engineering and redesign work for upgrading the Amguri gathering system and facilities is expected to be completed by year-end. In addition, the Company has planned a 3-D seismic acquisition program over the block during the next dry season (November 2005 - April 2006).

### Business Development

The Company continues to evaluate growth opportunities in India. To expand the Company's acreage in India, a bid was submitted on a 295 km<sup>2</sup> onshore block in Arunachal Pradesh, northeast India under India's latest NELP V licensing round as part of a consortium. The Government of India is expected to announce the NELP V block winners by July 31, 2005. Awards are made based on a point system focusing on the extend of work commitments and the amount of profit oil and royalties payable to the government.

With the changing business environment in Russia, the Company has determined that it is no longer appropriate to pursue business development opportunities in this market. Effective June 1, 2005, the Company closed its Moscow office.

### Capital Expenditures

A breakdown of capital expenditures for the year ended March 31, 2005 and 2004 is as follows:

(Thousands of dollars)	Year Ended March 31	
	2005	2004
AA-ON/7 Exploration Block		
Exploration	<b>3,380</b>	1,344
Amguri Development Block		
Property acquisition	<b>13</b>	876
Development	<b>818</b>	364
	<b>831</b>	1,240
Asset retirement obligations	<b>20</b>	—
	<b>4,231</b>	2,584
Other	<b>96</b>	—
	<b>4,327</b>	2,584

During the year ended March 31, 2005, the Company was pursuing three main activities on the AA-ON/7 exploration block, where approximately 80% of the capital was invested. Firstly, the continued acquisition, processing and reprocessing of seismic to evaluate the block and select the first exploration prospect to be drilled. Secondly, once South Jorhat was selected as the location for the first exploration well, the necessary land,

equipment and personnel were acquired or contracted to allow for the drilling of the exploration well. Finally, the Company began the re-entry and testing of the Dergaon 1 well to evaluate the discovery and gain information for new exploration prospects.

At Amguri, the Company acquired control and possession of the field in November 2004. The Company continued the planning and preparation of the work program. This program consists of re-entering the three suspended oil wells, rehabilitating production and testing new potential hydrocarbon zones. In addition, engineering and redesign work is required to upgrade the production facilities on the block.

A project office in New Delhi, India and a field office in Assam were established during the year. A management and support team has been successfully recruited in preparation for the activities on the two blocks.

During the year ended March 31, 2004, the Company expended \$2,584,000 in capital expenditures. In June 2003, the Company finalized an agreement to acquire an additional 25% working interest and operatorship in the Amguri field. Scheduled payments were made during the year, and the final payment was made in May 2004. Exploration expenditures involved the reprocessing of existing seismic data and the acquisition of approximately 125 km of seismic on the AA-ON/7 block, which commenced in March 2004, with field work completed in April 2004. Development expenditures centered on the study of a well and geological data on the Amguri field and preparation of well workover programs for three suspended oil wells in the field.

### **Liquidity and Capital Resources**

During the year ended March 31, 2005, the Company utilized \$4,147,850 of cash on capital expenditures principally on its two blocks in India. The Company also utilized \$1,436,581 in operations during the year.

During the year ended March 31, 2005, the Company raised net proceeds of \$12.84 million from equity financings. On October 21, 2004, the Company closed an equity financing realizing gross cash proceeds of \$8,248,500 resulting in the issue of 6,110,000 common shares and 3,055,000 warrants (plus 330,000 warrants to the financing agent) from treasury, exercisable at \$1.60 per share on or before December 31, 2005. In addition, the Company issued 5.86 million common shares on exercise of outstanding warrants, options and a small private placement raising approximately \$5.2 million. As a result, the Company's cash position increased to \$19.7 million at March 31, 2005.

The Company's plans for next year provide for continuing work on its two blocks in India. At Amguri, the Company plans to complete the re-entry and testing of three suspended oil wells to rehabilitate production from these wells. In addition, it will complete the engineering and redesign of the producing facilities at Amguri. The Company also plans to acquire 3-D seismic over the entire block and intends to create and initiate a full field development program. On AA-ON/7, the Company will complete drilling, testing and evaluating the South Jorhat exploration prospect; acquire 2-D seismic over the Dergaon structure and the western half of the block; and begin preparing for the next exploration/appraisal location and possibly begin drilling the second well before March 31, 2006. Furthermore, the Company will continue its business development efforts to expand its operations in India and the surrounding region.

The Company is in a strong financial position with sufficient cash resources to fund the capital program on the two blocks for the upcoming year, to fund ongoing corporate and operating activities, and to bid on new exploration licences in India. Furthermore, on March 31, 2005, the Company had over 8.6 million share purchase warrants outstanding, some or all of which may be exercised, resulting in additional equity of up to \$11 million. The Company has no long-term debt.

Set out below are the fully diluted common shares outstanding on the dates indicated:

	<b>July 18, 2005</b>	<b>March 31, 2005</b>	March 31, 2004
Common shares	<b>58,946,647</b>	<b>58,009,227</b>	45,736,628
Share purchase warrants	<b>7,741,766</b>	<b>8,629,186</b>	8,047,260
Stock options	<b>3,116,667</b>	<b>3,041,667</b>	2,748,500
Agent stock options	–	–	377,637
Total – fully diluted	<b>69,805,080</b>	<b>69,680,080</b>	56,910,025

## Results of Operations

(Thousands of dollars)	Year Ended March 31	
	<b>2005</b>	2004
Interest income	<b>321</b>	55
Expenses		
General and administrative	<b>1,890</b>	1,184
Stock-based compensation	<b>1,938</b>	465
Write-down of goodwill	<b>280</b>	–
Other	<b>62</b>	102
	<b>4,170</b>	1,751
Net loss	<b>(3,849)</b>	(1,696)
Funds utilized in operations	<b>(1,436)</b>	(1,077)
Capital expenditures	<b>4,327</b>	2,584

The Company is essentially in the pre-production stage. Therefore, its income comprises only of interest income from its cash resources. Minimal revenue (net of operating expenses) from one producing gas well has been offset against capital expenditures. Gas production from the one well amounted to an average of 0.34 mmcf/d gross (0.20 mmcf/d net) during the period November 29, 2004 to March 31, 2005.

The Company expensed approximately \$1,890,000 with respect to general and administrative costs for the year ended March 31, 2005. This compares to \$1,184,000 for the same period last year. The increase is attributable to additional staffing both in Canada and India, the payment of bonuses on accomplishments of certain milestones, an increased use of consultants required as a result of higher activity levels, higher travel costs and other general increases.

Canoro has also recorded stock-based compensation expenses of \$1,938,000 in 2005 as compared with \$465,000 for 2004. This expense results from the valuation of the grant of options over their vesting period to directors, officers, employees and consultants under the Company's stock option plan. The increase in the expense reflects a higher level of stock option grants and the increased market value of the Company's shares. As a result, the Company has recorded a net loss of \$3,849,805 (\$0.07 per share) for the year ended March 31, 2005, compared to a net loss of \$1,695,818 (\$0.05 per share) for the same period last year.

Funds utilized in operations, that exclude non-cash items, amounted to \$1,436,581 for the year ended March 31, 2005, compared to \$1,077,332 for the same period in 2004. Funds utilized for general and administrative expenses were offset in part by interest income earned on cash resources.

The MD&A contains the term “funds utilized in operations”, which should not be considered an alternative to, or more meaningful than, cash flow from funds utilized in operating activities as determined in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as an indicator of the Company’s performance. The Company’s determination of “funds utilized in operations” may not be comparable to that reported by other companies. The reconciliation between net loss and “funds utilized in operations” can be found in the consolidated statement of cash flows in the 2005 and 2004 audited consolidated financial statements.

### Selected Financial Information

	Year Ended March 31		
	2005	2004	2003
(Thousands of dollars, except per share amounts)			
Revenue (net of royalty)	<b>321</b>	55	12
Funds utilized in operations	<b>(1,436)</b>	(1,077)	(555)
Net loss	<b>(3,849)</b>	(1,696)	(1,119)
Basic and diluted net loss per share	<b>(0.07)</b>	(0.05)	(0.06)
Cash dividends per share	<b>Nil</b>	Nil	Nil
Total assets	<b>30,036</b>	17,882	5,590
Long-term debt	<b>Nil</b>	Nil	Nil

During the three years ended March 31, 2005, the Company acquired majority interests in two PSCs in northeast India and has become the operator of the two blocks. The Company has also advanced its efforts in evaluating the two blocks, accessing seismic data, acquiring seismic on AA-ON/7, processing and reprocessing seismic, building relationships in India, and setting up a presence and operations in India. Effective February 15, 2005, it commenced operations in India with the re-entry of the Dergaon 1 well. The Company is now fully operational with workover and drilling activities taking place.

The Company has been accessing equity capital to build significant cash reserves through the issuance of common shares and warrants, and by way of private placements, to fund its ongoing operations and capital programs. The Company is essentially in a pre-production stage, incurring ongoing general and administrative and operating expenditures, resulting in reported startup losses and cash flow deficiency in operations. The completion of the workover program is intended to establish production and produce ongoing revenues for the Company. With the follow-up development programs, this revenue can grow depending upon the pace of development and the level of oil and gas production that can be attained by the Company. Exploration success on AA-ON/7 could result in a significant hydrocarbon discovery. It is possible for the Company to attain a significant size in terms of production, revenue, cash flow and earnings from India in the foreseeable future.

## Selected Quarterly Information

(Thousands of dollars, except per share amounts)	Quarter Ended							
	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003
Revenue	119	94	60	48	17	10	12	16
General and administrative	445	315	828	302	687	263	118	116
Stock-based compensation	1,083	616	157	82	49	406	5	5
Funds utilized in operations	(366)	(163)	(653)	(254)	(598)	(263)	(109)	(107)
Net loss	(1,699)	(861)	(946)	(343)	(727)	(692)	(119)	(158)
Basic and diluted net loss per share	(0.03)	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.00)	(0.01)
Capital expenditures	2,550	322	221	1,234	1,583	381	286	334

The pace of activity has steadily increased over the past year. With the completion of equity financings in March 2004 and October 2004, and obtaining various regulatory approvals, the Company has commenced its work programs on its two blocks in India. As a result of the increased activity, it has strengthened its executive team and has established its management and operational teams in India. Activity levels and capital expenditure levels are anticipated to rapidly increase over the next several quarters in order to complete the work programs and develop follow-up programs in the future.

### Fourth Quarter Results

During the fourth fiscal quarter, or quarter ended March 31, 2005, the Company commenced operations after a number of years of business development - a significant milestone. The Dergaon 1 well was re-entered in the middle of February 2005. During the quarter, the Company also completed the establishment of its management and operational team in India. Mobilization of a drilling rig, which was contracted in December 2004, was ongoing to the field locations in Assam. A service rig was contracted to conduct workover operations on the Amguri block until the drilling rig arrived. Land acquisition negotiations for the South Jorhat exploration well access road and well site were underway. Procurement was ongoing for supplies and services for the drilling and workover programs. Capital expenditures increased to approximately \$2.5 million for the Dergaon re-entry, pre-drilling and workover activities, and in acquiring equipment and supplies. As a result of grant of options in February, when the market price of common shares was high, the Company recorded stock-based compensation expense of \$1,083,000 during the quarter. As a result, the Company recorded a higher level of net loss for the quarter.

### Transactions with Related Parties

Transactions with related parties are fully described in note 14 to the consolidated financial statements of the Company, which note is incorporated herein by reference.

### Changes in Accounting Policies

As discussed in the notes to the consolidated financial statements, on April 1, 2004, the Company adopted the new Canadian accounting standards regarding asset retirement obligations. This change in accounting policy has not had any significant impact on the Company's consolidated financial statements as at March 31, 2005.

## **Risk Assessment**

The Company is in the business of exploring for, developing and producing oil and natural gas in India. Along with the competitive nature of the oil and gas industry, risk exposures, some of which are beyond the control of the Company, can be categorized but not limited to such areas as operational, political, regulatory, environmental and financial.

The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Oil and natural gas exploration involves a high degree of risk, and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil and natural gas in commercial quantities. The process of evaluating prospects and estimating oil and natural gas reserves is complex and subject to uncertainty. It is difficult to project the costs of implementing an exploratory drilling program due to inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions and changes in drilling plans and locations as a result of prior exploratory wells or additional data and interpretation thereof. Actual operating results, including production performance, may vary materially from those estimates. The Company manages these risks by having operational control and working interests commensurate with the assessed risk in each project and by hiring qualified professionals, including independent technical consultants, with appropriate industry experience. The Company's operations and related assets are located in regions of India that are susceptible to strikes that can drive up costs of operations and that carry a degree of regional political and economic risk. The region is also susceptible to insurgent activities that can hamper the Company's operations. The Company's management has considerable expertise operating internationally; however, the cost of doing business internationally is higher to comply with regulatory requirements.

## **Advisory Regarding Forward-Looking Statements**

Certain information regarding the Company set forth herein, including management's assessment of the Company's future plans and operations may constitute forward-looking statements under applicable securities laws and regulations. The Company's operations necessarily involve risks associated with exploration, development, production, marketing, and transportation of crude oil and natural gas. Factors such as timing of capital programs, timely access to facilities, equipment and personnel to execute programs, volatility of commodity prices, currency fluctuations, impact of regional and local political developments, subjectivity of reserve estimates, environmental risks, access to or loss of markets, competition from other producers, volatility in stock markets, and ability to access sufficient capital from internal and external sources could materially affect the value of the Company and its operations to its shareholders. As a consequence, actual results may vary materially from those anticipated in the forward-looking statements.

## **Additional Information**

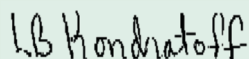
Additional information on the Company can be obtained from the Company's Annual Information Form that is filed on SEDAR, as well as from other SEDAR filings. SEDAR filings can be accessed from [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S REPORT

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this annual report has been prepared by, and are the responsibility of, the management of Canoro Resources Ltd. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using management's best judgments.

The board of directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, comprised of non-management directors, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting obligations and to review the consolidated financial statements of the Company and the report of the auditors. It reports its findings to the board of directors who approve the consolidated financial statements.

These consolidated financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.



Les Kondratoff  
President and Chief Executive Officer



Dinesh Dattani  
Vice President, Finance, Chief Financial Officer  
and Corporate Secretary

July 18, 2005

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canoro Resources Ltd. as at March 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada  
July 18, 2005

CANORO RESOURCES LTD.  
**CONSOLIDATED BALANCE SHEETS**

March 31, 2005 and 2004

	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 16)	<b>\$ 19,675,728</b>	\$ 11,968,876
Short term investments (note 16)	<b>43,283</b>	—
Accounts receivable	<b>842,156</b>	88,043
Prepaid expenses	<b>101,080</b>	9,093
	<b>20,662,247</b>	12,066,012
Restricted investments (note 4)	—	467,874
Goodwill (note 5)	—	280,000
Property, plant and equipment (note 6)	<b>9,373,605</b>	5,067,839
	<b>\$ 30,035,852</b>	\$ 17,881,725
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	<b>\$ 1,665,786</b>	\$ 792,825
Asset retirement obligations (note 7)	<b>19,701</b>	—
Shareholders' equity:		
Common shares (note 8)	<b>35,508,398</b>	22,325,735
Share purchase warrants (note 8)	<b>3,182,957</b>	2,497,000
Contributed surplus (note 9)	<b>1,921,650</b>	679,000
Deficit	<b>(12,262,640)</b>	(8,412,835)
	<b>28,350,365</b>	17,088,900
Future operations (note 1)		
Commitments (note 12)		
Contingent liabilities (note 16)		
	<b>\$ 30,035,852</b>	\$ 17,881,725

See accompanying notes to consolidated financial statements.

Approved by the Board:



Director



Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended March 31, 2005 and 2004

	2005	2004
<b>Revenues:</b>		
Interest income	\$ 320,615	\$ 55,183
<b>Expenses:</b>		
General and administrative	1,891,041	1,184,255
Interest and financing	–	13,937
Stock-based compensation (notes 8(f) and 9)	1,937,539	465,000
Foreign exchange loss	40,560	56,650
Depletion, depreciation and accretion	21,280	21,668
Accretion of discount on convertible debentures (note 6)	–	9,491
Write-down of goodwill (note 5)	280,000	–
	<b>4,170,420</b>	1,751,001
<b>Net loss</b>	<b>(3,849,805)</b>	(1,695,818)
Deficit, beginning of year	<b>(8,412,835)</b>	(6,717,017)
Deficit, end of year	<b>\$ (12,262,640)</b>	\$ (8,412,835)
Net loss per share:		
Basic and diluted (note 8(g))	<b>\$ (0.07)</b>	\$ (0.05)

See accompanying notes to consolidated financial statements.

CANORO RESOURCES LTD.  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
<b>Operations:</b>		
Net loss	\$ (3,849,805)	\$ (1,695,818)
Add items not affecting cash:		
Common shares issued for services rendered	174,405	65,677
Stock-based compensation	1,937,539	465,000
Unrealized foreign exchange loss	–	56,650
Depletion, depreciation and accretion	21,280	21,668
Annual accretion of discount on convertible debentures	–	9,491
Write-down of goodwill (note 5)	280,000	–
Funds utilized in operations	(1,436,581)	(1,077,332)
Net change in non-cash working capital (note 11)	(215,574)	8,825
	(1,652,155)	(1,068,507)
<b>Financing:</b>		
Proceeds on issue of common shares and warrants	13,431,254	13,518,173
Share and warrant issue costs	(591,423)	(868,744)
	12,839,831	12,649,429
<b>Investments:</b>		
Additions to property, plant and equipment	(4,147,850)	(2,185,640)
Restricted investments	467,874	(73,941)
Short-term investments	(43,283)	–
Net change in non-cash working capital (note 11)	242,435	331,000
	(3,480,824)	(1,928,581)
Increase in cash and cash equivalents	7,706,852	9,652,341
Cash and cash equivalents, beginning of year	11,968,876	2,316,535
<b>Cash and cash equivalents, end of year</b>	<b>\$ 19,675,728</b>	<b>\$ 11,968,876</b>

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2005 and 2004

### General:

Canoro Resources Ltd. (the "Corporation") was continued under the Business Corporations Act (Alberta) and is engaged in the acquisition, development and exploration for, and production and marketing of petroleum and natural gas in India. The Corporation's activities to date in India have been considered to be in a pre-production stage.

### 1. Future operations:

These financial statements have been prepared by management on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

As at March 31, 2005, the Corporation had working capital of \$18,996,461 (2004 - \$11,273,187) and had incurred a net loss of \$3,849,805 (2004 - \$1,695,818), and utilized funds from operations totaling \$1,436,581 (2004 - \$1,077,332) for the year then ended. The application of the going concern concept is dependent upon the Corporation's ability to generate future profitable operations and obtain the necessary financing to do so. During the year ended March 31, 2005, the Corporation issued common shares and share purchase warrants for cash totaling approximately \$12,839,831 (2004 - \$12,649,429). These funds will be used to continue the Corporation's development of its petroleum and natural gas properties in India (see notes 6 and 12).

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the consolidated financial statements.

### 2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly-owned. Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

(b) Petroleum and natural gas properties:

(i) Capitalized costs:

The Corporation follows the full cost method of accounting for its petroleum and natural gas properties. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized in cost centers on a country-by-country basis. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities, and costs of drilling both productive and non-productive wells. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation by 20% or more.

(ii) Depletion and depreciation:

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves, before royalties, on a cost center basis. The costs of significant unevaluated properties and major development projects are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes, before royalties, of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

**2. Significant accounting policies (continued):**

## (b) Petroleum and natural gas properties (continued):

## (iii) Impairment tests:

In following the full cost method, an impairment loss is recognized when the carrying amount of the petroleum and natural gas of a cost center is not recoverable and exceeds its fair value. The carrying amounts are assessed to be unrecoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market value of unproved properties and the cost of major development projects are less than the carrying amount of the cost center. In determining the amount of impairment, the carrying amount of oil and gas properties capitalized in a cost center is compared to the fair value of the associated proved and probable reserves and the lower of cost and market value of any unproved properties which are subject to a separate test for impairment. In determining the fair value of the proved and probable reserves, the Corporation uses cash flows based upon oil and gas prices as quoted in the futures market where obtainable, adjusted for quality differences, transportation, foreign exchange and other relevant factors. These cash flows are then discounted using a risk-free interest rate adjusted for political, reserve volume and type, regulatory and other applicable risks and uncertainties. If the carrying value of the oil and gas properties is in excess of its fair value, the excess is charged against earnings as additional depletion and depreciation.

## (iv) Joint venture activities:

The Corporation conducts substantially all of its oil and gas exploration and production activities on a joint venture basis. These financial statements reflect only the Corporation's proportionate interest in such activities.

## (c) Asset retirement obligations:

The Corporation recognizes the liability associated with future abandonment and site restoration costs in the financial statements at the time the liability is incurred, normally when the related asset is purchased or developed. When incurred, the liability will be measured at its fair value with a corresponding increase to property, plant and equipment and, over time, will be accreted up to the actual expected cash outlay to perform the abandonment and reclamation. This accretion to the liability will be expensed through the Corporation's consolidated statement of operations. The increase to property, plant and equipment, known as the "asset retirement cost", will result in an increase to depletion expense over the life of the Corporation's proven reserves.

## (d) Office furniture and equipment:

Depreciation of office furniture and equipment is based on estimates of useful lives and is calculated using the declining balance method at rates ranging from 20% to 100% per annum.

## (e) Foreign currency translation:

The financial statements are stated in Canadian dollars. Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Revenues and expenses, except depletion and depreciation, are translated at average exchange rates for the year. Depletion and depreciation are translated at the same rate as the related assets.

## (f) Revenue recognition:

Revenues associated with the sale of crude oil and natural gas will be recorded when title passes to the customer. Revenues from crude oil and natural gas production from properties from which the Corporation has an interest with other producers will be recognized on the basis of the Corporation's net working interest.

**2. Significant accounting policies (continued):**

## (g) Income taxes:

The Corporation follows the liability method of accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely that the assets will not be realized.

## (h) Per share data:

Basic per share amounts are computed by dividing net loss from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only options for which the exercise price is less than the market value impact the dilution calculations.

## (i) Cash equivalents:

Cash equivalents are comprised of term deposits and other highly liquid investments with an original maturity of three months or less at the time of purchase and as such, are classified with cash.

## (j) Stock-based compensation:

The Corporation uses the fair value method for valuing all stock options granted after April 1, 2003 as stock-based compensation. Under the fair value method, a compensation cost is measured at fair value for stock options granted at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized as contributed surplus is recorded as an increase to share capital.

Commencing April 1, 2002, the Corporation had followed the fair value method for valuing stock options granted to non-employees but had continued to account for options issued to employees and directors whereby proceeds on exercise of options was credited to share capital and no compensation cost was recognized.

## (k) Goodwill:

Goodwill represents the excess of the purchase price over the value attributed to the net tangible and intangible assets acquired. Goodwill is not subject to amortization but is subject to an annual review for impairment (or more frequently if events or changes in circumstances indicate that goodwill is impaired), which consists of a comparison of the fair value of the net assets to their carrying value. The net carrying value of goodwill would be written down if the value is considered to be impaired.

## (l) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The most significant estimates relate to determining the cost recoverability of the Corporation's property, plant and equipment and the provisions for depletion, depreciation and accretion, which are based upon such estimates as proven reserves and future development costs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended March 31, 2005 and 2004

**3. Change in accounting policy:**

Asset retirement obligations:

Effective April 1, 2004, the Corporation adopted the new Canadian accounting standard for asset retirement obligations. The effect of this change in accounting policy has no effect on previous years' financial statements since the Corporation had not undertaken any field operations (other than seismic acquisition) until after April 1, 2004.

**4. Restricted investments:**

Restricted investments in 2004 were represented by guaranteed investment certificates amounting to US\$358,300 which bore interest at rates ranging from 0.35% to 0.77% per annum, and matured on dates ranging from April 30, 2004 to December 17, 2004. The guaranteed investment certificates were utilized as collateral to issue guarantees to the Government of India to perform work obligations under production sharing contracts.

**5. Goodwill:**

The Corporation is no longer pursuing business development opportunities in Russia. As the carrying value of the Russian reporting unit exceeds its fair value, goodwill is considered impaired. The full amount of \$280,000 has been written off as at March 31, 2005.

During the year ended March 31, 2004, the Corporation incurred approximately \$110,000 relating to activities in Russia. This amount was expensed as part of general and administrative expenses.

**6. Property, plant and equipment:**

	Cost	Accumulated depletion and depreciation	Net book value
<b>2005</b>			
Petroleum and natural gas properties			
India	\$ 9,247,319	\$ —	\$ 9,247,319
Office furniture and equipment			
Canada	151,152	86,118	65,034
India	65,849	4,597	61,252
	<b>217,001</b>	<b>90,715</b>	<b>126,286</b>
	<b>\$ 9,464,320</b>	<b>\$ 90,715</b>	<b>\$ 9,373,605</b>
<b>2004</b>			
Petroleum and natural gas properties			
India	\$ 5,016,173	\$ —	\$ 5,016,173
Office furniture and equipment			
Canada	121,101	69,435	51,666
India	—	—	—
	121,101	69,435	51,666
	<b>\$ 5,137,274</b>	<b>\$ 69,435</b>	<b>\$ 5,067,839</b>

At March 31, 2005, the cost of the Corporation's significant unevaluated properties and major development projects associated with the India cost center totaled \$7,776,612 (2004 - \$4,730,000). During the year ended March 31, 2005, direct overhead costs totaling approximately \$826,000 (2004 - approximately \$300,000) were capitalized relating to the Corporation's exploration, development and property acquisition programs in India.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended March 31, 2005 and 2004

**6. Property, plant and equipment (continued):**

The Corporation has a 60% interest in the Amguri block in Assam, India. Revenue (net of expenses) from the one producing gas well on the field for the period from November 29, 2004 (the date of the transfer of the field to the Corporation) to March 31, 2005 was \$4,652 and has been capitalized as the Indian cost center is in the pre-production stage.

The Corporation performed a ceiling test calculation at March 31, 2005 to assess the recoverable value of the property, plant and equipment. The gas prices are based upon a combination of current northeast India prices being realized by the Corporation, inflated at 5% per annum for proved reserves and based upon current market prices realized by state controlled corporations, inflated at 5% per annum. Based on these assumptions and utilizing a Canadian-US exchange rate of \$1.21 as at March 31, 2005, the discounted value of future net revenues from the Corporation's proved plus probable reserves exceeded the carrying value of property, plant and equipment at March 31, 2005. The following table summarizes the benchmark prices used in the ceiling test calculation.

Year ended March 31	Gas
	(US\$/mcf)
2006	2.07
2007	2.17
2008	2.28
2009	2.40
2010	2.52
2011	2.64
Escalate thereafter	5.0% per year

**7. Asset retirement obligations:**

The Corporation's asset retirement obligation results from its obligations for the abandonment of well sites. The Corporation estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$60,000 to be incurred in 2045. A credit adjusted risk-free rate of 10% and an inflation rate of 7% (in India) has been used to determine the fair value of the asset retirement obligation. The obligation has arisen as a result of a well workover during the last quarter of fiscal 2005.

CANORO RESOURCES LTD.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (CONTINUED)  
 Years ended March 31, 2005 and 2004

**8. Share capital:**

- (a) Authorized:  
 Unlimited voting common shares, without nominal or par value;  
 Unlimited share purchase warrants; and  
 Unlimited non-voting preferred shares without nominal or par value.

- (b) Common shares issued:

	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of year	45,736,628	\$ 22,325,735	28,682,846	\$ 11,650,896
Issued for cash:				
Private placements	6,270,000	6,769,102	15,974,744	11,073,857
Upon exercise of stock options	2,358,834	1,258,258	50,000	17,500
Upon exercise of warrants	2,963,074	3,614,723	—	—
Upon exercise of agent options	377,637	132,173	308,043	107,816
Issued for services performed	303,054	333,900	554,327	464,927
Issued on conversion of debenture	—	—	166,668	120,483
Transfer of carrying value on exercise of:				
Share purchase warrants	—	1,052,947	—	—
Agent options	—	159,031	—	—
Stock options	—	562,888	—	—
	58,009,227	36,208,757	45,736,628	23,435,479
Share issue costs	—	(700,359)	—	(1,109,744)
Balance, end of year	58,009,227	\$ 35,508,398	45,736,628	\$ 22,325,735

- (c) Share purchase warrants issued:

	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of year	8,047,260	\$ 2,497,000	—	\$ —
Issued for cash:				
Private placements	3,215,000	1,656,998	7,059,000	2,319,000
Broker warrants	330,000	171,750	988,260	325,000
Transfer of carrying value on exercise	(2,963,074)	(1,052,947)	—	—
	8,629,186	3,272,801	8,047,260	2,644,000
Warrant issue costs	—	(89,844)	—	(147,000)
Balance, end of year	8,629,186	\$ 3,182,957	8,047,260	\$ 2,497,000

On October 21, 2004, the Corporation completed a private placement equity financing whereby the Corporation issued 3,055,000 share purchase warrants, exercisable at \$1.60 per common share until December 31, 2005. As part of the financing, the broker received 330,000 warrants under the same terms and conditions. As well, a private placement equity financing completed on April 22, 2004, resulted in the issuance of 160,000 share purchase warrants, exercisable at \$1.50 per common share until April 21, 2006. As part of the equity financing completed March 12, 2004 the Corporation issued 7,059,000 share purchase warrants to investors and 988,260 share purchase warrants to the financing agent, exercisable at \$1.15 per common share until March 11, 2006. The fair value of these warrants was estimated using the Black-Scholes options-pricing model using the assumptions described in note 8(f).

CANORO RESOURCES LTD.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (CONTINUED)  
 Years ended March 31, 2005 and 2004

**8. Share capital (continued):**

(c) Share purchase warrants issued (continued):

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Warrants, beginning of year	8,047,260	\$ 1.15	–	\$ –
Granted				
Issued for cash	–	–	7,059,000	1.15
Issued for cash	160,000	1.50	–	–
Issued for cash	3,055,000	1.60	–	–
Issued to agent in connection with financing	330,000	1.60	988,260	1.15
Exercised				
For cash	(2,469,324)	1.15	–	–
For cash	(150,000)	1.50	–	–
For cash	(343,750)	1.60	–	–
Expired / cancelled	–	–	–	–
Warrants, end of year	8,629,186	\$ 1.31	8,047,260	\$ 1.15

(d) Stock options:

The Corporation has a stock option plan whereby directors, officers, employees and consultants may be granted options to purchase up to 10% of the issued and outstanding common shares of the Corporation. At March 31, 2005, options have been granted to purchase 3,041,667 (2004 - 2,748,500) common shares at prices ranging from \$0.35 to \$4.34 until expiry on dates ranging from November 3, 2008 to February 16, 2010.

Details of the options outstanding under the stock option plan are as follows:

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding options, beginning of year	2,748,500	\$ 0.52	1,933,500	\$ 0.44
Granted	2,885,000	2.76	1,125,000	0.75
Exercised	(2,358,834)	0.53	(50,000)	0.35
Expired / cancelled	(232,999)	0.60	(260,000)	0.40
Outstanding options, end of year	3,041,667	\$ 2.62	2,748,500	\$ 0.52
Options exercisable, end of year	1,018,322	\$ 2.58	1,628,502	\$ 0.45

CANORO RESOURCES LTD.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (CONTINUED)

Years ended March 31, 2005 and 2004

**8. Share capital (continued):**

(d) Stock options (continued):

Range of Exercise Price	Outstanding at March 31, 2005	Weighted Average Remaining Contractual Life	Exercisable at March 31, 2005	Weighted Average Remaining Contractual Life
\$ 0.75 - \$0.87	340,000	3.7 years	190,001	3.7 years
\$ 1.25	316,667	4.3 years	66,664	4.3 years
\$ 1.30	100,000	4.1 years	–	–
\$ 1.75	1,050,000	4.4 years	349,997	4.4 years
\$ 4.34	1,235,000	4.9 years	411,660	4.9 years
	<b>3,041,667</b>	4.5 years	<b>1,018,322</b>	4.4 years

(e) Agent options:

During the year ended March 31, 2003, the Corporation granted 685,680 agent's options exercisable at \$0.35 per common share to certain financial institutions in conjunction with a private placement of common shares. All such agent options were exercised prior to their expiry date of February 20, 2005. There were no agent options issued during the current year.

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding agent options, beginning of year	377,637	\$ 0.35	685,680	\$ 0.35
Exercised	(377,637)	0.35	(308,043)	0.35
Outstanding agent options, end of year	–	\$ –	377,637	\$ 0.35

(f) Stock-based compensation:

As described in note 2(j), commencing April 1, 2002 to March 31, 2003, the Corporation had followed the fair value method for valuing stock options granted to non-employees but had continued to follow the method of accounting for options issued to employees and directors whereby proceeds on exercise of options was credited to share capital and no compensation cost was recognized.

Had the Corporation used the fair value method of accounting for options and warrants granted to employees during the year ended March 31, 2003, the stock-based compensation expense, net loss and net loss per share would approximate the following pro forma amounts:

	2005	2004
Increase to stock-based compensation expense	\$ 73,000	\$ 66,000
Net loss for the year:		
As reported	(3,849,805)	(1,695,818)
Pro forma	(3,922,805)	(1,761,818)
Net loss per share:		
Basic and diluted:		
As reported	(0.07)	(0.05)
Pro forma	(0.07)	(0.05)

CANORO RESOURCES LTD.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (CONTINUED)  
 Years ended March 31, 2005 and 2004

**8. Share capital (continued):**

(f) Stock-based compensation (continued):

The weighted average fair value of stock options was estimated at \$1.76 (2004 - \$0.35) per option using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004
Dividend yield	0%	0%
Expected volatility (range)	72% to 93%	85% to 93%
Risk-free rate of return	3.5% to 3.9%	3.5%
Expected option life (range)	1 - 5 years	1 - 5 years
Forfeiture rate	0% to 40%	0%

(g) Per share amounts:

The weighted average number of common shares outstanding during the year ended March 31, 2005 was approximately 54,474,095 shares (2004 - approximately 33,080,000 shares).

**9. Contributed surplus:**

Set out below are changes to contributed surplus during the years indicated.

	2005	2004
Balance, beginning of year	\$ 679,000	\$ 151,000
Stock-based compensation:		
Grant of options	1,937,539	465,000
Transfer of carrying value on exercise of stock options	(562,888)	-
	1,374,651	465,000
Agent options:		
Financing agent's options (note 8(e))	27,030	63,000
Transfer of carrying value on exercise of agent options	(159,031)	-
	(132,001)	63,000
Balance, end of year	\$ 1,921,650	\$ 679,000

The above weighted average fair value of stock options and warrants was estimated using the Black-Scholes option-pricing model assumptions described in note 8(f).

**10. Income taxes:**

The provision for income taxes differs from the result, which would have been obtained by applying the combined federal and provincial income tax rates to the Corporation's loss before income taxes. This difference results from the following items:

	2005	2004
Combined federal and provincial income tax rate	32.12%	40.62%
Expected tax recovery	\$ (1,236,557)	\$ (689,000)
Increase (decrease) resulting from:		
Stock-based compensation	622,338	189,000
Write-down of goodwill	89,936	-
Tax rate reduction	164,293	-
Other	33,294	-
Net increase in valuation allowance	326,696	500,000
	\$ -	\$ -

CANORO RESOURCES LTD.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (CONTINUED)  
 Years ended March 31, 2005 and 2004

**10. Income taxes (continued):**

The components comprising the future income taxes are as follows:

	2005	2004
Tax assets:		
Non-capital loss carry forwards	\$ 2,303,399	\$ 1,747,000
Share issue costs	354,234	539,000
Property, plant and equipment	1,106,874	1,224,000
	<b>3,764,507</b>	3,510,000
Less valuation allowance	<b>(3,764,507)</b>	(3,510,000)
Future income tax liability	\$ —	\$ —

At March 31, 2005, the Corporation had approximately \$7,171,000 (2004 - \$5,691,000) of losses available to reduce future taxable income in Canada expiring in the years 2006 to 2012. In addition, the Corporation has cumulative income tax deductions in excess of net book values totaling approximately \$3,446,000 (2004 - \$3,600,000), some of which may be restricted to operations in other countries. The related benefit of these losses and deductions have not been recognized in these financial statements.

**11. Supplemental cash flow disclosure:**

(a) Changes in non-cash working capital:

	2005	2004
Accounts receivable	\$ 754,113	\$ (67,562)
Prepaid expenses	(91,987)	9,151
Accounts payable and accrued liabilities	(872,961)	398,236
	<b>26,861</b>	339,825
Less: Changes in non-cash working capital related to investing activities	<b>242,435</b>	331,000
Changes in non-cash working capital related to operating activities	\$ (215,574)	\$ 8,825

(b) Cash receipts (payments):

	2005	2004
Interest receipts	\$ 332,365	\$ 41,652
Interest payments	\$ —	\$ (8,972)

**12. Commitments:**

The Corporation is committed to making the following approximate payments for leased premises and equipment:

2006	\$ 92,000
2007	90,000
2008	\$ 36,000

Under a Purchase and Sale Agreement, the Corporation is committed to drill an exploratory well by March 31, 2006, which is expected to cost approximately \$4 million, of which approximately \$0.8 million was incurred by March 31, 2005.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended March 31, 2005 and 2004

**13. Geographic segmentation:**

The Corporation has a corporate office in Canada and operations in India. Set out below is segmented information on a geographic basis.

<b>2005</b>	Canada	India	Total
Revenue	\$ 320,615	\$ —	\$ 320,615
Net loss	(3,459,817)	(389,988)	(3,849,805)
Total assets	19,357,780	10,678,072	30,035,852
2004			
Revenue	\$ 55,183	\$ —	\$ 55,183
Net loss	(1,580,151)	(115,667)	(1,695,818)
Total assets	12,738,767	5,142,958	17,881,725

**14. Related party transactions:**

During the year ended March 31, 2005, the Corporation issued 200,000 common shares with an average fair market value of \$1.375 per share on the date of issue, to two executive officers of the Corporation for services rendered. The aggregate consideration for these transactions was \$275,000 (2004 - \$168,600). Of this amount, \$159,495 (2004 - \$136,500) related to overhead costs associated with the Corporation's acquisition, exploration and development activities in India and was recorded as property, plant and equipment and \$115,505 (2004 - \$32,100) related to general and administrative expenses.

**15. Financial instruments:**

## (a) Interest rate risk:

As at March 31, 2004, the Corporation was exposed to changes in interest rates with respect to its outstanding convertible debentures and its restricted investments.

## (b) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as crude oil and natural gas revenues as well as many of the Corporation's expenditures are referenced to the US dollar.

## (c) Credit risk:

The Corporation's accounts receivable are primarily with customers in the oil and gas industry and government agencies and are subject to normal industry credit risks.

## (d) Fair value of financial instruments:

The carrying value of the Corporation's financial assets and liabilities approximated their fair values as at March 31, 2005 and 2004.

**16. Contingent liabilities:**

From time to time, the Corporation is required to post guarantees with the Government of India and letters of credit to its suppliers of goods and services. As at March 31, 2005, such guarantees and letters of credits issued by the Corporation's bankers amounted to approximately US\$3,142,320 for varying periods expiring between April 1, 2005 and May 30, 2006. This amount of cash, cash equivalents and short-term investments has been pledged as collateral by the Corporation's bankers.

The Corporation is subject to legal proceedings and actions arising in the normal course of business. Management believes that any assets or liabilities, which might arise pertaining to such matters, would not be expected to have a material effect on the Corporation's consolidated financial position.

## CANORO'S MANAGEMENT TEAM

### **L.B. (LES) KONDRATOFF, B.Sc., M.B.A.**

#### **President, Chief Executive Officer and Director**

Mr. Kondratoff has 27 years' experience in the oil and gas industry, primarily in the areas of engineering and project management (operations). More than half of Les' work experience has been predominately in Russia and Indonesia as well as in Ecuador, Colombia, Ukraine and most recently in India. Mr. Kondratoff has a B.Sc. degree from the University of Calgary, Alberta, Canada and an Advanced Graduate Diploma in Management (AGDM) and MBA degree from Athabasca University, Alberta, Canada. He is a Member (Academician) of the Russian International Academy of Mineral Resources and is the Past President of the Canada Eurasia Energy and Industry Alliance. He is also presently Co-Chairman of the Russian-Canadian Intergovernmental Economic Commission dealing with bilateral issues related to oil and gas development.

### **DINESH DATTANI, CA**

#### **Vice President, Finance, Chief Financial Officer and Corporate Secretary**

Mr. Dattani is a Chartered Accountant and a Financial Executive with over 25 years of corporate experience principally with upstream oil and gas companies with operations in the international arena and Canada. He has served as a Director and officer of a number of publicly listed companies and was formerly Treasurer of Home Oil Company Limited, Vice President Finance of Sherritt International Corporation, and Vice President Finance and CFO of Bow Valley Energy Inc. Mr. Dattani's extensive experience in all aspects of financial management is invaluable as Canoro enters the production and development phases of its properties in India.

### **JUERGEN FLOERCKE, B.Sc. Eng.**

#### **General Manager for India**

With a degree in Chemical Engineering (University of Calgary), Juergen Floercke has over 27 years' experience in the petroleum industry. He started his career in Canada's Foothills areas working for a major service company. After engineering positions for medium-sized oil companies, he played key roles in several projects worldwide, both for major engineering companies and as an independent consultant. Juergen has served in various operating roles for projects in Russia, Ukraine, Kazakhstan, China and Africa. He has focused on operations throughout his career, including previous positions to General Manager levels.

# CORPORATE INFORMATION

## Board of Directors

**Douglas R. Martin** <sup>(1)</sup>  
Calgary, Alberta, Canada

**D. Nolan Blades** <sup>(2)</sup>  
Calgary, Alberta, Canada

**Stephen B. Nerland** <sup>(3)</sup>  
Red Deer, Alberta, Canada

**Harley Winger** <sup>(4)</sup>  
Calgary, Alberta, Canada

**Les Kondratoff**, B.Sc., M.B.A.  
Bragg Creek, Alberta, Canada

## Officers

**Les Kondratoff**, B.Sc., M.B.A.  
President and Chief Executive Officer

**Dinesh Dattani**, CA  
Vice President, Finance, Chief Financial Officer  
and Corporate Secretary

(1) Board Chair; Member, Audit and Reserves Committee;  
Member, Compensation and Governance Committee

(2) Chair, Audit and Reserves Committee;  
Member, Compensation and Governance Committee

(3) Member, Audit and Reserves Committee;  
Member, Compensation and Governance Committee

(4) Chair, Compensation and Governance Committee;  
Member, Audit and Reserves Committee

## Canoro's Office Locations

**Canada**  
2810, 715 5th Avenue SW  
Calgary, Alberta, Canada  
T2P 2X6

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Fax: (403) 543-5740  
Website: [www.canoro.com](http://www.canoro.com)

**India**  
45, Okhla Industrial Estate  
Phase III  
New Delhi, India  
110020

Tel: 91-11-514-36272/73  
Fax: 91-11-269-24699

## Stock Exchange Listing TSX Venture Exchange

Symbol: CNS

## Registrar and Transfer Agent Computershare Data Canada

Calgary, Alberta, Canada

## Auditors

**KPMG LLP**  
Calgary, Alberta, Canada

## Legal Counsel

**Heenan Blaikie LLP**  
Calgary, Alberta, Canada

## Bankers

**Bank of Nova Scotia**  
Calgary, Alberta, Canada

## ICICI Bank Limited

New Delhi, India

## Investor Relations Contact

**Rob McInnis**  
Tel: (403) 543-5748  
Fax: (403) 543-5740  
Email: [rmcinnis@canoro.com](mailto:rmcinnis@canoro.com)

All dollar amounts in this annual report are reported in Canadian currency, unless otherwise indicated.

## Conversions

Natural gas is converted at 6 mcf per equivalent barrel of oil.

## Forward-Looking Information

Certain statements contained in this annual report may be considered as "forward-looking". Such statements are generally identifiable by the terminology used, such as "intend", "plan", "expect", "estimate", "budget", "outlook", "initiate" or other similar words. Such "forward-looking" statements are subject to risks and uncertainties that could cause actual results to differ materially from estimated or implied results.

## ANNUAL GENERAL AND SPECIAL MEETING

Shareholders of Canoro are invited to attend the Annual General and Special Meeting of the shareholders of the Corporation to be held in the Lecture Theatre of The Metropolitan Centre, 333 - 4th Avenue SW, Calgary, Alberta, Canada, on Tuesday, September 13, 2005 at 2:30 p.m. local time.



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