



## **MESSAGE TO SHAREHOLDERS**

### **QUARTER ENDED SEPTEMBER 30, 2006**

On November 19, 2006, Canoro began its five well drilling campaign, with the Amguri 10 well. This well is planned to reach the main Barail producing formation in mid-December and basement in mid-January.

Unlocking the value is a message we have been communicating to shareholders over the past year, in anticipation of this moment. The Company is now on the verge of rewarding shareholder patience, as we expect this drilling program to unlock significant value in the Amguri and AA-ON/7 assets.

#### **Amguri Development Block**

Canoro plans to directionally drill two appraisal wells at Amguri from a well pad adjacent to the Amguri 6 well. The first deviated appraisal well (Amguri 10) is targeting the Barail reservoir, the field's main producing formation, at a depth of approximately 3,000 meters and a lateral displacement of approximately 1,000 meters south, and the basement at a depth of approximately 4,000 meters and a lateral displacement of 1,500 meters south from Amguri 6. The final subsurface target of the second appraisal well (Amguri 11) is dependent on the results of the first well.

At Amguri, the Company produced crude oil and natural gas from Amguri 5 and 6 and natural gas from Amguri 8A. Net production of crude oil amounted to 75 bbl/d during the three months ended September 30, 2006. Natural gas production amounted to an average of 0.98 mmcf/d during the three months ended September 30, 2006. Canoro's share of oil sales averaged 79 bbl/d and gas sales averaged 0.98 mmcf/d, for total sales of 243 boe/d. Oil sales started in April and gas sales began in June with the completion of the gas sales pipeline. Production is currently being restricted by the offtaker. This situation is anticipated to be resolved in the future as new markets for the gas are contracted.

Canoro is entitled to receive crude oil price based upon Brent, and adjusted for quality and differentials. Currently, the Company receives 70% of Brent with the top up payment payable following completion of assaying of crude oil, expected during the next quarter. The Company has recorded 100% of the crude oil price for deliveries during the three months ended September 30, 2006 which amounted to \$75.80/bbl.

With respect to natural gas, Canoro is entitled to approximately Rs 3,840 per 1,000 M<sup>3</sup> (approximately US\$2.40/mcf at Rs 45 = US\$1) plus applicable royalties. For gas sales from well 8A, Canoro is entitled to 60% of such price. Average price recorded by the Company, inclusive of royalties, for the three months ended September 30, 2006 amounted to \$2.77/mcf.

### **AA-ON/7 Exploration Block**

Canoro plans to drill three vertical exploration wells, testing four independent prospects in the western portion of the block. The wells and prospects are described below:

Dolakharia – The first well is planned to be drilled to basement at an approximate depth of 1,800 meters, testing a 40 km<sup>2</sup> amplitude anomaly in the Tipam. There are also deeper secondary targets. If successful, a number of follow-up Tipam prospects have also been identified.

Borkathani – This exploration well will test the 42 km<sup>2</sup> of Cretaceous prospect structurally higher than the Dergaon-1 well (which tested two gas zones during a re-entry last year). This well is planned to be drilled to basement at an expected depth of 1,500 meters.

Sonakhet – This exploration well will test the 16 km<sup>2</sup> Barail sub-crop prospect and a 15 km<sup>2</sup> basement high. The well is planned to be drilled to basement at an expected depth of 1,500 meters.

For the continued evaluation of the block, Canoro also plans to acquire an additional 150 km of 2D seismic on the eastern portion of the block in early 2007. This area of the block lies within the states of Assam and Nagaland and is prospective for large sub-thrust structures.

On August 8, 2006, Canoro received the petroleum exploration license for the 319 km<sup>2</sup> of the block lying in the State of Nagaland. The Nagaland portion of the AA-ON/7 block contains prospective sub-thrust plays.

Effective August 26, 2006, and in accordance with the provisions of the Production Sharing Contract, the Company and its partner elected to move into Phase III of the exploration period. The Company has submitted a partial relinquishment proposal in relation to moving to Phase III and is awaiting government approval.

### **Block AA-ONN-2003/2**

The seismic acquisition program has restarted after the monsoon season. A total of 12 km of 2D seismic has been acquired during the last working season. Acquisition of a further 188 km of 2D seismic is planned for the current field season. Data acquisition is planned to start before year-end. The operator also purchased 34 km of 2D seismic from Oil India Ltd., which has been processed and interpreted. A few prospects have already been identified in the central part of the block and budgeting for drilling operations is underway. The current plan is to begin drilling on the block in the fourth quarter of 2007.

## **Financing**

On July 25, 2006, the Corporation closed a private placement financing of 29,160,000 units, at \$1.03 per unit, for gross proceeds of approximately \$30 million. Each unit is comprised of one common share and a half warrant. Each full warrant is exercisable at a price of \$1.30 per common share until July 25, 2007. As a result of this financing, the Company is well positioned to execute its work program and pursue additional business opportunities in India and the greater region.

## **Financial Results**

During the three months ended September 30, 2006, Canoro recorded total revenue of \$1.0 million principally from crude oil and natural gas sales. Expenses totaled \$2.7 million including operating costs and depletion resulting in a loss of \$1.7 million for the quarter. During the quarter, the Company generated a minimal amount of funds from operations of \$57,000 compared to deficits in earlier periods. Cash capital expenditures, amounting to \$1.0 million were incurred during the quarter on the three blocks principally for seismic processing and interpretation, as well as for facilities at the Amguri field. At September 30, 2006, the Company had cash resources of \$30 million that will enable it to execute its planned work program.

## **Business Development**

Canoro participated in the latest exploration licensing round held by the Government of India on September 15, 2006. Canoro bid on two blocks, one in Assam and one on the west coast of India in the Cambay Basin. Due to the competitive nature of bidding, the Company was unsuccessful in acquiring any blocks under NELP VI.

Canoro looks forward to the execution of the largest work program in its history over the upcoming months.



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Les Kondratoff  
President and CEO



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Douglas R. Martin  
Chairman of the Board

November 27, 2006

# **CANORO RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis ("MD&A") of the financial condition, results of operations and cash flows of Canoro Resources Ltd. ("Canoro" or the "Company") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and six months ended September 30, 2006.

Certain statements included or incorporated by reference in the MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. 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, strikes and insurgency, 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. The forward-looking statements or information contained in the MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements or information contained in this MD&A are expressly qualified by this cautionary statement.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. The use of boe's may be misleading, particularly if used in isolation.

The MD&A contains the term "funds generated from / 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 generated from / 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 unaudited interim consolidated financial statements for the three and six months ended September 30, 2006.

The MD&A is effective November 27 2006. Additional information relating to the Company, including the Annual Information Form (AIF), is available on [www.sedar.com](http://www.sedar.com) or the company website [www.canoro.com](http://www.canoro.com).

### **Critical Accounting Policies / Critical Accounting Estimates**

Prior to April 1, 2006, the Company was in a pre-production mode and had minimal production from one gas well, Amguri 8A. The Company did not record any sales, operating revenues, royalties, cess, operating or depletion expenses prior to that date.

Effective April 2006, the Company commenced sale of crude oil from its Amguri development block in northeast India. Effective June 2006, the Company began selling natural gas from the Amguri 6 well. As a result, the Company has now commenced recording sales, operating revenues, royalties, cess, operating and depletion expenses with respect to its oil and gas operations with respect to production realized for the period commencing April 1, 2006.

### **Results of Operations**

	<b>Three months ended September 30, 2006</b>	<b>Three months ended September 30, 2005</b>	<b>Six months ended September 30, 2006</b>	<b>Six months ended September 30, 2005</b>
Daily average sales*				
Crude oil (barrels per day)	79	-	91	-
Natural gas (mcf per day)	985	-	737	-
Barrels of oil equivalent per day	243	-	214	-
	<b>(Thousands of dollars)</b>			
Operating revenue, before royalties	801	-	1,158	
Royalties and cess	(58)	-	(81)	
Interest income and other	743	-	1,077	-
	258	89	308	206
Cash expenses	1,001	89	1,385	206
Operating	170	-	311	-
General and administrative	751	565	1,235	978
Realized foreign exchange loss	24	61	107	61
	945	626	1,653	1,039
Funds generated from (utilized) in operations	57	(537)	(267)	(833)
Stock based compensation	975	406	1,181	787
Unrealized foreign exchange loss (gain)	(25)	12	22	12
Depletion, depreciation and accretion	868	17	1,258	27
	1,818	435	2,461	826
Net loss	1,761	972	2,728	1,659

During the three and six months ended September 30, 2005, the Company was in a pre-production stage and did not report any production, sales or operating revenues.

### ***Sales / Production / Revenues***

Effective April 2006, the Company began selling crude oil from its Amguri 5 and 6 wells in the Amguri development block in Assam, India. A total of 7,257 barrels and 16,731 barrels were sold during the three and six months ended September 30, 2006 respectively. Sales for six months included 6,125 barrels related to production prior to April 1, 2006 has been capitalized. Production has been partially curtailed as a result of limited markets for the sale of associated gas by the offtaker.

Effective June 2006, the Company began selling natural gas from Amguri 6. In addition, the Company continued to sell natural gas from Amguri 8A well. The Company's share of total gas sales during the three and six months ended September 30, 2006 amounted to 91 and 135 million cubic feet, respectively.

The Company is entitled to receive a crude oil price based upon Brent, and adjusted for quality and differentials. The quality of the crude oil produced is to be determined through assaying, which is expected to be completed in the next quarter. Until the crude oil assay is complete, the Company receives a price equivalent to 70% of Brent. A top-up payment for the remaining value is payable following completion of assaying of the crude oil. The Company has recorded 100% of the crude oil price for deliveries during the six months ended September 30, 2006. The Company has recorded an average price of \$75.80 and \$76.71 per barrel for crude oil sales for the three and six months ended September 30, 2006, respectively.

With respect to natural gas, the Company has been entitled to approximately Rs 3,200 plus applicable royalties per 1000 m<sup>3</sup> with an energy value of 10,000 kilocalorie/m<sup>3</sup>. Such a price was increased by 20% to Rs 3,840 plus applicable royalties effective June 6, 2006. For gas sales from Amguri 8A well, the Company is entitled to receive 60% of such price. Average price realized by the Company, inclusive of royalties, for the three and six months ended September 30, 2006 amounted to \$2.77 per mcf and \$2.55 per mcf respectively.

As a result, the Company has recorded \$801,245 and \$1,158,138 as operating revenue, before royalties, for the three and six months ended September 30, 2006 respectively.

### ***Royalties and Cess***

Royalties on natural gas are assessed at 10% of well head value of gas and are borne by the buyer. The Company bears a royalty on crude oil sales of Rs 528 (Cdn \$13) per metric tonne. In addition, the Company bears cess at the rate of Rs 900 (Cdn \$ 22) per metric tonne for crude oil sales. Cess is a Government of India levy imposed on crude oil sales. Total royalties and cess amounted to \$58,279 and \$81,230 for the three and six months ended September 30, 2006, respectively.

### ***Interest Income***

During the three and six months ended September 30, 2006, the Company earned \$258,202 and \$308,025 in interest income respectively compared with \$89,092 and \$206,125 respectively for the same period last year. On July 25, 2006, the Company raised \$27.9 million (net of issue costs) in additional equity resulting in significantly higher cash resources, thus increasing interest income in the three months ended September 30, 2006.

### ***Operating Expenses***

The Company has established production facilities at its Amguri field in Assam. Crude oil is trucked from the field approximately 115 kilometers to Moran, where crude oil is stored, treated, separated and transmitted to a crude oil pipeline. Crude oil is then transmitted to a refinery at Guhawati, also in Assam. Natural gas from Amguri 6 and 8A is sold at the block boundary to different buyers by way of a pipeline. Total operating cost per barrel of oil equivalent amounted to \$7.59 per boe and \$9.40 during the three and six months ended September 30, 2006 respectively.

### ***General and Administrative Expenses***

The Company has its head office in Calgary, a project office in Delhi, India and a site office in Jorhat, Assam, India. General and administrative expenses expensed amounted to \$750,783 and \$1,234,742 for the three and six months ended September 30, 2006 respectively compared with \$565,227 and \$978,032 for the same period last year. During 2006, the Company has expanded its team to execute its work program to fully evaluate the prospectivity in its operated blocks resulting in the increase in overhead, and expanded its corporate and business development efforts.

### ***Funds Generated From / Utilized in Operations***

During the three months ended September 30, 2006, the Company had positive funds flow from operations (before net change in non-cash working capital) of \$56,763 compared with a deficit of \$537,338 for the same period last year. For the six months ended September 30, 2006, the Company significantly reduced its cash deficiency from operations from \$832,702 last year to \$267,687 this year. This has resulted from the Company having commenced commercial production effective April 2006 coupled with the impact of equity financing of \$27.9 million (net of issue costs) completed in July 2006.

### ***Stock Based Compensation Expense***

Stock based compensation expense results from the grant of options under the Company's stock option plan. The expense amounted to \$974,363 and \$1,180,666 for the three and six months ended September 30, 2006, compared with \$405,793 and \$786,785 for the same period last year. The increase in current quarter expense results from a grant 3,575,000 options (one third of which were vested) in August and September 2006. In addition, stock based compensation of \$184,767 was capitalized during the six months ended September 30, 2006.

### ***Depletion, Depreciation and Accretion Expense***

The Company has recorded depletion expense for the three and six months ended September 30, 2006 based upon the sales of crude oil and natural gas during the period. The independent reservoir consultants have only assigned proved reserves to the three wells that are currently producing. Based upon proved reserves, depletion expense amounts to approximately \$37.94 per boe for the six months ended September 30, 2006. In addition, the Company has recorded accretion expense on asset retirement obligation as well as depreciation for non-oil and gas fixed assets.

### ***Net loss***

As a result, the Company has recorded a net loss of \$1,761,363 and \$2,728,201 (\$0.02 and \$0.04 per diluted share) respectively for the three and six months ended September 30, 2006. This compares with \$971,535 (\$0.02 per diluted share) and \$1,658,819 (\$0.03 per diluted share) for the same period last year.

### **Operations and Capital Expenditures**

The Company's capital expenditures during the three and six months ended September 30, 2006, amounted to \$1,495,000 and \$2,623,000 respectively compared with \$4,676,000 and \$8,198,000 for the same period in 2005. An analysis of capital expenditures for the three and six months ended September 30, 2006 and 2005 is as follows:

	<b>Three months ended September 30, 2006</b>	<b>Three months ended September 30, 2005</b>	<b>Six months ended September 30, 2006</b>	<b>Six months ended September 30, 2005</b>
Amguri Development Block				
Intangible costs	630	152	979	1,169
Production equipment	58	88	505	192
	688	240	1,484	1,361
AA-ON/7 Exploration Block				
Exploration	463	4,385	642	6,681
AA-ONN 2003/2 Exploration Block				
Exploration	234	-	368	-
Other	110	51	129	156
Total	1,495	4,676	2,623	8,198

During the three and six months ended September 30, 2006, the Company continued to work on the processing and interpretation of 3D seismic that was acquired over the Amguri Block during the first quarter of 2006. Two appraisal wells have been proposed to be drilled on the block during the fiscal year ending March 31, 2007. Drilling operations on the two wells began on November 19, 2006. Work continued on surface facilities at the Amguri field. Tie-ins of gas lines are complete resulting in commencement of gas sales during June 2006. Storage tanks were acquired as a result of commencement of crude oil production.

Processing and interpretation of 2D seismic on the AA-ON/7 exploration block is now complete. The Company plans to drill three wells on the block during 2007. Locations for the drilling of three wells have been surveyed and roads to all locations identified for site preparation.

Effective August 26, 2006, in accordance with the provisions of the Production Sharing Contract, the Company and its partner elected to move into Phase III of the exploration period and subject to government approval, retained approximately 771 square kilometers of the block in the state of Assam. In addition, 319 square kilometers have been retained in the State of Nagaland where a Petroleum Exploration License was granted on August 8, 2006.

As a result, the Company has committed to the drilling of one exploration well in the Assam portion of the block, at an estimated cost of US \$3.68 million net to the Company and is planning to drill a total of three wells on the block during 2007. In addition, the Company and its partner has proposed a minimum work program on the Nagaland portion of the block of 50 line kilometer of 2D seismic at an estimated cost of US \$1.5 million net to the Corporation. As well, the Company is planning to acquire an additional 100 kilometer of 2D seismic during the first half of 2007.

During the three and six months ended September 30, 2005, the Company continued with its operations on its two blocks – AA-ON/7 exploration block and the Amguri development block. A well re-entry on the Amguri development block during the three months ended June 30, 2005 and the drilling of the exploration well on the AA-ON/7 exploration block during the three months ended September 30, 2005, were the principal activities of the Company.

On December 16, 2005, the Corporation executed a Production Sharing Contract with respect to the AA ONN-2003/2 Block. On February 16, 2006, a Petroleum Exploration Licence was issued by the state government that established the effective date of the Production Sharing Contract. The Corporation has a 30% participating interest in this block. As a result, the consortium is obligated to complete a minimum work program that includes a 200 line kilometers of 2D and 100 sq. km. of 3D seismic and the drilling of seven exploration wells. The Corporation's total costs for the drilling of seven exploration wells and the seismic program is estimated at US \$14.8 million (C \$16.56 million) to be expended over a three year period. Such capital commitments will be reduced by 50% on the completion of farm out of 15% of the block upon receipt of government approval which is anticipated before the end of 2006.

On the AA-ONN 2003/2 block, the Company and its partners completed a 12 kilometer acquisition of 2D seismic on the block. Work has resumed to complete the balance on the seismic acquisition program by the first quarter of 2007.

## Selected Quarterly Information

<i>(Thousands of dollars, except per share amounts)</i>	<u>Quarter Ended</u>							
	<b>September 30, 2006</b>	<b>June 30, 2006</b>	<b>March 31, 2006</b>	<b>December 31, 2005</b>	<b>September 30, 2005</b>	<b>June 30, 2005</b>	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Revenue	1,001	384	54	75	89	117	119	94
Operating Expense	170	141	-	-	-	-	-	-
General and administrative	751	484	722	493	565	413	445	315
Stock-based compensation	974	206	576	590	406	381	1,083	616
Funds generated (utilized) in operations	57	(324)	(727)	(440)	(537)	(295)	(366)	(163)
Net Loss	(1,761)	(967)	(1,249)	(1,056)	(972)	(687)	(1,699)	(861)
Basic and diluted net loss per share	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)	(0.03)	(0.01)
Capital expenditures	1,495	1,128	5,404	2,440	4,676	3,523	2,550	322

Effective April 1, 2006, the Company commenced recording production, sales, revenues, royalties, operating expenses and depletion. The Company has planned its largest work program ever, with the drilling of five wells during the next several months on its operated properties. As a result, capital expenditures are expected to increase significantly from historical levels and full operational results are reported with the advent of commencement of production. The Company has a full team in place at its head office in Calgary, its project office in Delhi, India and a site office in Jorhat, Assam, India to execute its work programs.

## **Liquidity and Capital Resources**

During the six months ended September 30, 2006, the Company utilized \$2,142,044 of cash on capital expenditures on its three blocks in India. This compares with \$8,198,267 incurred on capital expenditures for the same period last year on the two blocks. In addition, the Company set aside an additional \$3,408,013 of its cash resources as collateral to its bankers in connection with the issuance of bank guarantees and letters of credit.

The Company also utilized \$268,000 in operations during the six months ended September 30, 2006 compared with \$833,000 for the same period last year. In addition, the Company's accounts payable were substantially reduced from \$4,194,000 at March 31, 2006 to \$1,141,000 at September 30, 2006 as a result of lower activity levels.

On July 25, 2006, the Corporation closed a private placement financing of 29,160,000 units, at \$1.03 per unit, for gross proceeds of approximately \$30 million. Each unit comprises of one common share and a half warrant. Each full warrant is exercisable at a price of \$1.30 per common share within one year from the date of issuance. Canoro paid the financing agents a cash commission equal to 6.5% of the gross proceeds, plus issued agents' warrants entitling the agents to acquire common shares equal to 6.5% of the units issued under this offering. Each agent warrant entitles the holder to acquire one common share at a price of \$1.30 per common share for a period of one year from the date of issuance. Total cash share issue costs amounted to \$2,163,000 in connection with the equity financing in addition to agent warrants.

Financing activities during the six months ended September 30, 2005 comprised of the receipt of \$1,188,562 on the issue of common shares on the exercise of warrants.

As a result, the Company added net cash resources of \$21,264,000 during the period compared with a utilization of \$7,808,000 for the same period last year. At September 30, 2006, the Company had cash resources of approximately \$30.2 million of which \$3.4 million was restricted and utilized as collateral to corporation's bankers.

Over the next several months, the Company plans to take steps to unlock the value of its blocks. On the AA-ON/7 block, the Company plans to drill three exploration wells to fully evaluate independent play types on the block. As well, Canoro will begin evaluating the eastern part of the block for sub-thrust potential. On the Amguri block, the Company started drilling operations on the first of two appraisal wells to fully evaluate the potential of the development block. On the AA-ONN-2003/2 block, the Company will continue to complete 2D and 3D seismic acquisition on the block with drilling planned to start in the fourth quarter of 2007.

With the closing of the private placement financing of \$30 million, the Company is in a strong financial position with sufficient cash resources to provide for the capital program on the three blocks for the upcoming year, to fund ongoing corporate and operating activities, and pursue additional business development opportunities. In addition, the Company has commenced receiving revenues from the sale of crude oil, condensate and natural gas from Amguri 5 and 6 wells. The Company has no long term debt.

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

	<b>November 27, 2006</b>	<b>September 30, 2006</b>	<b>March 31, 2006</b>
Common shares	92,994,817	92,994,817	63,834,817
Share purchase warrants	16,475,400	16,475,400	10,000
Stock options	8,300,000	8,300,000	4,545,000
<b>Total – fully diluted</b>	<b>117,770,217</b>	<b>117,770,217</b>	<b>68,389,817</b>

### **Risk Assessment**

There have been no changes in the Company's assessment for risk as at September 30, 2006 as compared to March 31, 2006.

Consolidated Financial Statements of

**CANORO RESOURCES LTD.**

For the three and six month periods ended  
September 30, 2006 and 2005

# CANORO RESOURCES LTD.

Consolidated Balance Sheets  
(Unaudited)

	September 30, 2006	March 31, 2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 7)	\$ 26,821,011	\$ 5,557,368
Accounts receivable	3,832,030	3,407,094
Inventory	75,916	531,354
Prepaid expenses and deposits	98,039	266,340
	<hr/>	<hr/>
	30,826,996	9,762,156
Restricted cash (note 7)	3,408,013	2,327,030
Property, plant and equipment (note 3)	26,370,124	25,059,114
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	\$60,605,133	\$ 37,148,300
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,140,826	\$ 4,193,638
Asset retirement obligations	47,694	46,740
Shareholders' equity		
Share capital (note 4)	67,471,221	43,773,518
Share purchase warrants (note 4)	4,173,756	4,183
Contributed surplus (note 5)	6,726,592	5,356,976
Deficit	(18,954,956)	(16,226,755)
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	59,416,613	32,907,922
Future operations (note 1)		
Contingent liabilities (note 7)		
Commitments (notes 3 and 8)		
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	\$60,605,133	\$ 37,148,300

See accompanying notes to consolidated financial statements.

# CANORO RESOURCES LTD.

Consolidated Statements of Operations and Deficit  
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2006	2005	2006	2005
<b>Revenue</b>				
Oil, natural gas and natural gas liquids	\$ 801,245	-	\$ 1,158,138	-
Royalties	(58,279)	-	(81,230)	-
Interest income and other	258,202	89,092	308,025	206,125
	1,001,168	89,092	1,384,933	206,125
<b>Expenses</b>				
Operating	169,761	-	311,111	-
General and administrative	750,783	565,227	1,234,742	978,032
Stock-based compensation (notes 4 and 5)	974,363	405,793	1,180,666	786,785
Foreign exchange loss (gain)	(706)	73,191	128,689	72,783
Depletion, depreciation and accretion	868,330	16,416	1,257,926	27,344
	2,762,531	1,060,627	4,113,134	1,864,944
Net loss	(1,761,363)	(971,535)	(2,728,201)	(1,658,819)
Deficit, beginning of period	(17,193,593)	(12,949,924)	(16,226,755)	(12,262,640)
Deficit, end of period	\$(18,954,956)	\$(13,921,459)	\$(18,954,956)	\$(13,921,459)
Weighted average shares outstanding	85,820,772	59,285,913	75,057,517	60,068,187
Net loss per share – basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.03)

See accompanying notes to consolidated financial statements.

# CANORO RESOURCES LTD.

Consolidated Statements of Cash Flows  
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2006	2005	2006	2005
Cash provided by (used in)				
Operations				
Net loss	\$ (1,761,363)	\$ (971,535)	\$(2,728,201)	\$(1,658,819)
Add items not affecting cash				
Depletion, depreciation and accretion	868,330	16,416	1,257,926	27,344
Unrealized foreign exchange loss (gain)	(24,567)	11,988	21,922	11,988
Stock-based compensation	974,363	405,793	1,180,666	786,785
	56,763	(537,338)	(267,687)	(832,702)
Net change in non-cash working capital	(118,501)	(1,528,054)	(638,611)	(487,269)
	(61,738)	(2,065,392)	(906,298)	(1,319,971)
Financing				
Issuance of common shares and warrants, net of costs	27,871,459	37,500	27,871,459	1,188,562
Investing				
Additions to property, plant and equipment	(1,035,968)	(4,675,557)	(2,142,044)	(8,198,267)
Restricted cash	162,856	-	(1,080,983)	-
Net change in non-cash working capital	(1,702,493)	606,675	(2,478,491)	521,560
	(2,575,605)	(4,068,882)	(5,701,518)	(7,676,707)
Decrease in cash and cash equivalents	25,234,116	(6,096,774)	21,263,643	(7,808,116)
Cash and cash equivalents, beginning of period	1,586,895	17,964,386	5,557,368	19,675,728
Cash and cash equivalents, end of period	\$ 26,821,011	\$ 11,867,612	\$ 26,821,011	\$ 11,867,612
Supplemental information:				
Interest received	\$ 246,032	\$ 88,636	\$ 297,359	\$ 206,725

See accompanying notes to consolidated financial statements.

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

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### **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 commenced commercial production operations effective April 2006.

### **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 September 30, 2006, the Corporation had working capital of \$29,686,170 (2005 - \$11,142,066) and had incurred a net loss of \$2,728,201 (2005 - \$1,658,819), and utilized funds from operations, before non-cash working capital changes, totaling \$267,687 (2005 - \$832,702) for the six months 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. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumptions were 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 financial statements.

### **2. Basis of presentation**

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and following the same accounting policies as disclosed in the audited consolidated financial statements for the year ended March 31, 2006. The disclosures provided herein are incremental to those included with the annual consolidated financial statements and do not include all of the disclosures required in the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended March 31, 2006. Certain of the comparative amounts have been reclassified to conform to current period presentation.

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

### 3. Property, plant and equipment

September 30, 2006	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties - India	\$ 27,583,215	\$ 1,567,927	\$ 26,015,288
Office furniture and equipment			
Canada	186,136	110,597	75,539
India	360,649	81,352	279,297
	546,785	191,949	354,836
	\$ 28,130,000	\$ 1,759,876	\$ 26,370,124

March 31, 2006	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties - India	\$ 25,089,313	\$ 295,481	\$ 24,793,832
Office furniture and equipment			
Canada	179,021	101,736	77,285
India	239,374	51,377	187,997
	418,395	153,113	265,282
	\$ 25,507,708	\$ 448,594	\$ 25,059,114

At September 30, 2006, the cost of the Corporation's significant unevaluated properties and major development projects associated with the India cost center totaled \$5,403,000 (March 31, 2006 - \$4,771,000). During the six months ended September 30, 2006, direct overhead costs totaling approximately \$499,000 (2005 – approximately \$390,000) were capitalized relating to the Corporation's exploration, development and property acquisition programs in India.

On December 16, 2005, the Corporation executed a Production Sharing Contract with respect to the AA ONN-2003/2 Block. On February 16, 2006, a Petroleum Exploration Licence was issued by the state government that established the effective date of the Production Sharing Contract. The Corporation has a 30% participating interest in this block. As a result, the consortium is obligated to complete a minimum work program that includes 200 line kilometers of 2D and 100 sq. km. of 3D seismic acquisition and the drilling of seven exploration wells. The Corporation's costs for the drilling of seven exploration wells and the seismic program is estimated at US \$14.8 million (C\$16.56 million) to be expended over a three year period. Such capital commitments will be reduced by 50% on the completion of farm out of 15% of the block upon receipt of government approval which is anticipated before the end of 2006 (see note 8).

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

### 3. Property, plant and equipment

In August 2006, the Corporation elected to move into Phase III of the AA-ON/7 exploration block. As a result, the Company has committed to the drilling of one exploration well in the Assam portion of the block, at an estimated cost of US \$3.68 million (C\$ 4.11 million) net to the Company. In addition, the Company and its partner has proposed a minimum work program on the Nagaland portion of the block of 50 line kilometer of 2D seismic at an estimated cost of US \$1.5 million (C\$1.68 million) net to the Corporation.

### 4. Share capital

(a) Authorized

(i) Unlimited voting common shares, without nominal or par value; and

(ii) Unlimited non-voting preferred shares without nominal or par value.

(b) Common shares issued:

	Six months ended September 30, 2006		Year ended March 31, 2006	
	Number	Amount	Number	Amount
Balance, beginning of period	63,834,817	\$ 43,773,518	58,009,227	\$ 35,508,398
Issued for cash				
Private placement of common shares	29,160,000	26,023,933	603,000	500,490
Upon exercise of stock options	-	-	170,000	127,500
Upon exercise of warrants	-	-	5,052,590	5,942,104
Transfer of carrying value on exercise of:				
Share purchase warrants	-	-	-	1,603,975
Stock options	-	-	-	92,144
Share issue costs	-	(2,326,230)	-	(1,093)
Balance, end of period	92,994,817	\$ 67,471,221	63,834,817	\$ 43,773,518

On July 25, 2006, the Corporation closed a private placement of 29,160,000 common shares and 14,580,000 warrants to purchase common shares for an aggregate gross cash consideration of \$30,034,800. Certain directors and officers subscribed to an aggregate of 110,000 common shares and 55,000 warrants for an aggregate cash consideration of \$113,300.

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

### 4. Share capital (continued):

#### (c) Share purchase warrants issued:

	Six months ended September 30, 2006		Year ended March 31, 2006	
	Number	Amount	Number	Amount
Balance, beginning of period	10,000	\$ 4,183	8,629,186	\$ 3,182,957
Issued for cash				
Private placements	14,580,000	4,010,867	-	-
Broker warrants	1,895,400	521,413	-	-
Transfer of carrying value on exercise of warrants	-	-	(5,052,590)	(1,603,975)
Transfer of carrying value on expiry of warrants	(10,000)	(4,183)	(3,566,596)	(1,574,799)
	16,475,400	4,532,280	10,000	4,183
Warrant issue costs	-	(358,524)	-	-
Balance, end of period	16,475,400	\$4,173,756	10,000	\$ 4,183

	Six months ended September 30, 2006		Year ended March 31, 2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Warrants beginning of period	10,000	\$ 1.50	8,629,186	\$ 1.31
Granted				
Issued for cash	14,580,000	1.30	-	-
Issued to agent in connection with financing	1,895,400	1.30	-	-
Exercised				
For cash	-	-	(4,760,090)	1.15
For cash	-	-	(292,500)	1.60
Expired	-	-	(817,846)	1.15
Expired	(10,000)	1.50	-	-
Expired	-	-	(2,748,750)	1.60
Warrants, end of period	16,475,400	\$ 1.30	10,000	\$ 1.50

On July 25, 2006, the Corporation issued 14,580,000 warrants to purchase common shares of the Company at a price of \$1.30 per share as part of a private placement financing. Concurrently, the Corporation issued 1,895,400 warrants to a financing agent in connection with the financing on the same terms and conditions. These warrants expire on July 25, 2007.

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

### 4. Share capital (continued):

#### (d) Stock options

Under the Company's Stock Option Plan, options are granted over a five year term. Vesting is generally one third at the time of grant, one third a year from the date of grant and one third two years from the date of grant. Details of stock options are as follows:

	Six months ended September 30, 2006		Year ended March 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding options, beginning of period	4,545,000	\$ 1.83	3,041,667	\$ 2.62
Granted	3,855,000	1.16	2,235,000	0.91
Exercised	-	-	(170,000)	0.75
Expired	(100,000)	(2.92)	(561,667)	2.76
Outstanding options, end of period	8,300,000	\$ 1.51	4,545,000	\$ 1.83
Options exercisable, end of period	3,761,667	\$ 1.73	2,384,982	\$ 2.09

Options	Outstanding at September 30, 2006	Weighted Average remaining contractual life (Years)	Exercisable at September 30, 2006	Weighted Average remaining contractual life (Years)
Exercise Price				
\$0.50	150,000	4.10	50,000	4.10
\$0.75	125,000	2.10	125,000	2.10
\$0.80	400,000	4.20	133,333	4.20
\$0.87	1,325,000	4.10	441,665	4.10
\$1.02	100,000	4.80	33,333	4.80
\$1.16	3,475,000	4.90	1,158,335	4.90
\$1.22	280,000	4.60	93,333	4.60
\$1.25	250,000	2.80	250,000	2.80
\$1.26	85,000	4.40	36,667	4.40
\$1.30	100,000	2.50	100,000	2.50
\$1.37	200,000	3.80	133,333	3.80
\$1.50	25,000	3.70	16,667	3.70
\$1.75	850,000	3.00	566,667	3.00
\$4.34	935,000	3.40	623,334	3.40
	8,300,000	4.20	3,761,667	3.90

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

### 4. Share capital (continued):

(f) Stock-based compensation:

The fair value of each option granted during the periods indicated was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended September 30		Six months ended September 30,	
	2006	2005	2006	2005
Fair market value of stock				
Option granted (per option)	\$0.84-\$1.01	\$1.02	\$0.84-\$ 1.22	\$1.00-1.09
Expected volatility (range)	115%-131%	96%	115%-131%	93% - 96%
Risk free rate of return	4.0% - 4.2%	3.9%	4.0% - 4.3%	3.1% -3.9%
Expected option life (range)	5 Years	5 years	5 Years	5 Years
Forfeiture rate	17%	20%	17%	20% - 40%
Dividend yield	0%	0%	0%	0%

### 5. Contributed surplus:

Changes in contributed surplus during the periods indicated are as follows:

	Six months ended September 30, 2006	Year ended March 31, 2006
Balance, beginning of period	\$5,356,976	\$ 1,921,650
Stock-based compensation:		
Grant of options	1,365,433	1,952,671
Transfer of carrying value on exercise of stock options	-	(92,144)
Transfer of carrying value on expired warrants	4,183	1,574,799
	1,369,616	3,435,326
Balance, end of period	\$ 6,726,592	\$ 5,356,976

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

### 6. Geographic segmentation:

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

	Canada	India	Total
Six months ended September 30, 2006			
Revenue	\$ 301,615	\$ 1,083,318	\$ 1,384,933
Net loss	(1,634,835)	(1,093,366)	(2,728,201)
Additions to property, plant and equipment	7,115	2,615,177	2,622,292
As at September 30, 2006			
Total assets	\$ 29,895,569	\$ 30,709,564	\$ 60,605,133

	Canada	India	Total
Six months ended September 30, 2005			
Revenue	\$ 206,125	\$ -	\$ 206,125
Net loss	(1,464,687)	(194,132)	(1,658,819)
Additions to property, plant and equipment	8,984	8,189,283	8,198,267
As at September 30, 2005			
Total assets	\$ 10,771,798	\$ 19,710,214	\$ 30,482,012

	Canada	India	Total
Three months ended September 30, 2006			
Revenue	\$ 255,332	\$ 745,836	\$ 1,001,168
Net loss	(1,162,995)	(598,368)	(1,761,363)
Additions to property, plant and equipment	5,016	1,489,621	1,494,637

	Canada	India	Total
Three months ended September 30, 2005			
Revenue	\$ 89,092	\$ -	\$ 89,092
Net loss	(875,153)	(96,382)	(971,535)
Additions to property, plant and equipment	540	4,675,017	4,675,557

# CANORO RESOURCES LTD.

## Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

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### **7. 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 September 30, 2006, such guarantees and letters of credit issued by the Corporation's bankers amounted to \$3,408,013 (March 31, 2006 - \$2,327,030) for varying periods expiring between September 30, 2006 and November 30, 2007. This amount of cash and cash equivalents is restricted and 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.

### **8. Commitments**

On March 31, 2006, the Corporation entered into a Letter of Intent, whereby the Corporation is farming out a 15% participating interest in its AA-ONN-2003/2 exploration blocks in northeast India. On May 15, 2006, the Corporation entered into an Assignment Agreement to that effect subject to the satisfaction of certain conditions, including approval of the Government of India. The consideration for the assignment is 400,000 common shares of the publicly traded corporation from treasury and 200,000 options of the publicly traded company exercisable at a price of \$2.20 per option for a period of five years from the date of issue. As of November 27, 2006, the market value of such common shares was \$1,288,000 based on the closing price of \$3.22 per share. Partners in the block have approved the proposed transaction. The securing of government approval is required to complete the transaction and is in progress.

### **9. Economic Dependency**

All of the Corporation's crude oil production is sold to a publicly traded fortune 500 company. For the three and six month periods ended September 30, 2006, 55% and 59%, respectively, of the Corporation's total recorded revenue was derived from this customer. As at September 30, 2006, approximately 17% of accounts receivable was from this customer.

The bulk of the Corporation's natural gas revenue is sold to a corporation that is owned by the State of Assam, India. For the three and six month periods ended September 30, 2006, approximately 18% of the Corporation's total revenue was derived from this customer. As at September 30, 2006, approximately 2% of accounts receivable was from this customer.

# **CANORO RESOURCES LTD.**

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2006 and 2005  
(Unaudited)

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## **10. Related Party Transaction**

During the three months ended September 30, 2006, a law firm, in which one of the Corporation's directors is a partner, provided legal services to the Corporation. Fees and expenses totaled \$50,125 for such services all of which were paid during the three months ended September 30, 2006.