



MESSAGE TO SHAREHOLDERS

QUARTER ENDED DECEMBER 31, 2006

On November 19, 2006, Canoro began its five well drilling campaign, with the Amguri 10 well.

Amguri Development Block

At Amguri, appraisal drilling began in late November 2006 with the Amguri 10 well. On February 1, 2007, drilling operations were suspended to gather additional information as the drilling results did not match the original seismic model. The Company is conducting a vertical seismic profile to help calibrate the seismic model. In addition, three drill stem tests were performed on a Barail interval. Unfortunately, all of the tests were miss-runs. Management deemed it too risky to attempt a fourth drill stem test, and concluded that more information was required. The drilling rig is moving to the Sonakhet location on the AA-ON/7 block, to drill the Sonakhet exploration well. It is believed this will allow sufficient time to gather and analyze the additional data before returning to drilling operations at Amguri 10.

Effective April 2006, the Company began selling crude oil from its Amguri 5 and 6 wells in the Amguri development block in Assam, India. Natural gas sales commenced from the Amguri 6 well in June 2006. In October, the Company suspended gas from Amguri 8A due to excess water production, while remedial efforts are being investigated to bring the well back on stream. In October, Amguri 5 gas was tied in and is fulfilling the gas sales commitments of the Amguri 8A well. Production has been partially curtailed as a result of limited markets for the sale of associated gas by the off taker.

Canoro is entitled to receive crude oil price based upon world prices, and adjusted for quality and differentials. Currently, the company receives 70% of the monthly average Dated Brent with the top-up payment payable following completion of negotiations for selection of world crude benchmark. The Company has recorded 100% of the Dated Brent crude oil price for deliveries during the three months ended December 31, 2006 which amounted to \$67.82/bbl.

With respect to natural gas, the Company has been entitled to approximately Rs3,200 plus applicable royalties per 1,000 m³ with an energy value of 10,000 kilocalorie/m³ (approximately \$2.29/mcf). For gas sales from Amguri 8A well that have now been replaced by Amguri 5, the Company is entitled to receive Rs2,304 plus applicable royalties per 1000 m³ with an energy value of 10,000 kilocalorie/m³ (approximately \$1.65/mcf). Only 12,000 m³/d (426 mcf/d) is sold at this price. Any remaining gas is sold at the higher price. The heat value of the gas produced by the Company is averaging 10,500 kilocalorie/m³, increasing the price received.

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:

Sonakhet – Drilling operations on this first exploration well are expected to begin shortly. The well is planned to test the 16 km² Barail sub-crop prospect and a 15 km² basement high. The well is expected to be drilled to basement at a depth of 1,500 meters.

Dolakharia – The first well is planned to be drilled to basement at an approximate depth of 1,800 meters, testing a 40 km² 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 km² of Cretaceous prospect structurally higher than the Dergaon-1 well (which tested two gas zones during a reentry last year). This well is planned to be drilled to basement at an expected depth of 1,500 meters.

For the continued evaluation of the block, Canoro has initiated a program 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. Approximately 100 km of the 2D seismic will be in Assam and the remainder in Nagaland.

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 is continuing on the block. A few prospects have already been identified in the central part of the block and tendering 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 December 31, 2006, Canoro recorded total revenue of \$0.9 million principally from crude oil and natural gas sales. Expenses totaled \$2.5 million including operating costs and depletion resulting in a loss of \$1.6 million for the quarter. Cash deficiency from operations was \$34,000, a level significantly lower than last year. Cash capital expenditures, amounting to \$3.8 million were incurred during the

quarter on the three blocks principally for the start of the drilling program at Amguri and AA-ON/7. At December 31, 2006, the Company had cash resources of \$29.8 million, with \$5.7 million was restricted as collateral by the Company's bankers.

Business Development

Canoro participated in the latest exploration licensing round held by the Government of India on September 15, 2006. Canoro's bids for two blocks were unsuccessful, as bidding became extremely competitive. The Government of India is now getting ready to start the next exploration licensing round.

Canoro looks forward to the execution of the largest work program in its history during the year ending March 31, 2007.



Les Kondratoff
President and CEO



Douglas R. Martin
Chairman of the Board

February 26, 2007

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 nine months ended December 31, 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 assumptions underlying 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 assumptions 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 together with other risks typically associated with companies in the international and/or domestic oil and gas exploration and development industry. Factors such as timing of capital programs, timely access to facilities, partnership risk, 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 BOEs may be misleading, particularly if used in isolation.

The MD&A contains the term "funds generated from/used 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/used 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 nine months ended December 31, 2006. The MD&A is effective February 26, 2007. Additional information relating to the Company, including the Annual Information Form ("AIF"), is available on www.sedar.com or the company website www.canoro.com. Specific reference is made to the risk factors and industry conditions set out in the AIF.

All numbers are in Canadian dollars unless otherwise indicated

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 for its oil and gas operations with respect to production commencing April 1, 2006.

Results of Operations

	Three months ended December 31, 2006	Three months ended December 31, 2005	Nine months ended December 31, 2006	Nine months ended December 31, 2005
Daily average sales				
Crude oil (bbls/d)	77	-	86	-
Natural gas (mcf/d)	822	-	764	-
BOE/d	214	-	213	-
(\$ 000's)				
Net operating revenue	650	-	1,808	-
Royalties and cess	(51)	-	(132)	-
Interest income and other	599	-	1,676	-
Cash expenses	304	75	612	281
Operating	903	75	2,288	281
General and administrative	303	-	614	-
Realized foreign exchange loss (gain)	794	493	2,029	1,471
	(161)	22	(54)	83
	936	515	2,589	1,554
Funds generated from (utilized) in operations	(108)	(440)	(376)	(1,273)
Stock based compensation	561	590	1,742	1,377
Unrealized foreign exchange loss (gain)	(61)	8	(39)	20
Unrealized loss on investment	208	-	208	-
Depletion, depreciation and accretion	818	18	2,076	45
	1,526	616	3,987	1,442
Net loss	1,559	1,056	4,288	2,715

During the three and nine months ended December 31, 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. Natural gas sales commenced from the Amguri 6 well in June 2006. In October, the Company suspended gas from Amguri 8A due to excess water production, while remedial efforts are being investigated to bring the well back on stream. In October, Amguri 5 gas was tied in and is fulfilling the gas sales commitments of the Amguri 8A well. Production has been partially curtailed as a result of limited markets for the sale of associated gas by the off taker.

The Company is entitled to receive a crude oil price based upon world prices, adjusted for quality and differentials. The quality of the crude oil produced has been determined through assaying. Canoro is now negotiating with the refiner for the determination of the final price and applicable world crudes. Until the negotiation is complete, the Company receives a price equivalent to 70% of the monthly average for Dated Brent. A top-up payment for the remaining value is payable following completion of the negotiation. Based on the premium quality of the crude oil, the Company has recorded 100% of the crude oil price for deliveries during the nine months ended December 31, 2006.

With respect to natural gas, the Company has been entitled to approximately Rs3,200 plus applicable royalties per 1,000 m³ with an energy value of 10,000 kilocalorie/m³ (approximately \$2.29/mcf). For gas sales from Amguri 8A well that have now been replaced by Amguri 5, the Company is entitled to receive Rs2,304 plus applicable royalties per 1000 m³ with an energy value of 10,000 kilocalorie/m³ (approximately \$1.65/mcf). Only 12,000 m³/d (426 mcf/d) is sold at this price. Any remaining gas is sold at the higher price. The heat value of the gas produced by the Company is averaging 10,500 kilocalorie/m³, increasing the price received.

	Three months ended December 31, 2006	Nine months ended December 31, 2006
Total oil sales (bbls)	7,047	23,528*
Total gas sales (mmcf)	75,628	210,157
Total BOE sales (bbls)	19,652	58,554*
Average realized oil price/bbl	\$ 67.82	\$ 74.21
Average realized gas price/mcf	\$ 2.27	\$ 2.46
Average realized BOE price/bbl	\$ 33.05	\$ 34.48
Total operating revenue	\$ 649,529	\$ 1,807,667

*Sales for nine months include 6,125 barrels for production prior to April 1, 2006 that have been capitalized.

Royalties and Cess

Royalties on natural gas are assessed at 10% of well head value of gas and are borne by the buyer, a situation unique to India. The Company bears a royalty on crude oil sales of Rs528 per metric tonne. In addition, the Company bears cess at the rate of Rs900 per metric tonne for crude oil sales. Cess is a Government of India levy imposed on crude oil sales. The commingled crude oil is approximately 7.95 barrels per metric tonne. This would provide a combined year to date royalty and cess rate of approximately \$4.56/bbl. Total royalties and cess amounted to \$51,207 and \$132,437 for the three and nine months ended December 31, 2006, respectively.

Interest Income

During the three and nine months ended December 31, 2006, the Company earned \$304,274 and \$612,299 in interest income respectively compared with \$74,764 and \$280,889 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. These cash resources are typically invested in low risk money market funds or guaranteed investment certificates until they are utilized for the capital program.

Operating Expenses

The Company has established well site 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 transferred to a crude oil pipeline. Crude oil is then transmitted to a refinery at Guhawati, Assam. Natural gas from Amguri is sold at the block boundary to two different buyers by way of a pipeline. Total operating costs per BOE sold were \$15.42 and \$11.71 during the three and nine months ended December 31, 2006, respectively.

General and Administrative Expenses

The Company has its head office in Calgary, a project office in Delhi, India and a field office in Jorhat, Assam, India. General and administrative expenses amounted to \$793,737 and \$2,028,479 for the three and nine months ended December 31, 2006 respectively compared with \$492,653 and \$1,470,685 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 December 31, 2006, the Company had utilized funds from operations (before net change in non-cash working capital) of \$108,415 compared with \$439,942 for the same period last year. For the nine months ended December 31, 2006, the Company significantly reduced its cash deficiency from operations from \$1,272,644 last year to \$376,102 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 \$560,773 and \$1,741,439 for the three and nine months ended December 31, 2006, compared with \$589,943 and \$1,376,728 for the same period last year. In addition, stock based compensation of \$269,380 was capitalized during the nine months ended December 31, 2006.

Depletion, Depreciation and Accretion Expense

The Company has recorded depletion expense for the three and nine months ended December 31, 2006 based on 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 \$42.83/BOE for the nine months ended December 31, 2006. In addition, the Company has recorded accretion expense on asset retirement obligation as well as depreciation for non-oil and gas fixed assets.

Unrealized loss

The Company has reduced its interest in the AA-ONN-2003/2 exploration block through a farm out to Brownstone Ventures Inc. The Company transferred a 15% participating interest in the block for 400,000 Brownstone common shares and 200,000 options with a 5 year term. After valuing the shares and options on December 4, 2006, the date approval of the farm out was granted by the Government of India, Brownstone's share price decreased 16% at December 31, 2006. This resulted in an unrealized loss of \$208,145.

Net loss

The Company has recorded a net loss of \$1,559,286 and \$4,287,487 (\$.017 and \$.053 per diluted share) respectively for the three and nine months ended December 31, 2006. This compares with \$1,056,221 (\$0.018 per diluted share) and \$2,715,040 (\$0.046 per diluted share) for the same period last year.

Operations and Capital Expenditures

The Company's capital expenditures during the three and nine months ended December 31, 2006, amounted to \$5.5 million and \$7.6 million respectively compared with \$2.4 million and \$10.6 million for the same period in 2005. An analysis of capital expenditures for the three and nine months ended December 31, 2006 and 2005 is as follows:

	Three months ended December 31, 2006	Three months ended December 31, 2005	Nine months ended December 31, 2006	Nine months ended December 31, 2005
Amguri Development Block				
Intangible costs	4,515	1,626	5,105	2,795
Production equipment	252	173	757	365
	4,767	1,799	5,862	3,160
AA-ON/7 Exploration Block				
Exploration	416	619	966	7,301
AA-ONN 2003/2 Exploration Block				
Exploration	249	-	617	-
Other	27	22	156	178
Total	5,459	2,440	7,601	10,639

Amguri Development Block (60% operated interest)

At Amguri, appraisal drilling began in late November with the Amguri 10 well. On February 1, 2007, drilling operations were suspended to gather additional information as the drilling results did not match the original seismic model. The Company is conducting a vertical seismic profile to help calibrate the seismic model. In addition, three drill stem tests were performed on a Barail interval. Unfortunately, all of the tests were miss-runs. Management deemed it too risky to attempt a fourth drill stem test, and concluded that more information was required. The drilling rig was moved to the Sonakhet location on the AA-ON/7 block, to drill the Sonakhet exploration well. It is believed this will allow sufficient time to gather and analyze the additional data before returning to drilling operations at Amguri.

AA-ON/7 Exploration Block (65% operated interest)

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, and is planning to drill three exploration wells on the block during 2007.

The Company has initiated the 150 km 2D seismic acquisition program on the eastern side of the block, with 100 km to be acquired in Assam and 50 km in Nagaland. Canoro's share of the costs is expected to be \$3.4 million.

The Company expects to begin drilling operations at the Sonakhet exploration location shortly. The well is planned to an approximate depth of 1,500 meters and is expected to test two independent prospects. The drilling of this well is expected to meet all minimum work commitments on the block and Canoro's share of expected costs is \$3.5 million.

AA-ONN-2003/2 Exploration Block (15% non-operated interest)

The AA ONN-2003/2 Exploration Block became effective on February 16, 2006. As a result, the consortium is now obligated to complete a minimum work program that includes the acquisition of 200 km of 2D and 100 km² of 3D seismic and the drilling of seven exploration wells by February 15, 2009. The Corporation's total costs for this minimum work program are estimated at \$8.8 million over the three year period. On December 4, 2006, the farm out of 15% of Canoro's participating interest in the block to Brownstone Ventures Inc. was approved by the Government of India. The Corporation now has a 15% participating interest in this block.

On the AA-ONN 2003/2 block, the consortium has resumed operations to complete the balance on the 2D seismic acquisition program by the first quarter of 2007. The operator has indicated that drilling operations on the block are expected to begin during the fourth quarter of 2007.

Selected Quarterly Information

For the Quarters Ended

(\$000's) except per share amounts	Dec 31, 2006	Sep 30, 2006	Jun 30, 2006	Mar 31, 2006	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005
Revenue	903	1,001	384	54	75	89	117
Operating expense	303	170	141	-	-	-	-
General and administrative	794	751	484	722	493	565	413
Stock-based compensation	561	974	206	576	590	406	381
Funds generated (utilized) in operations	(108)	57	(324)	(727)	(440)	(537)	(295)
Net Loss	(1,559)	(1,761)	(967)	(1,249)	(1,056)	(972)	(687)
Basic and diluted net loss per share	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)
Capital expenditures	5,459	1,037	1,105	5,404	2,440	4,676	3,523

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 field office in Jorhat, Assam, India to undertake its work programs.

Liquidity and Capital Resources

During the nine months ended December 31, 2006, the Company utilized \$ 7,582,725 of cash on capital expenditures on its three blocks in India. This compares with \$10,611,478 incurred on capital expenditures for the same period last year. In addition, the Company set aside an additional \$5,709,446 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 \$376,102 in operations during the nine months ended December 31, 2006 compared with \$1,272,644 for the same period last year. In addition, the Company's accounts payable were substantially increased from \$1,141,826 at September 30, 2006 to \$4,050,861 at December 31, 2006 as a result of accrued liabilities for drilling operations on the Amguri 10 appraisal well.

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 nine months ended December 31, 2006 comprised of the receipt of \$274,936 on the issue of common shares on the exercise of warrants and stock options.

As compensation for the farm out of 15% of its participating interest in the AA-ONN-2003/2 Exploration Block, the Company received 400,000 shares of Brownstone Ventures Inc. (TSX.V:BWN) and 200,000 options for common shares. The options have an exercise price of \$2.20 per common share and expire on July 9, 2011. On December 31, 2006, Brownstone's closing share price was \$2.20 per common share.

As a result, the Company added net cash resources of \$18,508,651 during the period compared with a utilization of \$11,287,824 for the same period last year. At December 31, 2006, the Company had cash resources of approximately \$29.8 million of which \$5.7 million was restricted and utilized as collateral to corporation's bankers in connection with the issuance of bank guarantees and letters of credit.

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.

The Company has commenced receiving revenues from the sale of crude oil, condensate and natural gas from the Amguri 5 and 6 wells. The Company also has no long term debt.

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

	26-Feb-07	31-Dec-06	31-Mar-06
Common shares	93,361,063	93,208,050	63,834,817
Share purchase warrants	16,227,854	16,280,500	10,000
Stock options	8,294,633	8,395,000	4,545,000
Total – diluted	117,883,550	117,883,550	68,389,817

Risk Assessment

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

Consolidated Financial Statements of

CANORO RESOURCES LTD.

For the three and nine month periods ended
December 31, 2006 and 2005

CANORO RESOURCES LTD.

Consolidated Balance Sheets
(Unaudited)

	December 31, 2006	March 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 24,140,611	\$ 5,557,368
Investment (note 8)	1,201,536	-
Accounts receivable	2,226,133	3,407,094
Inventory	112,638	531,354
Prepaid expenses and deposits	136,322	266,340
	<u>27,817,240</u>	<u>9,762,156</u>
Restricted cash (note 7)	5,709,446	2,327,030
Property, plant and equipment (note 3)	29,344,871	25,059,114
	<u>\$62,871,557</u>	<u>\$ 37,148,300</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,050,861	\$ 4,193,638
Asset retirement obligations	48,170	46,740
Shareholders' equity		
Share capital (note 4)	67,804,546	43,773,518
Share purchase warrants (note 4)	4,124,933	4,183
Contributed surplus (note 5)	7,357,289	5,356,976
Deficit	(20,514,242)	(16,226,755)
	<u>58,772,526</u>	<u>32,907,922</u>
Future operations (note 1)		
Contingent liabilities (note 7)		
Commitments (note 3)		
	<u>\$ 62,871,557</u>	<u>\$ 37,148,300</u>

See accompanying notes to consolidated financial statements.

CANORO RESOURCES LTD.

Consolidated Statements of Operations and Deficit
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2006	2005	2006	2005
Revenue				
Oil, natural gas and natural gas liquids	\$ 649,529	-	\$ 1,807,667	-
Royalties	(51,207)	-	(132,437)	-
Interest income and other	304,274	74,764	612,299	280,889
	902,596	74,764	2,287,529	280,889
Expenses				
Operating	303,042	-	614,153	-
General and administrative	793,737	492,653	2,028,479	1,470,685
Stock-based compensation (notes 4 and 5)	560,773	589,943	1,741,439	1,376,728
Foreign exchange loss (gain)	(221,211)	30,715	(92,522)	103,498
Unrealized loss on investments (note 8)	208,145	-	208,145	-
Depletion, depreciation and accretion	817,396	17,674	2,075,322	45,018
	2,461,882	1,130,985	6,575,016	2,995,929
Net loss	(1,559,286)	(1,056,221)	(4,287,487)	(2,715,040)
Deficit, beginning of period	(18,954,956)	(13,921,459)	(16,226,755)	(12,262,640)
Deficit, end of period	\$ (20,514,242)	\$ (14,977,680)	\$ (20,514,242)	\$ (14,977,680)
Weighted average shares outstanding				
Basic and diluted	93,045,335	59,101,114	80,711,500	58,882,520
Net loss per share				
Basic and diluted	\$ (0.017)	\$ (0.018)	\$ (0.053)	\$ (0.046)

See accompanying notes to consolidated financial statements.

CANORO RESOURCES LTD.

Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2006	2005	2006	2005
Cash provided by (used in)				
Operations				
Net loss	\$ (1,559,286)	\$(1,056,221)	\$(4,287,487)	\$(2,715,040)
Add items not affecting cash				
Depletion, depreciation and accretion	817,396	17,674	2,075,322	45,018
Unrealized foreign exchange loss (gain)	(135,443)	8,662	(113,521)	20,650
Unrealized loss on investments	208,145	-	208,145	-
Stock-based compensation	560,773	589,943	1,741,439	1,376,728
	(108,415)	(439,942)	(376,102)	(1,272,644)
Net change in non-cash working capital	665,397	144,859	26,786	(342,409)
	556,982	(295,083)	(349,316)	(1,615,053)
Financing				
Issuance of common shares and warrants, net of costs	265,637	590,490	28,137,096	1,779,052
Investing				
Additions to property, plant and equipment	(5,459,288)	(2,440,241)	(7,601,332)	(10,638,508)
Restricted cash	(2,301,433)	-	(3,382,416)	-
Net change in non-cash working capital	4,183,110	(1,334,874)	1,704,619	(813,315)
	(3,577,611)	(3,775,115)	(9,279,129)	(11,451,823)
Increase (Decrease) in cash and cash equivalents	(2,754,992)	(3,479,708)	18,508,651	(11,287,824)
Effect of translation on foreign currency cash	74,592	-	74,592	-
Cash and cash equivalents, beginning of period	26,821,011	11,867,612	5,557,368	19,675,728
Cash and cash equivalents, end of period	\$24,140,611	\$8,387,904	\$24,140,611	\$ 8,387,904
Supplemental information:				
Interest received	\$259,640	\$ 73,588	\$556,999	\$ 280,893

See accompanying notes to consolidated financial statements.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

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 December 31, 2006, the Corporation had working capital of \$23,766,379 and had incurred a net loss of \$4,287,487 and utilized funds from operations, before non-cash working capital changes, totaling \$376,102 for the nine 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, except as set out below. 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.

Investments

Investments are stated at the lower of cost or market on a specific item basis.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

3. Property, plant and equipment

December 31, 2006	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties - India	\$31,394,884	\$2,409,452	\$28,985,432
Office furniture and equipment			
Canada	197,628	114,950	82,678
India	376,228	99,467	276,761
	573,856	214,417	359,439
	\$31,968,740	\$2,623,869	\$29,344,871

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 December 31, 2006, the cost of the Corporation's significant unevaluated properties and major development projects associated with the India cost center totaled \$6,129,611 (March 31, 2006 - \$4,771,000). During the three and nine months ended December 31, 2006, direct overhead costs totaling approximately \$411,000 and \$909,000 respectively (2005 – approximately \$171,000 and \$561,000 respectively) 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 had 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. On December 4, 2006 the Corporation reduced its interest to 15% in this block through a farm out to Brownstone Ventures Inc.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

3. Property, plant and equipment (continued)

The Corporation transferred a 15% participating interest in the block for 400,000 Brownstone common shares and 200,000 options exercisable at \$2.20 per common share with a 5 year term. The Corporation's costs for the drilling of seven exploration wells and the seismic program is estimated at \$8.8 million to be expended over a three year period.

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\$3.7 million (C\$4.1 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 km of 2D seismic at an estimated cost of US\$1.5 million (C\$1.7 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:

	Nine months ended 31-Dec-06		Year ended 31-Mar-06	
	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	18,333	21,566	170,000	127,500
Upon exercise of warrants	194,900	253,370	5,052,590	5,942,104
Transfer of carrying value on exercise of:				
Share purchase warrants	-	53,616	-	1,603,975
Stock options	-	14,682	-	92,144
Share issue costs	-	(2,336,139)	-	(1,093)
Balance, end of period	93,208,050	\$67,804,546	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 nine months ended December 31, 2006 and 2005
(Unaudited)

4. Share capital (continued):

(c) Share purchase warrants issued:

	Nine months ended December 31, 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	(194,900)	(53,616)	(5,052,590)	(1,603,975)
Transfer of carrying value on expiry of warrants	(10,000)	(4,183)	(3,566,596)	(1,574,799)
Warrant issue costs	16,280,500	4,478,664	10,000	4,183
		(353,731)	-	-
Balance, end of period	16,280,500	\$4,124,933	10,000	\$ 4,183

	Nine months ended December 31, 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	(194,900)	1.30	(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	16,280,500	\$ 1.30	10,000	\$ 1.50

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

4. Share capital (continued):

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.

(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:

	Nine months ended December 31, 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	4,005,000	1.18	2,235,000	0.91
Exercised	(18,333)	1.18	(170,000)	0.75
Expired	(136,667)	2.45	(561,667)	2.76
Outstanding options, end of period	8,395,000	\$ 1.51	4,545,000	\$ 1.83
Options exercisable, end of period	4,701,673	\$ 1.61	2,384,982	\$ 2.09

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

4. Share capital (continued):

Options	Outstanding at December 31, 2006	Weighted Average remaining contractual life (Years)	Exercisable at December 31, 2006	Weighted Average remaining contractual life (Years)
Exercise Price				
\$0.50	150,000	4.10	100,000	4.10
\$0.75	125,000	2.10	125,000	2.10
\$0.80	400,000	4.20	266,668	4.20
\$0.87	1,325,000	4.10	883,337	4.10
\$1.02	100,000	4.80	33,333	4.80
\$1.16	3,435,000	4.90	1,145,001	4.90
\$1.22	265,000	4.60	88,333	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
\$1.68	150,000	5.00	50,000	5.00
\$1.75	850,000	3.00	850,000	3.00
\$4.34	935,000	3.40	623,334	3.40
	8,395,000	4.20	4,701,673	3.90

(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 December 31		Nine months ended December 31,	
	2006	2005	2006	2005
Fair market value of stock				
Option granted (per option)	\$1.22	\$.50 - \$.87	\$0.84-\$1.22	\$0.50 - \$1.50
Expected volatility (range)	92%	114 - 127%	92% - 131%	93% - 127%
Risk free rate of return	3.75%	3.7% - 3.8%	3.7% - 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%

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

5. Contributed surplus:

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

	Nine months ended December 31, 2006	Year ended March 31, 2006
Balance, beginning of period	\$5,356,976	\$1,921,650
Stock-based compensation:		
Grant of options	2,017,399	1,952,671
Transfer of carrying value on exercise of stock options	(14,682)	(92,144)
Transfer of carrying value on cancellation of stock options	(6,587)	-
Transfer of carrying value on expired warrants	4,183	1,574,799
Balance, end of period	\$7,357,289	\$5,356,976

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
Nine months ended December 31, 2006			
Revenue	\$ 611,720	\$ 1,675,809	\$ 2,287,529
Net loss	2,665,274	1,622,213	4,287,487
Additions to property, plant and equipment	18,607	7,582,725	7,601,332
As at December 31, 2006			
Total assets	\$ 28,327,186	\$ 34,544,371	\$ 62,871,557

	Canada	India	Total
Nine months ended December 31, 2005			
Revenue	\$ 280,889	\$ -	\$ 280,889
Net loss	2,317,208	397,832	2,715,040
Additions to property, plant and equipment	27,030	10,611,478	10,638,508
As at March 31, 2006			
Total assets	\$ 6,131,747	\$ 31,016,553	\$ 37,148,300

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

	Canada	India	Total
Three months ended December 31, 2006			
Revenue	\$ 304,274	\$ 598,322	\$ 902,596
Net loss (income)	1,571,908	(12,622)	1,559,286
Additions to property, plant and equipment	\$ 11,492	5,447,796	\$ 5,459,288
Three months ended December 31, 2005			
Revenue	\$ 74,764	\$ -	\$ 74,764
Net loss	852,521	203,700	1,056,221
Additions to property, plant and equipment	\$ 18,046	2,422,195	\$ 2,440,241

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 December 31, 2006, such guarantees and letters of credit issued by the Corporation's bankers amounted to \$5,709,446 (March 31, 2006 - \$2,327,030) for varying periods expiring between December 31, 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. Investment

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. Partners in the block and the Government of India have approved the transaction on December 4, 2006. The value of the shares and options were recognized on December 4, 2006, the dated approval was received by the Government of India. The shares were valued at \$2.55, the closing price on December 4, 2006, and the options were valued at \$1.9595 option based on an expected volatility of 96%, risk-free rate of return of 3.75 % and expected option life of five years.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2006 and 2005
(Unaudited)

At the end of each financial reporting period, the Corporation recalculates the value of its investments in shares and estimates the value of its options based upon the quoted market prices obtained from recognized stock exchanges on that date. The shares and options were revalued at December 31, 2006 at \$2.20 and \$1.62, respectively for a total market value of \$1,201,536. This decrease in closing share price on December 31, 2006 has resulted in an unrealized loss of \$208,145.

9. Economic Dependency

All of the Corporation's crude oil production is sold to a publicly traded Fortune 500 company. For the three and nine month periods ended December 31, 2006, approximately 53% and 56% respectively, of the Corporation's total recorded revenue was derived from this customer. As at December 31, 2006, approximately 24% 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 nine month periods ended December 31, 2006, approximately 16% of the Corporation's total revenue was derived from this customer. As at December 31, 2006, approximately 6% of accounts receivable was from this customer.

10. Related Party Transaction

During the nine months ended December 31, 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. No fees or expenses were paid during the three months ended December 31, 2006 or the nine months ended December 31, 2005.