

**CANORO RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2007**

**SUMMARY OF QUARTERLY RESULTS**

<i>Thousands of Canadian dollars, except per share amounts</i>	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue <sup>(1)</sup>	1,309	822	589	648	721	349	-	-
Cash flow from/used in operating activities	286	84	378	557	(62)	(844)	136	(295)
Net Loss	(1,503)	(3,208)	(2,169)	(1,559)	(1,761)	(967)	(1,249)	(1,056)
Per share – basic and diluted <sup>(2)</sup>	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)
Capital expenditures <sup>(3)</sup>	174	5,383	8,686	5,459	1,037	1,105	5,404	2,440

(1) Total crude oil, natural gas and natural gas liquids

(2) Based on weighted average number of basic and diluted shares

(3) Based on booked capital expenditures

*The following Management's Discussion and Analysis ("MD&A") is dated November 20, 2007 and should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes of Canoro Resources Ltd. ("Canoro" or the "Company") as at and for the three and six months ended September 30, 2007. Additional information for the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at [www.canoro.com](http://www.canoro.com).*

*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", "believes" "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.

All numbers are in Canadian dollars unless otherwise indicated.

### **Background:**

On August 11, 1995, Canoro Resources Ltd. was amalgamated pursuant to the laws of the Province of British Columbia under the *Companies Act (British Columbia)* by the issuance of a Certificate of Amalgamation dated August 11, 1995 under the name Canoro Resources Ltd. The Company is the result of an amalgamation of Yellowjack Resources Ltd. and Golden Mammoth Resources Ltd. Pursuant to an Amalgamation Agreement dated April 18, 1995, the shareholders of Yellowjack received one common share of the Company for each 10 shares of Yellowjack held and the shareholders of Golden Mammoth received one common share of the Company for each 10 shares of Golden Mammoth. On October 16, 2001, the Company was continued under the *Business Corporations Act (Alberta)* and listed for trading on the TSX Venture Exchange. Canoro Resources Ltd. is, through a corporate branch, engaged in the acquisition, development and exploration for, and production and marketing of petroleum and natural gas in India. Presently, the Company holds three properties or Production Sharing Contracts (PSC) in the States of Assam, Nagaland and Arunachal Pradesh, India.

The Company currently has working interests in the following blocks:

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### **Producing PSCs**

Amguri Field - Assam	(60% interest acquired in 2004)
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### **Exploration PSCs**

AA-ON/7 – Assam and Nagaland	(65% interest acquired in 2003)
AA-ONN-2003/2 – Arunachal Pradesh*	(15% interest acquired in 2005)

\* On December 4, 2006 approval was granted by the Government of India, authorizing the Company to farm out 15% of its original 30% participating interest.

### **Strategy:**

The Company strives to create shareholder value through the acquisition, exploration and development of prospective oil and gas areas in Northeast India. The Company has achieved competitive advantages in this region by focusing on relationships, experience, technology and good international oilfield practices. While the competition for attractive development properties is intense, the Company believes that this strategy is viable and offers an attractive risk-reward ratio for shareholders. The Company focuses on areas where the management has long-standing experience and above-average relationships. Additionally, to mitigate risk, the Company has entered into joint ventures with partners who provide significant technical and/or financial resources.

## **Overview:**

The Company has concentrated on building its main operational and administrative infrastructure, as well as acquiring oil and gas properties in accordance with the Company's long-term strategic objectives.

## **Recent developments:**

### *Amguri 10B Appraisal Well*

On July 26, 2007, the Company announced that the Amguri 10B well encountered a 32 meter thick gas-condensate reservoir at a depth of 2,882 meters to 2,914 meters in the Barail formation. This interval is also approximately 26 meters higher and 12 meters thicker than the same sands in the producing Amguri 6 well.

The well was tested in two intervals with the lower 13 meter interval being tested first. This interval flowed at a clean-up test rate of 375 bbl/d of 50° API condensate and 1.1 mmcf/d of natural gas through a 12/64 inch choke and tubing head pressure of 2,200 psi with less than 5% BS&W.

On July 31, 2007, the Company announced it successfully completed testing operations on the upper interval (2,882 meters – 2,896 meters) of the Amguri 10B well. Due to difficulties in establishing stable flow rates in high pressure gas-condensate situations and having regard for testing equipment limitations and safety precautions, the well was not tested to its full potential. The well had a tested tubing head pressure of 2,500 psi with an 18/64 inch choke from both intervals. Management believes the well could produce in excess of 1,000 boe/d once connected to the production facilities.

### *Amguri 11 Appraisal Well*

On August 1, 2007, the Company announced it began drilling operations at the Amguri 11 appraisal location on the Amguri development block in Northeast India and on August 28, 2007, the Company announced that it drilled Amguri 11 through the Barail to a depth of 3,327 meters. Four successful tests were completed on the well after drilling to a total depth of 4,005 meters. On October 3, 2007 the Company announced that two new reservoirs have been confirmed.

The newly discovered mid-Barail reservoir was successfully tested through an eight meter perforation. This new reservoir flowed at a clean-up test rate of approximately 280 bbl/d of condensate and 2.1 mmcf/d of natural gas through a 16/64 inch choke with tubing head pressure of 2,500 psi. This new reservoir, at 200 meters below the Main Barail Sand, has an 11 meter pay zone. This equates to approximately 630 boe/d.

A seven meter interval, approximately 10 meters below the base of the Main Barail Sand, was perforated and flowed at approximately 180 bbl/d of condensate and 2.5 mmcf/d of natural gas through a 16/64 inch choke with tubing head pressure of 2,200 psi. This equates to approximately 600 boe/d.

On October 10, 2007, the Company announced it successfully completed all tests at Amguri 11. The Company perforated 28 meters of the 36 meter Main Barail Sand and flowed at a clean-up test rate as high as 450 bbl/d of condensate and 5.3 mmcf/d of natural gas through a 28/64 inch choke with tubing head pressure of 2,180 psi. This equates to 1,330 boe/d. This main reservoir is four meters thicker than at Amguri 10B and 17 meters thicker than Amguri 6.

A seven meter perforation, approximately 20 meters below the Main Barail Sand, was also tested and was also found to be hydrocarbon bearing. This interval flowed at a clean-up test rate of in excess of 280 bbl/d of condensate and 2.1 mmcf/d of natural gas through an 18/64 inch choke with a tubing head pressure of 2,250 psi. This equates to 630 boe/d. A complete test could not be conducted on this interval to determine its full capacity. With the two new reservoirs and the main sand (totaling 65 meters of net pay), this well flowed at a total of 1,190 bbl/d of condensate and 12 mmcf/d of natural gas. This equates to 3,190 boe/d.

Both Amguri 10B and Amguri 11 are in the process of extended production testing and infrastructure construction to tie-in these two wells and should be complete by the end of the year.

**Material agreements and subsequent events:**

On June 21, 2007, the Company announced that it has signed a Joint Study Agreement with Oil and Natural Gas Corporation Ltd. ("**ONGC**"), a corporation majority owned by the Government of India ("**GOI**"). This significant agreement has the following four main purposes:

- it strategically aligns the interests of ONGC and the Company, for exploration, development and production activities in six blocks held by ONGC in the State of Nagaland, India;
- it establishes a Joint Study Group with ONGC to review all available information and prepare recommendations for joint participation and operatorship in the blocks, along with the details of such joint participation;
- it explores the possibility of collaboration between ONGC and the Company in additional assets in Northeast India; and
- it provides for future participation in New Exploration Licensing Policy VII offerings in Northeast India.

Of the six blocks identified, there is one producing block and five exploration blocks. The producing block contains the Changpang field (a development block granted to ONGC on a nominated basis), which was suspended in 1994. Prior to the suspension of the field, Changpang was reported to be flowing in excess of 1,000 bbl/d of 30° API oil from four formations: Kopili, Sylhet, Basal Sandstone and fractured Basement.

The exploration blocks are:

- AA-ONN-2001/4 (a PSC awarded under NELP III and 645 km<sup>2</sup> in area);
- AA-ONN-2002/4 (a PSC awarded under NELP IV and 1,060 km<sup>2</sup> in area);
- SINGPHAN (an exploration block granted to ONGC on a nominated basis and 320 km<sup>2</sup> in area);
- BHAGTY-BHANDARI (an exploration block granted to ONGC on a nominated basis and 620 km<sup>2</sup> in area); and
- DIMAPUR (an exploration block granted to ONGC on a nominated basis and 650 km<sup>2</sup> in area).

On August 20, 2007, the Company announced it and ONGC concluded the technical evaluation and reached mutual agreement under a Joint Study Agreement for an initial work program to be conducted on the six Nagaland blocks referenced above. The initial work program provides for a reactivation of the Changpang oil field and 2D and 3D seismic acquisition on the five

exploration blocks. A regional socio-economic study in the areas affected by the six blocks was also conducted. Commercial terms are being negotiated to reach a definitive Memorandum of Understanding.

On September 20, 2007, the Company announced it entered into an agreement with a private fund based in Jersey, Channel Islands, that will provide limited-recourse funding of USD \$10,000,000 for appraisal and development drilling in the Company's Amguri Field in Assam, India. The funding will allow the Company to drill additional appraisal and development wells in the field, beyond Amguri 10B and Amguri 11 without accessing the equity markets. The fund will not have a participating interest in the field, nor will it be responsible for future capital costs. The fund will only receive repayments based on the Company's 60% share of gross revenue from the Amguri Field ranging from 7% before recovery of the original USD \$10,000,000 declining to 3.5% thereafter. The agreement also provides that the Company shall have a termination option between September 20, 2010, the third anniversary of the agreement, and December 31, 2012 to buy back the fund's entitlement for USD \$15,000,000 before recovery or USD \$12,750,000 after recovery of the fund's initial investment of USD \$10,000,000. If the termination option is exercised by the Company, the fund will be granted, subject to TSX approval, 5,000,000 warrants to acquire 5,000,000 common shares of the Company, exercisable within six months from the date of issue at CAD \$2.00 per share. If the Company declines to exercise the termination option in the above time period, the fund will retain its revenue entitlement to the Amguri field.

The Company has recorded this funding, after an exchange adjustment, as an account receivable at September 30, 2007 of \$9,948,000. On October 10, 2007 the Company received USD \$10,000,000 from the fund.

As at September 30, 2007 \$4,193,765 has been spent on appraisal and development of Amguri 11. The balance of this entitlement fund; \$5,819,235 is recorded in the current liabilities section of the balance sheet. See Note 5 in the Notes to Consolidated Financial Statements for the three and six months ended September 30, 2007. This fund is expected to be fully exhausted in the current year.

On October 12, 2007 the Company issued 185,000 common shares at \$1.38 per common share to a company controlled by an officer for \$255,300. These common shares are subject to a four month hold.

Also on October 12, 2007 the Company granted an aggregate of 1,100,000 options to purchase common shares for a five year term under the Company's Stock Option Plan to its directors, executive officers, employees and consultants at an exercise price of \$1.38 per common share acquired. The options will vest over a two year period.

On November 1, 2007 agreement was reached between the Company and its crude oil customer regarding a revised pricing mechanism. Previously, Dated Brent formed the basis of crude oil prices for invoicing purposes. Effective April 1, 2006, Nigerian Bonny Light becomes the bench mark crude oil price. The revised pricing mechanism also includes agreement on the final determination of quality and differentials. The total impact of this change has been recorded in the second quarter ended September 30, 2007. See the discussion below under Oil and gas revenue and Realized prices for further information.

### **Management changes:**

On August 7, 2007, the company announced the appointment of S. Brian Gieni as the Company's new Vice President, Finance and Chief Financial Officer, taking over from Rob

McInnis, the interim Chief Financial Officer. Rob McInnis is now focused on role of Vice President, Business Development and Corporate Affairs.

**Oil and gas revenue:**

As a result of higher levels of production of oil, natural gas and natural gas liquids, revenues increased 28% to \$926,647 in the second quarter 2007 from \$721,411 in the second quarter 2006. In addition, during the second quarter ended this year, the Company accrued an additional \$382,530 for the total incremental revenue attached to the revised pricing mechanism resulting in total revenue from oil, natural gas and natural gas liquids of \$1,309,176. On a year to date basis, revenue increased \$678,440 or 63% to \$1,748,390 in 2007 from \$1,069,950 for the same period in 2006. Including the incremental revenue attached to the revised pricing mechanism accrued during the second quarter this year, total revenue year to date this year from oil, natural gas and natural gas liquids is \$2,130,919.

For the three and six months ended September 30, 2007, 8,600 bbls and 16,268 bbls was sold as compared to 7,012 bbls and 10,365 bbls (net of the 6,125 bbls related to production prior to April 1, 2006 that was capitalized) for the same periods last year, and resulted in increases of 23% and 57%, respectively.

The Company's share of total gas sales during the three and six months ended September 30, 2007 was 111,333 mcf and 211,009 mcf as compared to 90,338 mcf and 135,975 mcf last year, increases of 23% and 55% respectively.

**Volumes and prices:**

	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2006</b>	<b>Six months ended September 30, 2007</b>	<b>Six months ended September 30, 2006<sup>(1)</sup></b>
Total oil sales (bbls)	<b>8,600</b>	7,012	<b>16,268</b>	16,490*
Total gas sales (mcf)	<b>111,333</b>	90,338	<b>211,009</b>	135,975
Total boe sales (bbls)	<b>27,155</b>	22,068	<b>51,436</b>	39,152
Average oil price/bbl <sup>(2)</sup>	<b>\$89.16</b>	\$85.15	<b>\$87.70</b>	\$84.55
Average gas price/mcf	<b>\$2.21</b>	\$1.98	<b>\$2.29</b>	\$1.86
Average sales per day				
Crude oil (bbls/d)	<b>94</b>	76	<b>89</b>	90*
Natural gas (mcf/d)	<b>1,210</b>	982	<b>1,153</b>	743
Average sales (boe/d)	<b>295</b>	240	<b>281</b>	214

(1) Crude oil sales for the six months ended September 30, 2006 include 6,125 barrels for production prior to April 1, 2006 that have been capitalized.

(2) Reflects the impact of the revised pricing mechanism, effective April 1, 2006

### **Realized prices:**

The Company is entitled to receive a crude oil price based on world prices, adjusted for quality and differentials. Based on the premium quality of the crude oil, the Company has recorded 100% of the crude oil price for all deliveries during the three and six months ended September 30, 2007. The Company only invoices based upon a price equivalent to 70% of the monthly average for Dated Brent. The remaining value (30%) is due following agreement on final quality and differentials.

On November 1, 2007 negotiations with the crude oil buyer were successfully completed and the Company shall now base its crude oil price on Nigerian Bonny Light. Nigerian Bonny Light is considered to be a more relevant benchmark price within the Indian market. In addition, the price mechanism quantifying the value of final quality and differential of the Company's crude oil has also been finalized. The new crude oil pricing mechanism is effective April 1, 2006 and has resulted in an additional revenue accrual of \$382,530 which represents the total incremental revenue to be charged to the customer for the period April 1, 2006 through September 30, 2007. The full amount has been accrued at September 30, 2007.

For the three months ending September 30, 2007, crude oil prices averaged \$89.16 per barrel. The revised pricing mechanism resulted in an additional \$86,081 of revenue or \$10.01 per bbl for the three months ended September 30, 2007. On a year to date basis, the crude oil price averaged \$87.70 per bbl sold. The impact of the revised pricing mechanism for the year to date period was \$160,961 or an additional \$9.89 per bbl.

For comparison purposes only, during the three months ending September 30, 2006, crude oil prices averaged a revised \$85.15 per bbl, including the impact of the revised pricing mechanism (\$49,520 or \$7.06 per bbl). For the six months ended September 30, 2006, crude oil prices averaged a revised \$84.55 per bbl, including the effect of the revised pricing mechanism (\$101,849 or \$9.83 per bbl).

Overall, natural gas prices averaged \$2.21 per mcf in the three month period ending September 30, 2007 compared to \$1.98 per mcf in the comparable 2006 quarter and \$2.29 per mcf for the six months ended September 30, 2007 compared to \$1.86 per mcf in the comparable period in 2006. The increase is attributed to a price increase for natural gas effective March 1, 2007, to Rs 3,840 per 1000 m<sup>3</sup> (currently approximately \$2.73/mcf), with an energy value of 10,000 kilocalorie /m<sup>3</sup>. Prior to this, the Company received Rs 3,200 per 1000 m<sup>3</sup> for approximately 70% of its share of natural gas sold. For gas sales from Amguri 5 well, the Company receives 60% of this price or 2,304 Rs per 1000 m<sup>3</sup>, currently approximately \$1.64/mcf.

### **Royalties and cess:**

The Company bears a royalty on crude oil sales of 528 Rs per metric tonne (approximately \$1.70 per bbl at fiscal year to date average exchange rates). In addition, the Company bears cess currently at the rate of 927 Rs per metric tonne (approximately \$3.03 per bbl) for crude oil sales. Cess is a Government of India levy imposed on crude oil sales. Total royalties and cess on crude oil amounted to \$41,117 or \$4.73/bbl for three months ended September 30, 2007 and \$32,603 or \$4.65/bbl sold last year for the same period. Year to date, total royalties and cess is \$77,589 or \$4.73/bbl compared to \$47,200 or \$4.55 /bbl sold for the same period last year. Differences in royalties per bbl are attributed to a combination of fluctuating exchange rates and an Rs 9 per tonne increase in cess, effective April 1, 2004.

Royalties on natural gas are assessed at 10% of well head value of gas and are borne by the purchaser of the natural gas.

**Interest income:**

During the three and six months ended September 30, 2007, the Company earned \$129,992 and \$309,322 respectively in interest income compared to \$258,202 and \$308,025 for the same periods last year.

**Operating expenses:**

Operating costs were \$147,453 in the three month period ending September 30, 2007 compared to \$169,761 for the same period last year and \$349,674 for the six months ended September 30, 2007, compared to \$311,111 last year for the same period. Operating costs were \$5.44 per barrel of oil equivalent (boe) and \$6.99 per boe for three and six months ended September 30, 2007 compared to \$7.70 per boe and \$9.49 per boe for the same periods last year. An increase in net operating costs this year of approximately \$39,000 is more than offset by higher levels of production, year over year.

**General and administrative expenses:**

General and administrative expenses amounted to \$1,202,788 in the second quarter compared to \$750,783 in the comparative period and \$1,792,344 compared to \$1,234,742 in the six months ended September 30, 2007 compared to the same period last year. The increase is primarily due to increased personnel costs, including salaries, bonus, and contract labour and professional services resulting from the company's continued focus on building its operational and administrative infrastructure to support the company's growth.

**Stock based compensation expense:**

Stock based compensation expense results from the grant of options under the Company's stock option plan. This year, for the three and six months ended September 30, 2007, the expense amounted to \$309,715 and \$538,130 respectively. This compares to \$974,363 and \$1,180,666 for the same periods last year. In addition, stock based compensation of \$74,385 was capitalized during the six months ended September 30, 2007 as compared to \$184,767 for the same period last year.

**Depletion, depreciation and accretion expense:**

Depletion, depreciation and accretion is \$412,691 for the second quarter of fiscal 2007 compared to \$868,330 last year for the same period and \$2,430,295 for the six months ended September 30, 2007 compared to \$1,257,926 last year. Based upon internal engineering estimates of the proved reserves of the Amguri fields in northeast India, depletion expense amounts to approximately \$8.87 per boe for the second quarter this year as compared to \$37.92 per boe last year for the same period. This change is primarily as a result of increased proved reserves for the Amguri 10B and 11 major discoveries announced in the second quarter of 2007.

In addition, the Company has recorded accretion expense on asset retirement obligation as well as depreciation for non-oil and gas fixed assets. For the three and six months ended September 30, 2007, accretion expense was \$453 and \$907 respectively, compared to \$477 and \$954 for the same periods last year.

**Net loss:**

Net loss for the second quarter ending September 30, 2007 was \$1,503,302 or \$0.02 per share compared to a net loss of \$1,815,521 or \$0.02 per share in the same quarter last year. Year to date September 30, 2007, net loss is \$4,710,907 or \$0.05 per share compared to \$2,782,359 or \$0.04 per share for the same period last year. Year to date, higher oil and gas revenue attributed to higher production has only partially offset higher General and Administration expenses, foreign exchange losses and increased depletion, depreciation and accretion.

**Cash flow:**

The Company generated \$285,832 of cash from operating activities in the second quarter 2007, as compared to \$115,896 of cash used in operations last year for the same period. On a year to date basis, the Company has generated \$370,156 of cash from operating activities as compared to \$960,456 used in operations last year for the same period.

**Operations and capital expenditures:**

The Company's total capital expenditures during the three and six months ended September 30, 2007 amounted to \$174,000 and \$5,557,000 compared to \$1,495,000 and \$2,623,000 for the same periods last year. A breakdown of the capital expenditures for the three and six months ended September 30, 2007 and 2006 is as follows:

<i>(Thousands of CAD dollars)</i>	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2006</b>	<b>Six months ended September 30, 2007</b>	<b>Six months ended September 30, 2006</b>
Amguri Development Block				
Drilling costs Amguri 10B and 11	<b>4,043</b>	630	<b>5,393</b>	979
Production equipment	<b>92</b>	58	<b>104</b>	505
Entitlement funds applied	<b>(4,194)</b>		<b>(4,194)</b>	
	<b>(59)</b>	688	<b>1,303</b>	1,484
AA-ON/7 Exploration Block				
Exploration	<b>(66)</b>	463	<b>3,449</b>	642
AA-ONN- 2003/2 Exploration Block				
Exploration	<b>271</b>	234	<b>767</b>	368
Other	<b>32</b>	110	<b>49</b>	129
	<b>178</b>	1,495	<b>5,568</b>	2,623
Asset Retirement Costs	<b>(4)</b>	-	<b>(11)</b>	-
Total	<b>174</b>	1,495	<b>5,557</b>	2,623

**Liquidity and capital resources:**

At September 30, 2007 the Company had \$13,134,424 net working capital, including cash and cash equivalents of \$13,405,557.

During the three months ended September 30, 2007, Export Development Canada undertook to guarantee the obligations of the Company regarding bank instruments issued on behalf of the Company for performance guarantees. Therefore, \$5,872,000 of cash resources set aside by the Company at June 30, 2007 as collateral to its bankers in connection with the above is no longer required. See Note 10 on Restricted Cash in the Notes to the Consolidated Financial Statements for the three and six months ended September 30, 2007 and 2006.

On December 4, 2006 the Company reduced its interest to 15% in the AA ONN-2003/2 Block through a farm out. As compensation for the farm out of its participating interest in this block, the Company received 400,000 common shares of Brownstone Ventures Inc. (TSX.V: BWN) and 200,000 options for common shares. During July 2007, the Company sold all of the common shares at prices ranging from \$1.80 to \$1.90 per common share for total net proceeds of \$739,797. The Company continues to hold 200,000 Brownstone options with a carrying value of \$248,651 at September 30, 2007. See Note 8 Investment in the Notes to Consolidated Financial Statements for the six months ended September 30, 2007 and 2006.

On July 26, 2007, all share purchase warrants currently outstanding, expired.

During the six months ended September 30, 2007, the Company did not issue any common shares.

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

	<b>November 20, 2007</b>	<b>September 30, 2007</b>	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Common shares	93,657,439	93,472,439	93,472,439	63,834,817
Share purchase warrants	-	-	16,227,854	10,000
Stock options	8,770,000	7,670,000	7,395,000	4,545,000
Total – fully diluted	<b>102,427,439</b>	<b>101,142,439</b>	<b>117,095,293</b>	<b>68,389,817</b>

**Risk and uncertainties:**

Exploration and Development

The exploration and development of oil and gas deposits involve a number of uncertainties that even thorough evaluation, experience and knowledge of the industry cannot eliminate. It is impossible to guarantee that the exploration programs of the Company's properties will generate economically recoverable reserves. The commercial viability of a new hydrocarbon pool is dependent upon a number of factors which are inherent to reserves, such as the content and the proximity of infrastructure, as well as oil and gas prices which are subject to considerable volatility, regulatory issues such as price regulation, taxes, royalties, import and export of oil and gas and environmental protection issues. The individual impact generated by

these factors cannot be predicted with any certainty but, once combined, may result in non-economic reserves. The Company remains subject normal risks inherent to the oil and gas industry such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations.

### Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally

incidental to exploration, development and production of resources, any of which could result in work stoppages, damages to persons or property and possible environmental damage. Although the Company has obtained liability insurance in an amount it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

### Reserve Estimates

Despite the fact that the Company has reviewed the estimated figures related to potential reserve evaluation and probabilities attached thereto and it is of the opinion that the methods used to appraise these estimates are adequate, these figures remain estimates, even though they have been calculated or validated by independent appraisers. The reserves disclosed by the Company should not be interpreted as assurances of property life or the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable oil and gas reserves.

### Fluctuating Prices

Revenues from oil and gas sales vary accordingly to the existence of cost recovery pool balances. As of September 30, 2007 the Company had approximately \$41.6 million in unrecovered historical costs, to which must be added the capital expenditures and operating expenses of future years. The Company's revenues, if any, are expected to be in large part derived from the extraction and sale of oil and gas. The price of oil has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of oil, and therefore the economic viability of any of the Company's exploration projects, cannot be accurately predicted.

### Environmental Factors

All phases of the Company's operations are subject to environmental regulation in India. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines, and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies

and their officers, directors and employees. The current exploration, development and production activities of the Company require certain permits and licenses from the DGH and other governmental agencies and such operations are and will be governed by laws and regulations governing exploration, development and production, labor laws, waste disposal, land use, safety, and other matters. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulation would not have an adverse effect on any project that the Company may undertake.

#### Political Risk

The Company's projects are located in northeast India and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic unrest which may result in the disruption of exploration and development activities. The states of Assam, Nagaland and Arunachal Pradesh are home to strong independence movements. Over the past several years varying degrees of social upheaval and criminal activity has occurred related to these independence movements. While the situation is presently stable and the Company has exceptional relationships in these areas, there can be no guarantee that the company will not be affected. Additionally, the continued perception that the situation has not stabilized or improved may hinder the Company's ability to access capital in a timely or cost effective manner.

#### Retention of Key Employees

The Company is dependent on retaining the services of a small number of key personnel of the appropriate caliber as its business develops. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management and the loss of one or more could have a materially adverse effect on the Company.

#### Exchange Rate Volatility

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar and the Indian Rupee (INR) are not equivalent; the Company is exposed to exchange rate risk. In India, the Company is exposed to the extent that USD dollar revenues for crude oil sales do not equal USD dollar expenditures and that INR revenues from natural gas sales do not equal INR expenditures. The Company is not currently using exchange rate derivatives to manage exchange rate risk.

#### Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. Depending on the future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favorable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit or forego various opportunities.

## Repatriation of earnings

Currently there are no restrictions on the repatriation from India of earnings to foreign entities. However, there can be no assurance those restrictions on repatriation of earnings from India will not be imposed in the future.

## Disruptions in Production

Other factors affecting the production and sale of oil and gas that could result in decreases in profitability include: (i) expiration or termination of permits or licenses, or sales price redeterminations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) changes in the market and general economic conditions, Monsoon conditions, equipment replacement or repair, fires or other unexpected geological conditions that can have a significant impact on operating results.

### **Critical accounting policies / critical accounting estimates:**

The Company's financial statements are prepared in accordance with Canadian GAAP, which require management to make judgments, estimates and assumptions, which may have significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in note 3 of the Company's interim consolidated financial statements for the period ending September 30, 2007. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

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, (*cess, a Government of India levy on oil sales*), and 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. In October 2006, the Company suspended gas from Amguri 8A due to excess water production. Amguri 5 gas was tied in during October 2006 and is fulfilling the gas sales commitments of the Amguri 8A well. As a result, the Company began recording sales, operating revenues, royalties, cess, operating and depletion expenses with respect to its oil and gas production commencing April 1, 2006.

Effective April 1, 2007, the Company adopted new Canadian accounting standards for "Financial Instruments – Recognition and Measurement", "Hedges", "Comprehensive Income", and "Financial Instruments – Disclosure and Presentation". The Company adopted these standards prospectively and the comparative consolidated financial statements have not been restated. See Note 3 in the Notes to Consolidated Financial Statements for the three and six months ended September 30, 2007 and 2006.

### **Regulatory policies:**

#### *Certification of disclosures in Annual and Interim Filings*

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company annually issues a "Certification of Annual Filings" ("Certification"). The

Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures, have designed such procedures and evaluated their effectiveness as of the end of the period covered by these annual filings.

The certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, believe the disclosure controls and procedures provide a reasonable assurance that information required to be disclosed by the Company in these annual filings is recorded, processed, summarized and reported within the time periods specified and the controls and procedures ensure that the information required to be disclosed by the Company is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In addition, the certifying officers of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Following a full review of the operations in India and with the view of expanding the reporting capabilities, the Company has initiated work to improve and modernize the systems and controls to ensure they remain consistently applied. Management and the Board of Directors are working to mitigate the risk of material misstatement in financial reporting; however there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. The Company has continually had in place systems relating to internal control over financial reporting and will continue to monitor internal controls as the Company's business evolves.

The certifying officers have evaluated the design of the Company's internal control over financial reporting. Based on this evaluation as of September 30, 2007, the certifying officers have concluded that the Company's internal control over financial reporting, as defined in 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting for the quarter ended September 30, 2007, in accordance with Canadian GAAP. There has been no change in the Company's internal control over financial reporting that occurred during the most recent completed quarter that has materially affected the Company's financial reporting.

**Outlook:**

With the success of Amguri 10B and Amguri 11 (see press release dated July 26, 2007 and October 10, 2007), the Company is committed to completing the appraisal drilling in the Amguri Field and, if successful, moving towards a full field development proposal to the Government of India ("GOI"). Upon approval by the GOI, the Amguri capital budget for 2008 fiscal year is expected to be approximately \$30,000,000 net to the Company with the drilling of six development wells and 2 additional appraisal wells to test the reservoir high in the field and construction of the associated production facilities. The Company is also committed to increasing its land holdings in the focus areas of Assam, Nagaland and Arunachal Pradesh and continues to evaluate available opportunities, including signing a JSA with ONGC to review five exploration blocks and one production block currently held by ONGC in Nagaland. These evaluations, if successful, will further enhance opportunities for reserves and production growth in India.

Consolidated Financial Statements of

**CANORO RESOURCES LTD.**

For the three and six months ended  
September 30, 2007 and 2006

# CANORO RESOURCES LTD.

Consolidated Balance Sheets (unaudited)

	September 30, 2007	March 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,405,557	\$ 15,023,935
Investment (note 8)	248,651	1,201,536
Accounts receivable	13,292,596	7,563,564
Inventory	27,746	166,263
Prepaid expenses and deposits	100,771	121,961
	<u>27,075,321</u>	<u>24,077,259</u>
Restricted cash (note 10)	-	7,009,774
Property, plant and equipment (note 4)	40,304,631	37,043,615
	<u>\$ 67,379,952</u>	<u>\$ 68,130,648</u>

## Liabilities and Shareholders' Equity

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 8,121,662	\$ 10,582,416
Entitlement fund (note 5)	5,819,235	-
Asset retirement obligations	60,802	71,587
Shareholders' equity:		
Common shares (note 6)	68,271,316	68,271,316
Share purchase warrants (note 6)	-	4,110,696
Contributed surplus (note 7)	12,500,457	7,777,246
Deficit	<u>(27,393,520)</u>	<u>(22,682,613)</u>
	53,378,253	57,476,645
Future operations (note 1)		
Commitments (note 4)		
Restricted cash (note 10)		
Contingent liabilities (note 11)		
Subsequent events (note 13)		
	<u>\$ 67,379,952</u>	<u>\$ 68,130,648</u>

See accompanying notes to consolidated financial statements.

Approved by the Board:

Signed "Douglas R. Martin" Director

Signed "Harley L. Winger" Director

# CANORO RESOURCES LTD.

Consolidated Statements of Operations and Deficit (unaudited)

	Three months ended September 30		Six months ended September 30	
	2007	2006	2007	2006
Revenue:				
Oil, natural gas and natural gas liquids	\$ 1,309,176	\$ 721,411	\$ 2,130,919	\$ 1,069,950
Royalties	(41,117)	(32,603)	(77,589)	(47,200)
Interest income and other	129,992	258,202	309,322	308,025
	1,398,051	947,010	2,362,652	1,330,775
Expenses:				
Operating	147,453	169,761	349,674	311,111
General and administrative	1,202,788	750,783	1,792,344	1,234,742
Stock-based compensation	309,715	974,363	538,130	1,180,666
Foreign exchange loss (gain)	904,162	(706)	1,750,028	128,689
Unrealized investment (gain)/loss	(47,659)	-	240,885	-
Investment (gain)/loss	(27,797)	-	(27,797)	-
Depletion, depreciation and accretion	412,691	868,330	2,430,295	1,257,926
	2,901,353	2,762,531	7,073,559	4,113,134
Net loss	(1,503,302)	(1,815,521)	(4,710,907)	(2,782,359)
Deficit, beginning of the period	(25,890,218)	(17,193,593)	(22,682,613)	(16,226,755)
Deficit, end of the period	\$ (27,393,520)	\$ (19,009,114)	\$ (27,393,520)	\$ (19,009,114)
Weighted average shares outstanding				
Basic and diluted	93,472,439	85,820,772	93,472,439	75,057,517
Net loss per share:				
Basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.04)

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	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Net loss	\$ (1,503,302)	\$ (1,815,521)	\$ (4,710,907)	\$ (2,782,359)
Add items not involving cash from operations:				
Depletion, depreciation and accretion	412,691	868,330	2,430,295	1,257,926
Unrealized foreign exchange loss	1,280,336	(24,567)	1,642,728	21,922
Crude oil inventory write down to lower of cost or market	(38,117)	-	-	-
Unrealized investment (gain)/loss	(47,659)	-	240,885	-
Investment (gain)/loss	(27,797)	-	(27,797)	-
Stock-based compensation	309,715	974,363	538,130	1,180,666
Net change in non-cash working capital	(100,035)	(118,501)	256,822	(638,611)
	285,832	(115,896)	370,156	(960,456)
Financing:				
Issuance of common shares and warrants, net of costs	-	27,871,459	-	27,871,459
Investments:				
Additions to property, plant and equipment	(144,894)	(1,035,968)	(5,494,278)	(2,142,044)
Restricted cash	5,872,092	162,856	7,009,774	(1,080,983)
Proceeds on sale of investments	739,797	-	739,797	-
Net change in non-cash working capital	86,778	(1,702,493)	(2,711,642)	(2,478,491)
	6,553,773	(2,575,605)	(456,349)	(5,701,518)
Increase/(decrease) in cash and cash equivalents	6,839,605	25,179,958	(86,193)	21,209,485
Effect of translation on foreign currency cash	(1,176,489)	-	(1,532,185)	-
Cash and cash equivalents, beginning of period	7,742,441	1,586,895	15,023,935	5,557,368
Cash and cash equivalents, end of period	\$ 13,405,557	\$ 26,766,853	\$ 13,405,557	\$ 26,766,853
Supplemental information:				
Interest received	\$ 129,991	\$ 246,032	\$ 326,044	\$ 297,359

See accompanying notes to consolidated financial statements.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2007 and 2006 (unaudited)

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## **General:**

Canoro Resources Ltd. (the "Company") was incorporated under the Companies Act (British Columbia) and 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.

### **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 Company 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, 2007, the Company had working capital of \$13,134,424 and had incurred a net loss of \$4,710,907 and generated \$370,156 of cash from operating activities for the six months then ended. The application of the going concern concept is dependent upon the Company'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 assumption is not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the consolidated financial statements.

### **2. 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, 2007. 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, 2007. Certain of the comparative amounts have been reclassified to conform to current period presentation.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 2

For the three and six months ended September 30, 2007 and 2006 (unaudited)

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### 3. Changes in accounting policies:

#### (i) Financial Instruments, hedging activities and comprehensive income

Effective April 1, 2007, the Company adopted new Canadian accounting standards for "Financial Instruments – Recognition and Measurement", "Hedges", "Comprehensive Income", and "Financial Instruments – Disclosure and Presentation". The Company adopted these standards prospectively and the comparative consolidated financial statements have not been restated.

#### (ii) Financial Instruments – recognition and measurement

The new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. The financial instruments recognized on the balance sheet consist of cash and short term investments, accounts receivable, accounts payable and accrued liabilities. ("Financial instruments"). The fair value of these financial instruments approximates their carrying amounts due to their short terms to maturity.

#### (iii) Derivatives

The Company does not utilize financial derivatives or non-financial derivatives such as commodity sales contracts requiring physical delivery to manage the price risk attributable to anticipated sale. As the Company had no financial derivatives at the current time, no changes were required in the financial statements. The Company did not identify any material embedded derivatives which require separate recognition and measurement.

The Company will elect to account for its commodity sales contracts when entered into and to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executor contracts on an accrual basis rather than as a non-financial instrument. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall into the scope of the definition of a financial instrument and were accounted for as executor contracts.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 3

For the three and six months ended September 30, 2007 and 2006 (unaudited)

## 3. Changes in accounting policies: (continued)

### (iv) Other comprehensive income

The new standard requires a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which for the Company, relates to changes in gains or losses on derivatives designated as cash flow hedges. The Company had no derivatives during the second quarter ended September 30, 2007.

## 4. Property, plant and equipment:

Six months ended September 30, 2007	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties			
India	\$ 45,961,879	\$ 6,006,896	\$ 39,954,983
Office furniture and equipment			
Canada	206,463	127,968	78,495
India	424,183	153,030	271,153
	630,646	280,998	349,648
	\$ 46,592,525	\$ 6,287,894	\$ 40,304,631
Year ended March 31, 2007			
Petroleum and natural gas properties			
India	\$ 40,454,377	\$ 3,756,704	\$ 36,697,673
Office furniture and equipment			
Canada	197,629	119,383	78,246
India	383,547	115,851	267,696
	581,176	235,234	345,942
	\$ 41,035,553	\$ 3,991,938	\$ 37,043,615

At September 30, 2007, the cost of the Company's significant unevaluated properties and major development projects associated with the India cost center totaling \$4,388,000 (March 31, 2007 \$4,305,000) have been excluded from depletion. During the six months ended September 30, 2007, direct overhead costs totaling \$586,000 (2006 – \$499,000) were capitalized relating to the Company's exploration, development and property acquisition programs in India.

On December 16, 2005, the Company 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 Company has a 15% 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 km<sup>2</sup> of 3D seismic acquisition and the drilling of seven exploration wells. The Company's

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 4

For the three and six months ended September 30, 2007 and 2006 (unaudited)

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estimated costs for the drilling of seven exploration wells and the seismic program is \$8,800,000 to be expended over a three year period.

The Company has a 60% interest in and is the operator of the 53 km<sup>2</sup> Amguri development block, in the State of Assam, India. There have been nine wells drilled in the Amguri Block over the years. The PSC has a 25-year term with the option for extensions.

A joint operating agreement, dated May 5, 2004, was entered into between ACL (The Assam Company Limited) and the Company for the Amguri block in Assam, India for their respective participating interests of 40% and 60%.

## 5. Entitlement fund:

On September 20, 2007 the Company entered into an agreement with a private fund based in Jersey, Channel Islands, whereby the fund will provide limited-recourse funding of USD \$10,000,000 for appraisal and development drilling in the Company's Amguri Field in Assam, India.

This funding will allow the Company to drill additional appraisal and development wells in the field, beyond Amguri 10B and Amguri 11, without accessing the equity markets. The fund will not have a participating interest in the field, nor will it be responsible for future capital costs. The fund will only receive repayments based on the Company's 60% share of gross revenue from the Amguri Field ranging from 7% before recovery of the original USD \$10,000,000 declining to 3.5% thereafter. The agreement also provides that the Company shall have a termination option between September 20, 2010, the third anniversary of the agreement, and December 31, 2012 to buy back the fund's entitlement for USD \$15,000,000 before recovery, or for USD \$12,750,000 after recovery of the fund's initial USD \$10,000,000. If this termination option is exercised by the Company, the fund will be granted, subject to TSX approval, 5,000,000 warrants to acquire 5,000,000 common shares of the Company, exercisable within six months from the date of issue at an exercise price of CAD \$2.00 per common share. If the Company declines to exercise the termination option within the stated time period, the fund will retain its revenue entitlement to the Amguri field.

The Company has recorded this funding as an account receivable, after an adjustment for exchange at September 30, 2007, of \$9,948,000. On October 10, 2007 the Company received USD \$10,000,000 from the fund.

As at September 30, 2007 \$4,193,765 has been expended on appraisal and development drilling of Amguri 11. The balance of this entitlement fund has been recorded in the current liabilities section of the balance sheet and will be spent in the current year.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 5

For the three and six months ended September 30, 2007 and 2006 (unaudited)

## 6. Share capital:

### (a) Authorized:

Unlimited voting common shares, without nominal or par value;

Unlimited share purchase warrants; and

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

### (b) Common shares issued:

	Six Months Ended September 30, 2007		Year Ended March 31, 2007	
	Number	Amount	Number	Amount
Balance, beginning of period	93,472,439	\$ 68,271,316	63,834,817	\$ 43,773,518
Issued for cash:				
Private placement of common shares			29,160,000	26,023,933
Upon exercise of stock options			230,076	250,400
Upon exercise of warrants			247,546	321,810
Transfer of carrying value on exercise of:				
Share purchase warrants			-	68,099
Stock options			-	167,625
	93,472,439	68,271,316	93,472,439	70,605,385
Share issue costs	-	-	-	(2,334,069)
Balance, end of period	93,472,439	\$ 68,271,316	93,472,439	\$ 68,271,316

### (c) Share purchase warrants:

	Six Months Ended September 30, 2007		Year Ended March 31, 2007	
	Number	Amount	Number	Amount
Balance, beginning of period	16,227,854	\$ 4,110,696	10,000	\$ 4,183
Issued for cash				
Private placement			14,580,000	4,010,867
Broker warrants			1,895,400	521,414
Transfer of carrying value on exercise			(247,546)	(68,099)
Transfer of carrying value on expiry	(16,227,854)	(4,110,696)	(10,000)	(4,183)
	-	-	16,227,854	4,464,182
Warrant issue costs	-	-	-	(353,486)
Balance, end of period	-	\$ -	16,227,854	\$ 4,110,696

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 6

For the three and six months ended September 30, 2007 and 2006 (unaudited)

## 6. Share capital: (continued)

	Six Months Ended September 30, 2007		Year Ended March 31, 2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Warrants , beginning of period	16,227,854	\$ 1.30	10,000	\$ 1.50
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
For cash			(52,646)	1.30
Expired	(16,227,854)	1.30	(10,000)	1.50
Warrants, end of period	-	-	16,227,854	\$ 1.30

### (d) Stock options:

Changes in options outstanding under the Company's stock option plan during the periods indicated, are as follows:

	Six Months Ended September 30, 2007		Year Ended March 31, 2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding options, beginning of year	7,395,000	\$ 1.46	4,545,000	\$ 1.83
Granted	400,000	1.16	4,005,000	1.18
Exercised			(230,076)	1.09
Forfeited	(125,000)	1.11	(924,924)	2.17
Outstanding options, end of period	7,670,000	\$ 1.45	7,395,000	\$ 1.46
Options exercisable, end of period	5,591,688	\$ 1.59	4,316,673	\$ 1.71

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 7

For the three and six months ended September 30, 2007 and 2006 (unaudited)

## 6. Share capital: (continued)

Options	Outstanding at September 30, 2007	Weighted Average Remaining Contractual Life	Exercisable at September 30, 2007	Weighted Average Remaining Contractual Life
Exercise Price				
\$ 0.50 to \$ 0.74	150,000	3.1 years	100,000	3.1 years
\$ 0.75 to \$ 0.99	1,875,000	3.1 years	1,241,674	3.0 years
\$ 1.00 to \$1.24	3,350,000	3.9 years	2,233,346	3.9 years
\$ 1.25 to \$1.49	735,000	3.3 years	556,668	2.8 years
\$ 1.50 to \$1.74	175,000	4.0 years	75,000	3.7 years
\$ 1.75 to \$1.99	650,000	2.0 years	650,000	2.0 years
\$ 4.34	735,000	2.4 years	735,000	2.4 years
	<u>7,670,000</u>	3.3 years	<u>5,591,688</u>	3.2 years

### (e) Stock based compensation:

The weighted-average fair value of stock options issued during the three and six months ended September 30, 2007 was estimated at \$0.97 and \$0.85 per option. (September 30, 2006 - \$0.94 and \$0.95, respectively) using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended September 30		Six Months Ended September 30	
	2007	2006	2007	2006
Fair market value of stock option granted (per option)	\$ 0.97	\$ 0.84-\$ 1.01	\$ 0.66-\$ 0.97	\$ 0.84-\$ 1.02
Dividend yield	0 %	0 %	0 %	0 %
Expected volatility (range)	96 %	115 %-131 %	88 %-96 %	115 %-131 %
Risk free rate of return	4.6 %	4.0 %-4.2 %	4.3 %-4.6 %	4.0 %-4.3 %
Expected option life (range)	5 years	5 years	5 years	5 years
Forfeiture rate	19 %	17 %	19 %	17 %

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 8

For the three and six months ended September 30, 2007 and 2006 (unaudited)

## 7. Contributed surplus:

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

	Six Months Ended September 30, 2007	Year Ended March 31, 2007
Balance, beginning of period	\$ 7,777,246	\$ 5,356,976
Stock-based compensation:		
Grant of options expensed, net of forfeited	538,130	2,228,589
Grant of options capitalized	74,385	355,123
Transfer of carrying value on stock options exercised	-	(167,625)
Transfer of carrying value on expired warrants	4,110,696	4,183
	<u>4,723,211</u>	<u>2,420,270</u>
Balance, end of period	\$ 12,500,457	\$ 7,777,246

The above weighted-average fair value of stock options was estimated using the Black-Scholes option-pricing model assumptions described in note 6 (e).

## 8. Investment:

On March 31, 2006, the Company entered into a Letter of Intent, whereby the Company is farming out a 15% participating interest in its AA-ONN-2003/2 exploration blocks in northeast India. On May 15, 2006, the Company 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 was 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 approved the transaction on December 4, 2006. The value of the shares and options were recognized on December 4, 2006, the date 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 \$1.9484 per option based on an expected volatility of 96%, risk-free rate of return of 3.75 % and expected option life of five years, for a total carrying value of \$1,409,681.

At the end of each financial reporting period, the Company 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. On December 31, 2006, the shares and options were revalued and the investment was written down \$208,145 to \$1,201,536, its carrying value at March 31, 2007.

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For the three and six months ended September 30, 2007 and 2006 (unaudited)

On June 30, 2007, the share and options were revalued and the investment was written down an additional \$288,544 to \$912,992.

## 8. Investment: (continued)

During July 2007, all of the common shares (400,000) were sold at prices ranging from \$1.80 to \$1.90 per share for total net proceeds of \$739,797. Carrying value of the shares on June 30, 2007 was \$712,000 and resulted in a gain on the sale of shares of \$27,797.

On September 30, 2007, the Company's remaining investment consists of 200,000 Brownstone options. The options were revalued at September 30, 2007 at \$1.2433 per option for a total estimated market value of \$248,651. Carrying value of the Brownstone options at September 30, 2007 is \$248,651, including an unrealized gain of \$47,659.

## 9. 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
Three months ended September 30, 2007			
Revenue from oil, natural gas and liquids	\$ -	\$ 1,309,176	\$ 1,309,176
Interest and other income	120,520	9,472	129,992
Net loss	(1,422,480)	(80,822)	(1,503,302)
Additions to property, plant and equipment	308	173,455	173,763

	Canada	India	Total
Three months ended September 30, 2006			
Revenue from oil, natural gas and liquids	\$ -	\$ 721,411	\$ 721,411
Interest and other income	255,332	2,870	258,202
Net loss	(1,162,995)	(652,526)	(1,815,521)
Additions to property, plant and equipment	5,016	1,489,621	1,494,637

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For the three and six months ended September 30, 2007 and 2006 (unaudited)

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	Canada	India	Total
Six months ended September 30, 2007			
Revenue from oil, natural gas and liquids	\$ -	\$ 2,130,919	\$ 2,130,919
Interest and other income	297,905	11,417	309,322
Net loss	(2,490,689)	(2,220,218)	(4,710,907)
Additions to property, plant and equipment	8,834	5,548,136	5,556,970
As at September 30, 2007			
Total assets	19,160,226	48,219,726	67,379,952

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## 9. Geographic segmentation: (continued)

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	Canada	India	Total
Six months ended September 30, 2006			
Revenue from oil, natural gas and liquids	\$ -	\$ 1,069,950	\$ 1,069,950
Interest and other income	301,615	6,410	308,025
Net loss	(1,634,835)	(1,147,524)	(2,782,359)
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

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## 10. Restricted cash:

From time to time, the Company 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, 2007, such guarantees and letters of credits issued by the Company's bankers amounted to \$5,482,970 for varying periods expiring between October 31, 2007 and May 30, 2008 (March 31, 2007 – \$7,009,774). During July and August 2007, the Canadian Federal Government, through the facilities of Export Development Canada, undertook to guarantee these obligations of the Company and therefore, are not recognized in the financial statements as restricted cash at September 30, 2007.

## 11. Contingent liabilities:

The Company 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 Company's consolidated financial position.

## 12. Economic dependency:

All of the Company's crude oil production is sold to a publicly traded company. For the three and six months ended September 30, 2007, approximately 73.9% and 67.5%, respectively, of the Company's total recorded revenue was derived from this customer (September 30, 2006, 54.8 %).

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 11

For the three and six months ended September 30, 2007 and 2006 (unaudited)

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As at September 30, 2007, approximately 11.9% of the Company's total accounts receivable was from this customer (March 31, 2007 – 12 %).

The bulk of the Company's natural gas revenue is sold to a company that is owned by the State of Assam, India. For the three and six months ended September 30, 2007, approximately 17.1% and 19.8%, respectively, of the Company's total revenue was derived from this customer (September 30, 2006 – 24.5 %). As at September 30, 2007, approximately 1.8% of the Company's total accounts receivable was from this customer (March 31, 2007 – 2 %).

### **13. Subsequent events:**

On October 12, 2007 the Company issued 185,000 common shares at \$1.38 per common share to a company controlled by an officer for total proceeds of \$255,300. These common shares are subject to a four month hold. .

Also on October 12, 2007 the Company granted an aggregate of 1,100,000 options to purchase common shares for a five year term under the Company's Stock Option Plan to its directors, executive officers, employees and consultants at an exercise price of \$1.38 per common share acquired. The options will vest over a two year period.