

## HIGHLIGHTS:

- Raised \$30,090,000 through a bought deal to provide funding for Canoro's ongoing appraisal and development activities at Amguri. On January 9<sup>th</sup>, 2008 the Company issued 1,525,500 common shares at a price of \$1.70 pursuant to an over-allotment provision granted to the Underwriters.
- Successfully tested Amguri 11 at 1,190 bbl/d and 12 mmcf/d of natural gas (3,190 boe/d) from the main barail zone plus two new reservoirs and approximately 65 meters of net pay.
- Subsequent to quarter-end, the Company tied-in Amguri 11 and Amguri 10B, which significantly increased net condensate and natural gas production. Full production from these wells is still limited by current facility constraints. A 10" natural gas pipeline is under construction to partially alleviate these constraints.
- Exited the Quarter well capitalized with no debt and working capital of \$37,707,221.
- On November 1, 2007, an agreement was reached between the Company and its crude oil purchaser to revise the price received for crude oil production to a Nigerian Bonny Light benchmark price, which is considered more relevant within India. The revised pricing mechanism creates a premium of \$4-6/barrel based on the quality differentials. In 2007, Nigerian Bonny Light price averaged \$74.84 US/bbl compared to the WTI 2007 average price of \$72.36 US/bbl. All amounts owing under the top-up agreement with the crude oil buyer were received subsequent to quarter-end.
- Negotiations were initiated with the natural gas buyers to increase prices and production from the Amguri field.
- On January 21, 2008, announced that Sproule International Limited updated the reserve estimate for the Amguri field based on successful drilling at Amguri 10B and Amguri 11 and the new price environment since March 31, 2007. The report indicated net proven plus probable reserves increased from 705 mboe at March 31, 2007 to 5,730 mboe at December 31, 2007. The net present value of the reserves discounted at 10% before taxes and using forecasted prices increased from \$8.3 million USD to \$140.7 million USD.
- Furthered negotiations with ONGC and other major Indian companies to obtain additional exploration blocks and one production block in Northeast India. This would significantly increase the Company's exploration lands and production.
- Signed a one year contract with a one year option on two new North American drilling rigs to execute the largest drilling program in the history of the Company. The Company is forecasting capital expenditures over the next 12-15 months of approximately \$47.0 to \$52.0 million.
- Continued to add to its technical team adding a Vice President of Geosciences with over 25 years of experience and a geologist with over 10 years of experience.

## OUTLOOK:

Canoro has a significant inventory of both exploration and development prospects and has an enviable land position in Northeast India with over 350,000 gross acres of undeveloped land. Canoro continues to strive and add to its inventory of opportunities through strategic relationships. The company is well capitalized and is in an excellent position to move from an exploration company to a production company with tremendous opportunities in Northeast India. The Company looks forward to continued success through the drill bit and reporting material reserve additions and production growth in what should be the most exciting year in the Company's history.

# CANORO RESOURCES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007

#### *Basis of Presentation*

The following Management's Discussion and Analysis ("MD&A") is dated February 25, 2008, 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 nine months ended December 31, 2007 and Canoro's audited financial statements, related notes MD&A for the year end March 31, 2007. *All numbers are in Canadian dollars unless otherwise indicated.*

#### *Forward-Looking Statements*

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.

#### *Barrel of oil equivalent*

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.

#### **Strategy:**

Canoro Resources Ltd. through its corporate branch is 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 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.

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.

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 proposed blocks was also conducted. Commercial terms are currently being negotiated to reach a definitive participation contract with ONGC, allowing operational control to be achieved by Canoro. Canoro continually evaluates other business development opportunities in Northeast India, to grow its presence in this attractive basin.

**Production and realized sales prices:**

	Three months ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
Natural gas (mcf/d)	1,122	850	1,031	779
Crude oil (bbls/d)	100	77	93	86
Total (boe/d)	287	219	265	216
Realized gas price (\$/mcf)	2.41	2.17	2.53	1.99
Realized oil price/bbl (\$/bbl)	94.60	68.01	83.89	75.27
Nigerian Bonny Light (\$USD/bbl)	90.62	62.01	79.72	68.22

**Production:**

Production for the nine months ended December 31, 2007 averaged 265 boe/d, representing a 23 percent increase over the comparative period of 2006. Production continues to come from Amguri 6, with approximately 40 boe/d coming from the testing of Amguri 10B and Amguri 11. Subsequent to December 31, 2007, the Company tied in both Amguri 10B and Amguri 11. Production for the three months ended December 31, 2007 (“the Quarter”) increased 31 percent over the comparable period.

**Realized sales price:**

On November 1, 2007, an agreement was reached between the Company and its crude oil purchaser to revise the price received for crude oil production to a Nigerian Bonny Light benchmark price, which is considered more relevant within India. The revised pricing mechanism also creates a premium of \$4-6 per bbl based on the quality differentials. Nigerian Bonny Light oil is a high grade of Nigerian crude oil with high API gravity produced in the Niger Delta basin and named after the prolific region around the city of Bonny.

For the three and nine months ended December 31, 2007, on natural gas sales, the Company received \$2.41 per thousand cubic feet (mcf) and \$2.53 per mcf respectively, compared to \$2.17 per mcf and \$1.99 per mcf in the prior periods. The increase is attributed to a price increase for natural gas effective March 1, 2007, to 3,840 rupees (Rs) per 1000 m<sup>3</sup>, approximately \$2.73 per mcf. Prior to this, the Company received 3,200 Rs per 1000 m<sup>3</sup> for approximately 80% of its share of natural gas sold year to date. For 12,000 m<sup>3</sup> per day, the Company receives 60% of this price or 2,304 Rs per 1000 m<sup>3</sup>, (approximately \$1.64 per mcf). The Company is paid in rupees and is subject to foreign exchange fluctuations on the average price received. The Company is currently

in negotiations with the purchaser of the Company's natural gas to increase the price received based on current market conditions.

The Company's realized sales price for the three and nine months ended was \$42.38 and \$39.31 per boe, respectively. In the comparative periods of 2006 the Company's realized sales price was \$32.38 and \$37.17 per boe, respectively. The increase in the Company's realized price per boe is consistent with the increase in Nigerian Bonny Light offset by the strengthening of the Canadian dollar.

#### **Petroleum and natural gas sales:**

Petroleum and natural gas sales increased to \$1,071,155 and \$3,202,074 for the three and nine months ended December 31, 2007. For the nine months ended December 31, 2007 the increase in revenue is attributable to a 23 percent increase in total sales volumes and the impact of a 6 percent increase in the realized price received. For the Quarter, petroleum and natural gas revenue increased 65 percent due to a 31 percent increase in total sales volumes and a 31 percent increase in the realized price received.

#### **Royalties and cess:**

The Company pays royalties imposed by the Petroleum and Natural Gas Rules to the respective State granting the lease in which crude oil is produced. The Company is responsible for paying royalties at a rate of 528 Rs per metric tonne of crude oil produced (approximately \$1.72 per bbl). In addition, the Company is responsible for paying cess at the rate of 927 Rs per metric tonne of crude oil sold (approximately \$3.02 per bbl). Cess is a levy imposed by the Oil Industry Development Act on crude oil sales and is payable to the Central Government.

For the three months ended December 31, 2007, total royalties and cess on crude oil amounted to \$36,672 compared to \$33,128 in the prior year. Year to date, total royalties and cess were \$114,261 or \$4.48/bbl compared to \$80,328 or \$4.61/bbl for the same period last year.

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. 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 payments 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 and 3.5% thereafter. During the Quarter the Company commenced payments of the Entitlement Fund as per the agreement. Payments for the three and nine months ended December 31, 2007 totaled \$69,514 and [areis](#) included in royalties.

Royalties on natural gas are assessed at 10% of well head value of gas and are paid by the purchaser of the natural gas; therefore, the Company does not pay royalties on natural gas production.

#### **Interest income:**

During the three and nine months ended December 31, 2007, the Company earned interest income of \$212,199 and \$521,521 compared to \$304,274 and \$612,299 for the same periods in 2006. The decrease in interest income is due to lower average cash balances in 2007. As at December 31, 2007 the Company had cash \$35,546,173 which primarily is a result of the financing that closed on December 20, 2007.

### **Operating expenses:**

Operating costs for the three and nine months ended December 31, 2007 were \$186,817 and \$536,491 compared to \$303,042 and \$614,153 in the prior year. Operating costs were \$7.05 per boe and \$7.36 per boe for three and nine months ended December 31, 2007 compared to \$15.22 per boe and \$11.65 per boe in 2006. Higher operating costs per boe during the third quarter last year were the result of the combination of lower production volumes in the initial year of production and higher spending on equipment rentals, mobilization charges and professional services. This year, continued operations improvements are reflected in lower year to date operating costs.

### **General and administrative expenses:**

General and administrative (G&A) costs for the three and nine months ended December 31, 2007 were \$1,455,461 and \$3,247,805 compared to \$810,179 and \$2,044,921 in the prior year. G&A costs have increased commensurate with increased staffing and activity levels. As a result of high levels of activity for Canoro and for the industry as a whole, the costs associated with hiring, compensating, and retaining employees and consultants have risen.

### **Stock based compensation expense:**

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. The non-cash compensation expense for the three and nine months ended December 31, 2007, was \$613,479 and \$1,151,609. Canoro believes that providing employees with stock options effectively aligns the employees' goals with the shareholders and retains key employees. Canoro capitalized \$170,703 for the three months ended December 31, 2007 and \$245,088 for the nine months ended December 31, 2007 of stock based compensation associated with exploration and development activities.

### **Depletion, depreciation and accretion expense:**

For the Quarter, depletion, depreciation and accretion was \$444,041 compared to \$817,396 for the same period in 2006. Based upon the reserve report prepared by the Company's independent reservoir engineers of proven reserves of the Amguri field in Northeast India, depletion expense amounts to approximately \$15.96 per boe for the Quarter compared to \$42.83 per boe in the comparative period of 2006. The decrease in depletion is a result of increased proven reserves for the Amguri 10B and 11 major discoveries announced in the second quarter of 2007.

### **Foreign exchange:**

The functional reporting currency of the Company is Canadian dollars. The Company records foreign exchange gains and losses (both realized and unrealized) as a result of rate movements between the time payables, receivables and foreign cash balances are incurred or recorded and the time they are paid or received or valued on the balance sheet dates. For the three and nine months ended December 31, 2007 the Company recorded a foreign exchange loss of \$340,639 and \$2,090,667. The loss is primarily due to the weakening of the US dollar throughout the year with the exchange rate at March 31, 2007 being 1.15 and decreasing to 0.99 at December 31, 2007.

### **Net loss:**

Net loss for the three months ended December 31, 2007 was \$1,937,889 or \$0.02 per share compared to a net loss of \$1,559,286 or \$0.02 per share in the same quarter last year. For the

nine months ended December 31, 2007, the Company incurred a net loss of \$6,648,796 or \$0.07 per share compared to \$4,341,645 or \$0.05 per share for the comparative period in 2006.

**Capital expenditures:**

The Company's total capital expenditures during the three and nine months ended December 31, 2007 amounted to \$3,193,707 and \$8,687,985 compared to \$5,459,288 and \$7,601,332 for the comparative periods in 2006. A breakdown of the capital expenditures for the three and nine months ended December 31, 2007 and 2006 is as follows:

	Three months ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
Seismic	\$ 699,313	\$ 328,458	\$ 2,633,310	\$ 768,796
Drilling and completions	2,632,957	6,215,521	9,451,845	6,914,787
Equipping and facilities	936,059	160,113	1,061,539	838,434
Capitalized expenses	299,932	164,877	1,089,610	488,996
Capital recoveries	(1,374,554)	(1,409,681)	(5,548,319)	(1,409,681)
Total capital expenditures	<u>\$ 3,193,707</u>	<u>\$ 5,459,288</u>	<u>\$ 8,687,985</u>	<u>\$ 7,601,332</u>

**Liquidity and Capital Resources:**

**Share Capital:**

At December 31, 2007, the Company had 111,357,439 shares outstanding (March 31, 2007 – 93,472,439). The common shares of Canoro trade on the TSX Venture Exchange under the symbol CNS. The following table summarizes outstanding share data for the three and nine months ended December 31, 2007.

	Three months ended December 31, 2007	Nine months ended December 31, 2007
Weighted average shares outstanding:		
Basic	95,537,113	94,163,166
Options and warrants <sup>(1)</sup>	-	-
Diluted	95,537,113	94,163,166
Trading Statistics		
High	\$1.78	\$1.78
Low	\$0.99	\$0.57
Average daily volume	275,843	173,779

<sup>(1)</sup> On July 26, 2007, all share purchase warrants expired. Anti-dilutive incremental options and warrants are excluded from the weighted average diluted shares outstanding.

At February 25, 2008, the Company had 112,882,939 shares outstanding and 9,643,000 options outstanding.

**Liquidity and Capital Resources:**

At December 31, 2007, the Company had \$37,707,221 of net working capital, including cash and cash equivalents of \$35,546,173. As at December 31, 2007, the Company had no debt. In 2008, the Company is going to undertake the largest capital program in its history. The Company is forecasting capital expenditures over the next 12-15 months to be approximately \$47.0 to \$52.0 million. Management anticipates that the Company will have adequate liquidity to fund future working capital and budgeted capital expenditures during 2008 through cash flow from operating

activities and cash on hand. The Company currently does not have a credit facility in place, but would consider debt financing for certain development opportunities if they arise.

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. During the three months ended December 31, 2007, the Company's bankers issued new letters of credit for \$2,805,177 for varying periods expiring between April 30, 2008 and June 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 the balance of the outstanding guarantees of the Company.

## **SUMMARY OF QUARTERLY RESULTS**

<i>Thousands of Canadian dollars, except per share amounts</i>	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	1,071	1,309	822	589	648	721	349	-
Cash flow from/(used) in operating activities	(3,267)	286	84	378	557	(62)	(844)	136
Net Loss	(1,938)	(1,503)	(3,208)	(2,169)	(1,559)	(1,761)	(967)	(1,249)
Per share – basic and diluted	(0.02)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.01)	(0.02)
Capital expenditures	3,194	174	5,383	8,686	5,459	1,037	1,105	5,404
Total boe/day	288	271	244	198	218	240	188	-
Total Assets	89,314	67,380	63,896	68,131	62,872	60,605	34,219	37,148

### **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 that 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 to 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 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 December 31, 2007, the Company had approximately \$54.3 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 Directorate General Hydrocarbons 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 that 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 in the future. 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 US 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 US dollar revenues for crude oil sales do not equal US 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:**

Canoro's financial statements have been prepared in accordance with Canadian general accepted accounting principles. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Canoro's management reviews their estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Canoro attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates; developing internal reporting systems; and comparing past estimates to actual results.

The Company's financial and operating results include estimates of the following:

- Depletion, depreciation and accretion based on estimates of oil and gas reserves;

- Estimated revenues, operating expenses and royalties for which actual revenues and costs have not yet been received;
- Estimated capital expenditures on projects that are in progress; and
- Estimated amount of the asset retirement obligation, including estimates of future costs and the timing of the costs.

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, 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. 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.

### **Contractual Obligations:**

The Company has office lease commitments in Delhi, Jorhat and Calgary.

The Company has contracted two drilling rigs for a period of one year plus an option for a second year for the exploration and development of the Company's Northeast India assets.

Following are the future minimum payments required under the contracts:

(\$000's)	Drilling contracts	Office leases
2008	\$ 21,350,000	\$ 672,301
2009	-	605,932
2010	-	605,932
Thereafter	-	390,918
<b>Total</b>	<b>\$ 21,350,000</b>	<b>\$ 2,275,082</b>

### **Change in accounting policy:**

#### *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.

#### *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.

### 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.

### 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 three months ended December 31, 2007.

### Effective interest rate method

Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument.

### **Future accounting pronouncements:**

New accounting standards have been issued that will require additional disclosure in the Company's financial statements commencing April 1, 2008 about the Company's financial instruments, as well as its capital and how it is managed.

### **Corporate Governance:**

#### Overview

The shareholders' interests are a critical factor in the operation and management of Canoro. The Company is committed to maintaining the highest level of investor confidence in the Company through the development of its corporate governance policies. Canoro's Board consists of five independent directors and an officer of the Company who meet regularly to discuss matters of strategy and execution of the business plan. See Canoro's AIF for a listing of committees who oversee specific aspects of the Company's operating and financial strategy.

The application of Bill 198 and its regulations represents an exercise in continuous improvement, which is leading the Company to formalize processes and control measures that are already in place and to introduce new ones. Canoro has chosen to make this a strategic endeavor, which will result in operational improvements and better management.

### Disclosure Control:

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. The Company notes that while it believes the disclosure controls and procedures provide a reasonable level of assurance that they are effective, it does not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system is designed to provide reasonable, not absolute, assurance that the objectives of the control system are met.

### Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer confirm there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### SEDAR filings

Additional information about Canoro is available on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at [www.Sedar.com](http://www.Sedar.com) and at the Company's website at [www.canoro.com](http://www.canoro.com).

Consolidated Financial Statements of

**CANORO RESOURCES LTD.**

For the three and nine months ended  
December 31, 2007 and 2006

# CANORO RESOURCES LTD.

Consolidated Balance Sheets (unaudited)

	December 31, 2007	March 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 35,546,173	\$ 15,023,935
Restricted cash (note 9)	2,805,177	-
Investment (note 7)	174,031	1,201,536
Accounts receivable	6,795,617	7,563,564
Inventory	27,812	166,263
Prepaid expenses and deposits	742,491	121,961
	<u>46,091,301</u>	<u>24,077,259</u>
Restricted cash (note 9)	-	7,009,774
Property, plant and equipment (note 4)	43,222,564	37,043,615
	<u>\$ 89,313,865</u>	<u>\$ 68,130,648</u>

## Liabilities and Shareholders' Equity

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,795,178	\$ 10,582,416
Entitlement fund (note 5)	4,588,902	-
	<u>8,384,080</u>	<u>10,582,416</u>
Asset retirement obligations	61,211	71,587
Shareholders' equity:		
Common shares (note 6)	96,915,344	68,271,316
Share purchase warrants (note 6)	-	4,110,696
Contributed surplus (note 6)	13,284,639	7,777,246
Deficit	(29,331,409)	(22,682,613)
	<u>80,868,574</u>	<u>57,476,645</u>
	<u>\$ 89,313,865</u>	<u>\$ 68,130,648</u>

Contingent liabilities (note 10)  
Contractual obligations and commitments (note 12)  
Subsequent events (note 13)

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		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
<b>Revenue:</b>				
Petroleum and natural gas sales	\$ 1,071,155	\$ 647,892	\$ 3,202,074	\$ 1,717,842
Royalties	(106,186)	(33,128)	(183,775)	(80,328)
Interest income and other	212,199	304,274	521,521	612,299
	1,177,168	919,038	3,539,820	2,249,813
<b>Expenses:</b>				
Operating	186,817	303,042	536,491	614,153
General and administrative	1,455,461	810,179	3,247,805	2,044,921
Stock-based compensation	613,479	560,773	1,151,609	1,741,439
Foreign exchange loss (gain)	340,639	(221,211)	2,090,667	(92,522)
Unrealized investment loss	74,620	208,145	315,505	208,145
Investment gain	-	-	(27,797)	-
Depletion, depreciation and accretion	444,041	817,396	2,874,336	2,075,322
	3,115,057	2,478,324	10,188,616	6,591,458
Net loss	(1,937,889)	(1,559,286)	(6,648,796)	(4,341,645)
Deficit, beginning of the period	(27,393,520)	(19,009,114)	(22,682,613)	(16,226,755)
Deficit, end of the period	\$ (29,331,409)	\$ (20,568,400)	\$ (29,331,409)	\$ (20,568,400)
<b>Net loss per share:</b>				
Basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.05)

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	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Net loss	\$ (1,937,889)	\$ (1,559,286)	\$ (6,648,796)	\$ (4,341,645)
Add non cash items:				
Depletion, depreciation and accretion	444,041	817,396	2,874,336	2,075,322
Unrealized foreign exchange (gain)/loss	(746,064)	(135,443)	896,664	(113,521)
Unrealized investment loss	74,620	208,145	315,505	208,145
Gain on sale of investment	-	-	(27,797)	-
Stock-based compensation	613,479	560,773	1,151,609	1,741,439
Net change in non-cash working capital	(1,714,871)	665,397	(1,458,049)	80,944
	(3,266,684)	556,982	(2,896,528)	(349,316)
Financing:				
Issuance of common shares net of costs	28,644,028	265,637	28,644,028	28,137,096
Investments:				
Capital expenditures	(3,193,707)	(5,459,288)	(8,687,985)	(7,601,332)
Restricted cash	(2,805,177)	(2,301,433)	4,204,597	(3,382,416)
Proceeds on sale of investments	-	-	739,797	-
Change in non-cash working capital	1,992,082	4,183,110	(719,560)	1,704,619
	(4,006,802)	(3,577,611)	(4,463,151)	(9,279,129)
Increase/(decrease) in cash and cash equivalents	21,370,542	(2,754,992)	21,284,349	18,508,651
Effect of translation on foreign currency cash	770,074	74,592	(762,111)	74,592
Cash and cash equivalents, beginning of period	13,405,557	26,821,011	15,023,935	5,557,368
Cash and cash equivalents, end of period	\$ 35,546,173	\$ 24,140,611	\$ 35,546,173	\$ 24,140,611
Interest received	94,326	\$ 271,327	\$ 420,370	\$ 568,686

See accompanying notes to consolidated financial statements.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 1

For the three and nine months ended December 31, 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 December 31, 2007, the Company had working capital of \$37,707,221 and had incurred a net loss of \$6,648,796 and utilized \$2,896,528 of cash from operating activities for the nine months then ended. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations

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 preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. 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.

### **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

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 2

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

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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.

## **(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 three months ended December 31, 2007.

## **(v) Effective interest rate method**

Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 3

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

## (vi) Accounting standards

New accounting standards have been issued which will require additional disclosure in the Company's financial statements commencing April 1, 2008 about the Company's financial instruments as well as its capital and how it is managed.

## 4. Property, plant and equipment:

As at December 31, 2007	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties			
India	\$ 48,766,538	\$ 6,429,029	\$ 42,337,509
Office furniture and equipment			
Canada	550,655	134,268	416,387
India	639,522	170,854	468,668
	1,190,177	305,122	885,055
	\$ 49,956,715	\$ 6,734,151	\$ 43,222,564
As at 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 December 31, 2007, the cost of the Company's significant unevaluated properties and major development projects associated with the India cost center totaling \$5,003,000 (March 31, 2007 \$4,305,000) have been excluded from depletion. Estimated future development costs of \$7,851,000 have been included in costs subject to depletion. All costs of unproved properties have been capitalized. Ultimate recoverability of these costs will be dependent upon finding proved oil and natural gas reserves. The Company has performed a separate impairment review of assets excluded from the ceiling test and determined that no impairment has occurred. During the nine months ended December 31, 2007, direct overhead costs totaling \$1,090,000 (2006 – \$909,000) 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 License 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 estimated costs for

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 4

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

the drilling of seven exploration wells and the seismic program is \$8,800,000 to be expended over a three year period. As of December 31, 2007 \$1,300,748 has been spent.

## 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.

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 and 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 nine 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.

As at December 31, 2007 \$5,548,319 has been expended on appraisal and development drilling in the Amguri field. 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.

## 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:

	December 31, 2007		March 31, 2007	
	Number	Amount	Number	Amount
Balance, beginning of period	93,472,439	68,271,316	63,834,817	43,773,518
Issue of common shares	17,885,000	30,345,300	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
		98,616,616	93,472,439	70,605,385
Share issue costs		(1,701,272)	-	(2,334,069)
Balance, end of period	111,357,439	96,915,344	93,472,439	68,271,316

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 5

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

On December 20, 2007, the Company issued 17,700,000 common shares at a price of \$1.70 per share for gross proceeds of \$30,090,000.

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

(c) Share purchase warrants:

	December 31, 2007		March 31, 2007	
	Number	Amount	Number	Amount
Balance, beginning of period	16,227,854	4,110,696	10,000	4,183
Issue of warrants	-	-	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

	December 31, 2007		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

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 6

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

(d) Stock options:

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

	December 31, 2007		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	1,800,000	1.38	4,005,000	1.18
Exercised			(230,076)	1.09
Forfeited	(125,000)	1.11	(924,924)	2.17
Outstanding options, end of period	9,070,000	\$ 1.45	7,395,000	\$ 1.46
Options exercisable, end of period	6,691,682	\$ 1.42	4,316,673	\$ 1.71

Options	Outstanding at December 31, 2007	Weighted Average Remaining Contractual Life	Exercisable at December 31, 2007	Weighted Average Remaining Contractual Life
Exercise Price				
\$ 0.50 to \$ 0.74	150,000	2.8 years	150,000	2.8 years
\$ 0.75 to \$ 0.99	1,875,000	2.8 years	1,775,001	2.8 years
\$ 1.00 to \$1.24	3,350,000	3.7 years	2,233,346	3.7 years
\$ 1.25 to \$1.49	1,835,000	4.1 years	923,335	3.4 years
\$ 1.50 to \$1.74	475,000	4.5 years	225,000	4.2 years
\$ 1.75 to \$1.99	650,000	1.8 years	650,000	1.8 years
\$ 4.34	735,000	2.1 years	735,000	2.1 years
	9,070,000	3.3 years	6,691,682	3.0 years

(e) Stock based compensation:

The Company has established a stock option plan under which it has granted options to acquire common shares to officers, directors, employees and key consultants. The plan provides for the granting of options equal to ten percent of the issued and outstanding common shares of the Company. Options issued under the plan have a term of five years and vest over a two year period starting on the date of the grant.

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 7

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

The weighted-average fair value of stock options issued during the three and nine months ended December 31, 2007 was estimated at \$1.04 and \$1.00 per option. (December 31, 2006 - \$1.22 and \$1.01, respectively) using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended December 31		Nine Months Ended December 31	
	2007	2006	2007	2006
Fair market value of stock option granted (per option)	\$1.04	\$1.22	\$1.00	\$1.01
Expected volatility (range)	90 %	92 %	93 %	92 % - 131%
Risk free rate of return	4.3 %	3.8 %	4.3 %	4.1 %
Expected option life (range)	5 years	5 years	5 years	5 years
Forfeiture rate	18 %	17 %	18 %-19 %	17 %

(f) Contributed surplus:

The Company capitalized \$245,088 (December 31, 2006 - \$269,380) of stock based compensation directly related to exploration and development activities. Set out below are the changes to contributed surplus during the periods indicated.

	Nine Months Ended December 31, 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	1,151,609	2,228,589
Grant of options capitalized	245,088	355,123
Transfer of carrying value on stock options exercised		(167,625)
Transfer of carrying value on expired warrants	4,110,696	4,183
	5,507,393	2,420,270
Balance, end of period	\$ 13,284,639	\$ 7,777,246

(g) Loss per share:

Net loss per share is computed using the following weighted average common shares:

	Three Months Ended December 31		Nine Months Ended December 31	
	2007	2006	2007	2006
Basic	95,537,113	93,045,335	94,163,166	80,711,500
Diluted <sup>(1)</sup>	95,537,113	93,045,335	94,163,166	80,711,500

<sup>(1)</sup> Anti-dilutive incremental options and warrants are excluded from the weighted average diluted shares outstanding.

## 7. Investment:

On March 31, 2006, the Company entered into a Letter of Intent, whereby the Company farmed out a 15% participating interest in its AA-ONN-2003/2 exploration blocks in northeast India. The consideration for the assignment was 400,000 common shares of the publicly traded corporation from

# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 8

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

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 \$1.95 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.

During July 2007, all of the common shares 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 resulting in a gain on the sale of shares of \$27,797.

On December 31, 2007, the Company's remaining investment consists of 200,000 Brownstone options. The options were revalued at December 31, 2007 at \$0.87 per option for a total estimated market value of \$174,031. Carrying value of the Brownstone options at December 31, 2007 is \$174,031, including an unrealized loss of \$74,620.

## 8. Geographic segmentation:

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

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	Canada	India	Total
Three months ended December 31, 2007			
Petroleum and natural gas sales	\$ -	\$ 1,071,155	\$ 1,071,155
Interest and other income	199,632	12,567	212,199
Net loss (income)	1,826,244	111,645	1,937,889
Capital expenditures	173,706	3,020,001	3,193,707

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	Canada	India	Total
Three months ended December 31, 2006			
Petroleum and natural gas sales	\$ -	\$ 647,892	\$ 647,892
Interest and other income	296,842	7,432	304,274
Net loss/(income)	1,571,908	(12,622)	1,559,286
Capital expenditures	11,492	5,447,796	5,459,288

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# CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 9

For the three and nine months ended December 31, 2007 and 2006 (unaudited)

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	Canada	India	Total
Nine months ended December 31, 2007			
Petroleum and natural gas sales	\$ -	\$ 3,202,074	\$ 3,202,074
Interest and other income	497,538	23,983	521,521
Net loss/(income)	4,079,168	2,569,628	6,648,796
Capital expenditures	353,026	8,334,959	8,687,985
As at December 31, 2007			
Total assets	35,093,108	54,220,757	89,313,865

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	Canada	India	Total
Nine months ended December 31, 2006			
Petroleum and natural gas sales	\$ -	\$ 1,717,842	\$ 1,717,842
Interest and other income	598,457	13,842	612,299
Net loss	2,665,274	1,676,371	4,341,645
Capital expenditures	18,607	7,582,725	7,601,332
As at December 31, 2006			
Total assets	28,327,186	34,490,213	62,817,399

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## 9. 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. During the three months ended December 31, 2007, the Company's bankers issued new letters of credit for \$2,805,177 for varying periods expiring between April 30, 2008 and June 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 the balance of the outstanding guarantees of the Company.

## 10. 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.

## 11. Economic dependency:

All of the Company's crude oil production is sold to a publicly traded company. For the three and nine months ended December 31, 2007, approximately 64% and 66%, respectively, of the Company's total recorded revenue was derived from this customer (December 31, 2006, 55%). As at December 31, 2007, approximately 29% 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 nine months ended December 31, 2007, approximately 17% of the Company's total revenue was derived from this customer (December 31, 2006 – 14%). As at

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For the three and nine months ended December 31, 2007 and 2006 (unaudited)

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December 31, 2007, approximately 3% of the Company's total accounts receivable was from this customer (March 31, 2007 – 2%).

## 12. Contractual obligations and commitments:

The Company has office lease commitments in Delhi, Jorhat and Calgary.

The Company has contracted two drilling rigs for a period of one year plus an option for a second year for the exploration and development of the Company's Northeast India assets.

Following are the future minimum payments required under the contracts:

(\$000's)	Drilling contracts	Office leases
2008	\$ 21,350,000	\$ 672,301
2009	-	605,932
2010	-	605,932
Thereafter	-	390,918
Total	\$ 21,350,000	\$ 2,275,082

## 13. Subsequent events:

On January 9th, 2008 the Company issued 1,525,500 common shares at a price of \$1.70 per share pursuant to an over-allotment provision granted to the Underwriters in connection with the short form prospectus offering of 17,700,000 common shares that closed on December 20, 2007.