

CANARY RESOURCES INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS ENDED MARCH 31, 2007 AND 2006

Unaudited

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CANARY RESOURCES INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Balance Sheet

March 31, 2007

Unaudited

ASSETS

Cash & Cash Equivalents	\$ 332,562
Accounts Receivable	101,094
Prepaid Expenses and Other	104,654
Deposits	<u>55,436</u>
Total Current Assets	593,746
Oil & Gas Properties (Note 5)	1,942,313
Field Equipment Inventory	94,450
Property, Plant and Equipment, net (Note 6)	<u>1,892,980</u>
Total Assets	<u>\$ 4,523,489</u>

LIABILITIES & STOCKHOLDERS' EQUITY

Accounts Payable	\$ 522,869
Accrued Liabilities	1,585,318
Management Fees and Salaries Payable	97,809
Advances from Stockholders (Note 7)	202,078
Current Portion of Notes Payable (Note 8)	<u>1,044,479</u>
Total Current Liabilities	3,452,553
Contingent Liability (Note 9)	268,953
Notes Payable Less Current Portion (Note 8)	<u>337,877</u>
Total Liabilities	4,059,383
Commitments and Contingences (Note 10)	
Class A Convertible Preferred Stock, \$0.001 par value, 30,000,000 shares authorized, 18,125,000 issued and outstanding in 2007 (Note 11)	18,125
Common Stock, \$0.001 par value, 100,000,000 shares authorized, 30,792,700 issued and outstanding in 2007 (Note 11)	30,893
Treasury Stock, \$0.001 par value, 100,000 shares (Note 11)	(100)
Additional Paid in Capital (Note 11)	5,598,750
Accumulated Deficit and Deficit Accumulated During the Development Stage	<u>(5,183,562)</u>
Total Stockholders' Equity	<u>464,106</u>
Total Liabilities & Equity	<u>\$ 4,523,489</u>

(The accompanying notes are an integral part of these consolidated financial statements)

CANARY RESOURCES INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Operations
Three Months Ended March 31, 2007 and 2006 and the Period from Re-entering the
Development Stage through March 31, 2007
Unaudited

	2007	2006	<i>Period from Re-entering the Development Stage through March 31, 2007 (Note1)</i>
Revenues			
Gas Sales	4,014	-	13,724
Well Services	89,776	-	252,743
Yard Rentals	1,500	-	5,385
Consulting Fees	-	-	40,000
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 95,290	\$ -	\$ 311,852
Expenses			
Lease Operating Expenses	1,409	-	1,699
Rig Expenses	39,675	-	163,498
Field Expenses	5,262	-	161,583
Pipeline Expenses	31,509	-	54,035
Production Taxes	11	-	319
Depreciation	55,499	11,596	240,115
Management Fees & Salaries (Note 13)	50,000	66,667	909,940
Allowances Paid to Related Parties (Note 13)	10,800	15,400	125,000
Rent Paid to Related Parties (Note 13)	(5,350)	16,050	90,950
Salaries & Wages	275,747	171,168	1,476,065
Stock Compensation Cost (Note 12)	47,229	20,253	160,688
Professional Fees	45,477	305,936	1,078,441
General & Administrative	129,487	103,796	877,183
Exploratory Expenditures	-	-	100,176
	<hr/>	<hr/>	<hr/>
Total Expenses	686,755	710,866	5,439,692
Loss from Operations	(591,465)	(710,866)	(5,127,840)
Other Income (Expenses)			
Gain on Sale of Other Property	-	-	143
Interest Income	702	40,066	183,389
Interest Expense	(89,699)	-	(230,801)
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Loss Before Income Taxes	(680,462)	(670,800)	(5,175,109)
Income Taxes (Note 15)	-	-	-
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Net Loss	\$ (680,462)	\$ (670,800)	\$ (5,175,109)
Loss per weighted average number of shares:			
Basic	\$ (0.02)	\$ (0.02)	
Basic and fully diluted weighted average number of shares outstanding during the periods	30,792,700	30,892,700	

(The accompanying notes are an integral part of these consolidated financial statements)

CANARY RESOURCES INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Stockholders' (Deficit) Equity
Three Months Ended March 31, 2007 and the Period from Re-entering the Development Stage through March 31, 2007
Unaudited

	<u>Preferred Stock</u>		<u>Common Stock</u>			<u>Treasury Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit and Deficit Accumulated During the Development Stage</u>	<u>Total Stockholders' (Deficity) Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>					
As of January 1, 2004	-	\$ -	30,142,700	\$ 30,143	\$ -	\$ (30,113)	\$ (1,900)	\$ (1,870)	
Net Loss	-	-	-	-	-	-	(6,550)	(6,550)	
As of December 31, 2004	-	-	30,142,700	30,143	-	(30,113)	(8,450)	(8,420)	
Common Shares Issued for Cash	-	-	600,000	600	-	299,400	-	300,000	
Common Shares Issued for nil consideration	-	-	150,000	150	-	(150)	-	-	
Preferred Shares Issued for Cash	18,125,000	18,125	-	-	-	6,880,277	-	6,898,402	
Net Loss	-	-	-	-	-	-	(1,287,538)	(1,287,538)	
Shelf Payment Registration Event Payment	-	-	-	-	-	(1,646,453)	-	(1,646,453)	
As of December 31, 2005	18,125,000	18,125	30,892,700	30,893	-	5,502,961	(1,295,988)	4,255,991	
Net Loss	-	-	-	-	-	-	(3,207,109)	(3,207,109)	
Treasury Stock	-	-	(100,000)	-	(100)	(64,900)	-	(65,000)	
Stock Option Compensation Recognized	-	-	-	-	-	113,459	-	113,459	
As of December 31, 2005	18,125,000	18,125	30,792,700	30,893	(100)	5,551,520	(4,503,097)	1,097,341	
Net Loss	-	-	-	-	-	-	(680,462)	(680,462)	
Stock Option Compensation Recognized	-	-	-	-	-	47,229	-	47,229	
As of March 31, 2007	18,125,000	\$ 18,125	30,792,700	\$ 30,893	\$ (100)	\$ 5,598,750	\$ (5,183,562)	\$ 464,106	

(The accompanying notes are an integral part of these consolidated financial statements)

CANARY RESOURCES INC. AND SUBSIDIARIES
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Consolidated Statements of Cash Flows
Three Months Ended March 31, 2007 and 2006 and the Period from Re-entering the Development
Stage through March 31, 2007
Unaudited

	2007	2006	Period from Re-entering the Development Stage through March 31, 2007
Cash Flows From Operating Activities			
Net Income (Loss)	\$ (680,462)	\$ (670,800)	\$ (5,175,109)
Depreciation, Depletion & Amortization	55,499	11,596	240,115
Stock Option Expense Recognized	47,229	20,253	160,688
(Gain) Loss on Sales of Assets	-	-	(143)
Treasury Stock Received in Legal Settlement	-	-	(65,000)
(Increase) Decrease in Accounts Receivable	27,045	-	(100,576)
(Increase) Decrease in Prepaid Expenses & Other	(55,980)	(64,580)	(105,172)
(Increase) Decrease in Deposits	-	(60,085)	(55,436)
Increase (Decrease) in Accounts Payable	(164,556)	(4,782)	522,865
Increase (Decrease) in Accrued Liabilities	313,184	(59,558)	367,981
Increase (Decrease) in Management Fees & Salaries Payable	8,517	-	97,809
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Cash Provided (Used) By Operating Activities	(449,524)	(827,956)	(4,111,978)
Cash Flows From Investing Activities			
Net Additions to Oil & Gas Properties	(67,110)	(410,490)	(1,963,599)
(Increase) Decrease in Field Inventory	(51,991)	(30,641)	(158,006)
Net Additions to Other Property & Equipment	11,565	(45,314)	(2,052,110)
Proceeds on Disposal	-	-	4,000
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Cash Provided (Used) By Investing Activities	(107,536)	(486,445)	(4,169,715)
Cash Flows From Financing Activities			
Issuance of Preferred Shares	-	-	7,250,000
Issuance of Common Shares	-	-	300,000
Payment of share issuance cost	-	-	(351,598)
Proceeds From (Payments On) Loan	(10,685)	(1,835)	1,382,356
Increase (Decrease) in Advances from Stockholders	(599)	8,976	198,659
Increase (Decrease) in Contingent Liability	(217,500)	(217,500)	(165,163)
	<hr/>	<hr/>	<hr/>
Cash Provided (Used) By Financing Activities	(228,784)	(210,359)	8,614,254
Net Increase (Decrease) in Cash	(785,844)	(1,524,760)	332,562
Cash & Cash Equivalents, Beginning of Period	1,118,406	5,751,325	-
	<hr/>	<hr/>	<hr/>
Cash & Cash Equivalents, End of Period	\$ 332,562	\$ 4,226,565	\$ 332,562
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Supplemental Cash Flow Information			
Interest Paid	\$ 34,318	\$ 4,533	\$ 175,420
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Income Taxes Paid	\$ -	\$ -	\$ -
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(The accompanying notes are an integral part of these consolidated financial statements)

CANARY RESOURCES INC. AND SUBSIDIARIES
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 2007 and 2006
Unaudited

1. Operations and Business

Canary Resources Inc. ("the Company") was incorporated on April 16, 1997 as The Heritage Collection Limited under the laws of the State of Delaware. The Heritage Collection Limited was operated with the intent to manufacture and market various personal jewelry items; however, it never operated in this area. On June 25, 2004, the Heritage Collection Limited changed its name to Sakha Resource Technologies Corporation ("Sakha"). Sakha operated with the intent of developing forest products but was unable to raise capital and remained inactive in this area.

On January 12, 2005, Sakha changed its name to Canary Resources Inc. On January 14, 2005, the Company subscribed for 100% of the common stock of Canary Resources, Inc. ("Canary"), a private Nevada corporation. Canary is a coal-bed methane exploration and production company with acreage in the Eastern Forest City Basin of Kansas and Missouri, for which it is the operator. Canary currently has seventeen wells shut-in pending pipeline connection, one producing well, and one well in the drilling phase. The purchase, site preparation, and construction of the pipeline interconnect have commenced. On January 14, 2005 the Company is considered to have re-entered the development stage. On August 29, 2005, Canary changed its name to Canary Operating Corporation.

On May 25, 2006, the Company subscribed for 100% of the common stock of Canary Pipeline, Inc ("Canary Pipeline"); RLC Drilling, Inc ("RLC"); and Willis Well Services, Inc ("Willis") all of which are Kansas corporations. Canary Pipeline is a gas gathering company providing services to Canary. RLC is a coal-bed methane drilling company which drills wells for Canary and third parties. On September 7, 2006, RLC changed its name to Canary Drilling, Inc. ("Canary Drilling"). Willis is a well servicing company that provides services to Canary and third parties.

2. Going Concern

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the development stage and has only realized minimal revenues from its planned operations. The Company has sustained losses of \$680,462 and \$670,800 for the three month period ended March 31, 2007 and March 31, 2006, respectively. At March 31, 2007, the Company had working capital deficit of \$2,858,807. The Company has funded operations through the issuance of capital stock. On July 22, 2005, the Company closed a private placement for gross proceeds of \$7,250,000 (see Note 11). On December 28, 2006, the Company obtained \$1,000,000 through debt financing (see Note 8). Management's plan is to continue raising additional funds through future equity or debt financing until it achieves profitable operations from its gas drilling activities. Although the Company plans to pursue additional financing there can be no assurance that the Company will be able to secure financing when needed or obtain such on terms satisfactory to the Company, if at all. The Company's continuation as a going concern depends upon its ability to raise funds and achieve and sustain profitable operations.

The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the inability of the Company to continue as a going concern.

CANARY RESOURCES INC. AND SUBSIDIARIES
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March 31, 2007 and 2006
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3. Restatement

On July 31, 2006, management concluded that the Company's consolidated financial statements for the fiscal year ended December 31, 2005 and the first interim period of 2006 should be restated to correct an error relating to the accounting of shelf registration event payments ("Event Payments"). The Company failed to file an Initial Registration Statement by September 30, 2005 in accordance with Section 6.1 of the Securities Purchase Agreement dated July 22, 2005. This event requires that Event Payments be made monthly to the purchasers in the amount of 1% of the aggregate securities' purchase price paid by each purchaser until the event is cured but no later than the second anniversary of the Securities Purchase Agreement's closing date. Event Payments incur interest of 1.5% per month until paid in full beginning ten days after demand. Demand was made on April 28, 2006. The Company's total potential liability is \$1,646,453 excluding interest. The Company has determined that this liability should have been recorded as of December 31, 2005. The effect of these restatements to the Company's consolidated financial statements as of December 31, 2005 and March 31, 2006 was a decrease to paid-in-capital and an increase in liabilities of \$1,646,453.

4. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for a full year. There have been no significant changes of accounting policies since December 31 2006. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended December 31, 2006.

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4. Summary of Significant Accounting Policies (cont'd)

a) Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. This statement does not establish requirements for recognizing and measuring dividend income, interest income, or interest expense. This statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, "Fair Value Measurements", and No. 107, "Disclosures about Fair Value of Financial Instruments." This statement is effective as of the beginning of the entity's first fiscal year that begins after November 15, 2007. The Company is currently reviewing the effect, if any, the proposed guidance will have on its financial statements.

5. Gas Properties

The carrying value of the Company's gas properties is attributable to unproved properties and one proved property. The proved costs are not currently being depreciated, depleted or amortized as it is immaterial to the financial statements at March 31, 2007 and no amount has been recorded. As exploration and development work progresses and the reserves on these properties are proven, capitalized costs attributable to the properties will be reclassified to producing properties and subject to depletion. If the exploration and development work were to be unsuccessful, the capitalized costs of the properties related to this unsuccessful work would be expensed in the year in which the determination was made. The timing of any write-downs of these unproven properties, if warranted, depends upon the nature, timing and extent of future exploration and development activities and their results. The Company believes its exploration and development efforts will allow it to realize the unproved property balance. The following is a breakdown of gas properties:

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5. Gas Properties (cont'd)

	2007
Property acquisition costs	\$ 1,556,089
Wells-in-progress	354,133
Proved gas property	32,091
	\$ 1,942,313

6. Property, Plant & Equipment

Property, plant and equipment are comprised as follows:

	Cost	2007 Accumulated Depreciation
Land	\$ 25,000	\$ -
Land Improvements	14,736	4,550
Building	286,068	8,879
Leasehold Improvements	2,339	585
Office and furniture	22,501	4,420
Computer equipment	59,990	32,080
Vehicles	202,441	64,475
Drilling equipment	365,675	41,143
Field equipment	327,452	45,053
Heavy trucks and trailers	367,689	38,787
Pipeline	459,062	-
	\$ 2,132,953	\$ 239,972
Net carrying amount		\$ 1,892,980

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March 31, 2007 and 2006
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7. Advances from Stockholders

The advances from stockholders include expense reimbursements as well as an unsecured, 8% interest bearing note with no fixed terms of repayment.

8. Long-term Debt

	2007
a. Promissory Note	\$ 1,000,000
b. Mortgage	216,504
c. Loans	<u>165,852</u>
Total notes payable	1,382,356
Less: Current portion	<u>1,044,479</u>
Long-term portion	<u>\$ 337,877</u>

- a) On December 28, 2006, the Company obtained a bridge loan in the amount of \$1,000,000 bearing interest at the rate of 10% per annum secured by a promissory note that matures at the end of 2007. The note also provides for an additional \$1,000,000 advance, by agreement of the parties. The loan provides funding for completion of the Company's pipeline tap and for development of the Company's coal-bed methane gas properties.
- b) On December 30, 2005, the Company purchased a 23,000 square foot warehouse set on approximately 7 acres located in Drexel, Missouri at a total cost of \$306,110, including all survey, environmental & closing costs. This facility, located in the southwest corner of Cass County, Missouri, is just south of the initial drilling operations that have begun and will be used primarily for equipment repair, storage and bulk inventory delivery. This property was purchased with a combination of cash coupled with a \$221,250 initial 10-year mortgage from a commercial bank, amortized on a 30-year basis at a fixed interest rate of 8.43%, and is repayable in blended monthly payments of \$1,789.
- c) As of March 31, 2007, the Company had purchased six vehicles for operations that were financed by loans for a total of \$199,347, amortized over 5-year basis with an average fixed interest rate of 6.95% and repayable in blended monthly payments of \$4,270. The loans have various maturity dates ranging from January 2009 to May 2011. Vehicles (note 6) with a net carrying value of \$137,966 at March 31, 2007 were used as security for these loans.

CANARY RESOURCES INC. AND SUBSIDIARIES
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 2007 and 2006
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8. Long-term Debt (cont'd)

Future minimum notes payments required are as follows:

2007	\$ 1,033,042
2008	47,081
2009	42,153
2010	44,208
2011	18,107
Thereafter	197,765
	<u>\$ 1,382,356</u>

9. Contingent Liability

The Company failed to file an Initial Registration Statement by September 30, 2005 in accordance with Section 6.1 of the Securities Purchase Agreement dated July 22, 2005. This event requires that an "Event Payment" be made monthly to the purchasers in the amount of 1% of the aggregate securities purchase price paid by each purchaser until the event is cured or until the second anniversary of the Securities Purchase Agreement closing date. Event Payments incur interest of 1.5% per month until paid in full beginning ten days after demand. Demand was made on April 28, 2006. The company's total potential liability is \$1,646,453 excluding interest. At March 31, 2007, the Company also recorded interest of \$150,769 that began accruing May 8, 2006. At the passage of each month, the Company reclassifies the liability from a contingent liability to an accrued liability. Of the total liability recorded at March 31, 2007, \$268,953 was a contingent liability and \$1,377,500 was an accrued liability. The Company is negotiating with the purchasers to cure the event and expects to make payment in shares to satisfy the majority of the liability.

10. Commitments and Contingencies

Lease Obligations

The Company is committed to operating lease payments for its office premises and equipment. Future minimum payments required are as follows:

2007	\$ 83,050
2008	25,800
2009	18,900
2010	12,000
Thereafter	-
	<u>\$ 139,750</u>

CANARY RESOURCES INC. AND SUBSIDIARIES
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10. Commitments and Contingencies (cont'd)

Contingent Royalties Payable

The Company has entered into various contractual land lease agreements with the owners of the gas properties which require the Company to make royalty payments at varying rates. The payments are contingent on the Company's ability to discover, extract and sell gas reserves. At March 31, 2007, the Company is meeting royalty obligations.

11. Capital Stock

On June 21, 2004, the Company authorized a ten for one forward stock split of its common shares. This stock split has been retroactively taken into consideration in the financial statements and the calculation of earnings per share.

In March and April 2005, three investors purchased 600,000 common shares of the Company at \$0.50 per share. The price per share was subject to adjustment to lower the price per share to equal the price per share of common stock in any "Qualified Financing" of the Company within one year. A "Qualified Financing" is an equity financing of a minimum of \$1,500,000. In no event was the price per share to be increased.

On July 22, 2005, the Company closed a private placement for gross proceeds of \$7,250,000. Expenses associated with the private placement are approximately \$351,598. Funds raised from the placement were used for development of coal-bed methane in the Eastern Forest City Basin in Kansas and Missouri, and for general working capital purposes.

The private placement was comprised of one convertible preferred share and one half of one warrant amounting to 18,125,000 convertible preferred shares of a new series designated as Class A Convertible Preferred Stock and 9,062,500 Warrants. The Class A Convertible Preferred Stock has a par value \$0.001 per share and a conversion price of \$0.40 per share which is subject to usual adjustment provisions. The convertible preferred shares carry no dividend and are convertible at any time. The Warrants have a \$1.00 exercise price, and each whole Warrant permits the holder to purchase one common share of the Company. The Warrants expire on July 22, 2009, four years from the date of the private placement. The cashless exercise provisions allow the Warrant holder to elect instead to receive the Net Number of shares of common stock determined according to the following formula:

$$\text{Net Number} = ((A \times B) - (A \times C)) / B$$

Where:

A= the total number of shares with respect to which the Warrants are being exercised.

B= the closing price of the common stock.

C= the exercise price of the Warrants.

The Warrants also carry provisions for mandatory exercise if, inter alia, the Company's common shares trade above \$2.00 per share for twenty days.

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11. Capital Stock (cont'd)

The value of each Warrant using the Black-Scholes pricing model was \$0.00 based upon the following assumptions:

Risk-free Interest rate	3.75%
Expected life in years	2.0
Exercise Price	\$1.00
Stock price	\$0.40
Volatility	30%
Expected Dividend Yield	0%

The private placement met the conditions for a "Qualified Financing," namely an equity financing of a minimum of \$1,500,000 within one year, for price adjustment purposes regarding shares sold to investors in March and April 2005. The pricing of the \$300,000 of shares sold to investors at \$0.50 per common share in March and April 2005 was, therefore, adjusted downwards to reflect the terms of the private placement in July 2005. Adjustment to the common share price from \$0.50 per share to \$0.40 per share resulted in the issuance of additional 150,000 common shares to those investors who invested in March and April 2005, and those investors also received 375,000 Warrants with the same terms and conditions as the Warrants issued in the July 2005 private placement.

Upon closing of the July 2005 private placement and after giving effect to the above adjustment regarding the price of shares sold to investors in March and April 2005, the issuance of Warrants to them, the receipt of shares in the treasury, and issuance of Stock Options in January 2006, November 2006, and February 2007 (see Note 12 below), the Company had 30,792,700 common shares, 18,125,000 Class A Convertible Preferred Stock, 9,437,500 Warrants issued and outstanding, and 2,485,000 stock options issued. After conversion of all of the Class A Convertible Preferred Stock and excluding exercise of any Warrants and Options, the Company would have 48,917,700 common shares outstanding.

In December 2006, the Company received 100,000 shares of restricted common stock from James Osborn as one of the conditions for settlement of the lawsuits. The stock was placed in the treasury thereby reducing the number of outstanding shares of common stock. No monetary consideration was given for the return of the shares placed in the treasury. The treasury stock was valued at \$65,000 represented by the value of the shares at the date the treasury stock was received. The treasury stock was recorded as a reduction to legal costs.

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12. Stock-based Compensation

On August 12, 2005, the Board of Directors approved an employee stock option plan ("2005 Stock Option Plan"), the purpose of which is to enhance the Company's stockholder value and financial performance by attracting, retaining and motivating the Company's officers, directors, key employees and consultants and to encourage stock ownership by such individuals by providing them with a means to acquire a proprietary interest in the Company's success through stock ownership. Under the 2005 Stock Option Plan, officers, directors, employees and consultants who provide services to the Company may be granted options to acquire common shares of the Company at not less than 110 percent of the Fair Market Value of the Stock on the date of grant. Options have a term of 10 years, and vest over three years. The total number of shares reserved for issuance under the 2005 Stock Option Plan is 7,500,000.

On January 31, 2006, under the 2005 Stock Option Plan, the Board of Directors granted options to purchase 2,300,000 common shares at a price of \$0.50 per common share until January 30, 2016. On November 16, 2006, the Board of Directors granted options to purchase 185,000 common shares at a price of \$0.60 per share until November 15, 2016. On February 17, 2007, the Board of Directors granted options to purchase 1,250,000 common shares at a price of \$0.55 per share until February 21, 2017. The compensation cost that has been charged against income for this plan at March 31, 2007 was \$47,229. No shares had been exercised or forfeited as of March 31, 2007.

Below is the value of each option award and assumptions used in the Black-Scholes pricing model:

	1/31/2006	11/16/2006	2/22/2007
	Grant	Grant	Grant
Risk-free interest rate	4.66%	4.77%	4.73%
Expected life in years	6.0	6.0	6.0
Exercise Price	\$0.50	\$0.60	\$0.55
Stock Price	\$0.45	\$0.60	\$0.50
Volatility	30%	48%	59%
Expected Dividend Yield	0%	0%	0%
Fair Value per Option Granted	\$0.16	\$0.27	\$0.29

The Company uses the method provided by SAB No. 107 to calculate the expected term of the options. The risk-free rate for the period within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Stock options outstanding during the three month period ended March 31, 2007 is 3,735,000. The weighted average exercise price was \$0.51. The weighted average life in years was 9.15. The weighted average grant-date fair value was \$0.17.

13. Related Party Transactions

Allowances were paid to companies controlled by directors of the Company. During the three-month period ended March 31, 2007, management fees of \$50,000 were paid to companies controlled by the directors. These transactions were in the normal course of business and recorded at an exchange value established and agreed upon by the above mentioned parties.

CANARY RESOURCES INC. AND SUBSIDIARIES
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14. Segmented Information

The Company's operations were conducted in the United States.

Canary Resources Inc. ("Corporate") – a parent company
 Canary Operating Corporation ("Canary") – a subsidiary
 Canary Pipeline, Inc. ("Canary Pipeline") – a subsidiary
 Canary Drilling, Inc. ("Canary Drilling") – a subsidiary
 Willis Well Services, Inc. ("Willis") – a subsidiary

	2007	2006
Revenues by Segment:		
Corporate	\$ -	\$ -
Canary	5,514	-
Canary Pipeline	-	-
Canary Drilling	-	-
Willis	89,776	-
	<hr/>	<hr/>
Consolidated Revenues	\$ 95,290	\$ -
	<hr/>	<hr/>
Operating (Loss) by Segment:		
Corporate	\$ (250,339)	\$ (282,427)
Canary	(90,776)	(428,439)
Canary Pipeline	(47,017)	-
Canary Drilling	(141,951)	-
Willis	(61,382)	-
	<hr/>	<hr/>
Consolidated operating loss	\$ (591,465)	\$ (710,866)
	<hr/>	<hr/>
Total Assets by Segment:		
Corporate	\$ 561,806	\$ 4,632,361
Canary	2,345,752	-
Canary Pipeline	459,062	-
Canary Drilling	722,345	-
Willis	434,524	-
	<hr/>	<hr/>
Consolidated total assets	\$ 4,523,489	\$ 5,893,761
	<hr/>	<hr/>

CANARY RESOURCES INC. AND SUBSIDIARIES
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15. Income Taxes

The Company has tax losses available to be applied against future year's income. Due to the losses incurred in the current year and expected future operating results, management determined that it is more likely than not that the deferred tax asset resulting from the tax losses available for carryforward and the difference in bases of stock options will not be realized through the reduction of future income tax payments. Accordingly a valuation allowance has been recorded for deferred income tax assets.

The Company's current income taxes are as follows:

	2007	2006
Expected income tax recovery at the statutory rates of 40% (2005 - 34%)	\$ (272,185)	\$ (268,320)
Stock compensation	<u>18,892</u>	-
Valuation allowance	<u>253,293</u>	268,320
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

The Company has deferred income tax assets and liabilities as follows:

	2007	2006
Net operating loss carryforward	\$ 2,210,914	\$ 1,002,454
Net book value and tax value differences	(260,633)	(185,328)
Valuation allowance for deferred income tax assets	<u>(1,950,281)</u>	<u>(817,126)</u>
	<u>\$ -</u>	<u>\$ -</u>

As of March 31, 2007 the Company had approximately \$5,797,712 of federal and state net operating loss carryforwards available to offset future taxable income. These losses expire as follows.

2018	\$ 1,900
2019	6,550
2020	1,794,392
2021	3,293,699
2022	<u>701,171</u>
	<u>\$ 5,797,712</u>

CANARY RESOURCES INC. AND SUBSIDIARIES
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16. Comparative Figures

Certain of the prior period balances have been reclassified to conform with the current period's financial statement presentations.

CERTIFICATION

I, William Chandler, certify that:

I have reviewed this quarterly report of Canary Resources, Inc. and that, based on my knowledge, such statements and the notes thereto present fairly, in all material respects, the financial position of the issuer and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied.

/s/ William Chandler

William Chandler
Chief Executive Officer

May 16, 2007

CERTIFICATION

I, William Chandler, certify that:

I have reviewed this quarterly report of Canary Resources, Inc. and that, based on my knowledge, such statements and the notes thereto present fairly, in all material respects, the financial position of the issuer and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied.

/s/ William Chandler

William Chandler
Acting as Chief Financial Officer

May 16, 2007