

**CANORO RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED JUNE 30, 2008**

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") was prepared at, and is dated August 27, 2008. This MD&A is provided by the management of Canoro Resources Ltd. ("Canoro" or the "Company") to review first quarter fiscal 2009 activities and results as compared to the previous year, and should be read in conjunction with the unaudited interim consolidated financial statements including selected notes for the three months ended June 30, 2008 and audited consolidated financial statements and accompanying notes of Canoro Resources Ltd. ("Canoro" or the "Company") as at and for the year ended March 31, 2008 and 2007.

Effective March 31, 2008, management changed the reporting currency of the Company from Canadian dollars (C\$) to United States dollars (\$), as the Company transacts substantially all of its business in US\$.

Effective April 1, 2008, the Company's functional currency changed from Canada dollars to US\$ as a result of increased significance of the US\$ to the Company's cash flows. Amongst other things, this increased significance of the US\$ is a result of increased capital expenditures being in US\$ and an increased proportion of revenues being earned in US\$. As both the functional and reporting currencies of the Company are in US\$, there are no translation gains and losses that will impact accumulated other comprehensive income.

Monetary assets and liabilities of the Company that are denominated in currencies other than US\$ are translated into its function currency at the rates of exchange in effect at the period end date. Any gains and losses are recorded in earnings.

Forward-Looking Statements

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. **Forward-looking statements or information in this MD&A include, but are not limited to, statements or information with respect to:** business strategy and objectives; development plans; exploration plans; acquisition and disposition plans and the timing thereof; reserve quantities and the discounted present value of future net cash flows from such reserves; future production levels; capital expenditures; net revenue; operating and other costs; royalty rates and taxes.

Forward-looking statements or information are based on a number of factors and assumptions that have been used to develop such statements and information but may prove to be incorrect. 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. **In addition to other factors and assumptions may be identified in this MD&A, assumptions have been made regarding, among other things:** the

impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the countries in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions that may have been used.

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. **These risks and uncertainties that may cause actual results to differ materially from the forward-looking statements or information include, among other things:** the ability of management to execute its business plan; general economic and business conditions; the risk of war or instability affecting countries or states in which the Company operates; the risks of the oil and natural gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas; market demand; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; risks and uncertainties involving geology of oil and natural gas deposits; the uncertainty of reserves estimates and reserves life; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew production sharing contracts; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to production (including decline rates), costs and expenses; fluctuations in oil and natural gas prices, foreign currency, exchange, and interest rates; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of royalty or cess payments; health, safety and environmental risks; risks associated with existing and potential future law suits and regulatory actions against the Company; uncertainties as to the availability and cost of financing; and financial risks affecting the value of the Company's investments. See page 6 of the MD&A for a further discussion of specific risks and uncertainties. Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties. Additional risk factors affecting the Company and its business are contained in the Company's Annual Information Form filed on SEDAR at www.sedar.com.

Non-GAAP terms

This document contains the term "netbacks" which is a non-GAAP term. The Company considers corporate netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Canoro's determination of netbacks may not be comparable to that reported by other companies.

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.

OPERATIONAL AND FINANCIAL HIGHLIGHTS:

Production and realized sales prices:

(\$ thousands, except per unit amounts)	Three months ended June 30	
	2008	2007
Natural gas (mcf/d)	3,731	1,095
Crude oil (bbl/d)	282	84
Total (boe/d)	904	267
Realized gas price (\$/mcf)	2.40	2.20
Realized oil price (\$/bbl)	131.77	68.98
Nigerian Bonny Light (\$/bbl)	125.46	71.14
Realized price (\$/boe)	51.06	30.81
Royalties (\$/boe)	5.04	1.37
Operating costs (\$/boe)	4.36	7.58
Netback (\$/boe)	41.66	21.86

Production:

Production for the three months ended June 30, 2008 ("Quarter") averaged 904 boe/d, representing an increase of 239 percent over the comparative period in the prior year, primarily due to a successful drilling program at the Company's core Amguri asset and field optimization. Production continues to be constrained due to limited gas infrastructure and demand in the area. Production for the three months ended June 30, 2008 increased 131 percent over the three months ended March 31, 2008 ("prior Quarter") due to Amguri A-10B and Amguri A-11 being on production for the majority of the Quarter and increased seasonal demand.

Realized sales price:

Natural gas:

For the three months ended June 30, 2008 the Company received \$2.40 per mcf, compared to \$2.20 per mcf in the comparative period in the prior year. The increase is attributed to the strengthening of the rupees (Rs) against the US dollar. For the majority of natural gas production, the Company receives a fixed price of Rs 3,840 per 1000 m³, however, the Company also has a contract for the life of production sharing contract to sell 12,000 m³/d (approximately 340 mcf/d) at Rs 2,304 per 1000 m³, (approximately \$1.64 per mcf). The Company is paid in rupees and is subject to foreign exchange fluctuations on the average price received on changes between the rupee and US\$. Although the Company is not directly impacted by fluctuations in natural gas prices due to the nature of their contracts, as prices around the world increase for natural gas, there is continued market pressures to increase the price received for natural gas in India, which would benefit the Company. The Company continues to be in negotiations with the purchaser of the Company's natural gas to increase the price received to Rs 6,355 per 1000 m³, (approximately \$4.50 per mcf) based on current market conditions.

Crude oil:

Crude oil prices remained volatile during the Quarter and reached a record price subsequent to the Quarter. Prompt month WTI crude oil traded at approximately US\$100.00 per bbl at the beginning of the Quarter and closed the Quarter at approximately US\$140.00 per bbl and reached an all-time high of \$145.85 on July 3, 2008. Nigerian Bonny Light, the benchmark price the Company receives for oil, was equally volatile during the Quarter. There were numerous factors contributing to the volatility of the price of oil including the fluctuating U.S dollar, rebel strikes on key infrastructure in Nigeria and unrest in the Middle East. The Company continues to receive a premium of \$4-6 per bbl on the average Bonny Light price.

The Company's realized sales price for the three months ended June 30, 2008 was \$51.06 per boe compared to \$30.81 per boe for the same period in 2007. The increase in the Company's realized price per boe is consistent with the increase in Nigerian Bonny Light.

Petroleum and natural gas sales:

Petroleum and natural gas sales increased to \$4.2 million for the three months ended June 30, 2008 from \$0.7 million in the three month period ended June 30, 2007. The increase in revenue is attributable to a 239 percent increase in sales volumes and a 66 percent increase in the realized price received. Petroleum and natural gas sales increased \$2.5 million and 59 percent over the fourth quarter of 2008 due to a 166 percent increase in production and a six percent increase in the realized price received.

Royalties and cess:

	Three months ended June 30	
	2008	2007
Total	415	33
Per boe	5.04	1.37

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 Rs 528 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 Rs 927 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.

On September 20, 2007, the Company entered into an agreement with a private fund based in Jersey, Channel Islands, whereby the fund provided limited-recourse funding ("Entitlement Fund") of \$10,000,000 for appraisal and development drilling in the Company's Amguri Field in Assam, India. The fund does not have a participating interest in the field, nor is it responsible for future capital costs. The fund only receives payments based on the Company's 60% share of gross revenue from the Amguri Field ranging from 7% before recovery of the original \$10,000,000 and 3.5% thereafter.

For the three months ended June 30, 2008, total royalties and cess on crude oil amounted to \$0.4 million compared to \$0.03 million in the comparative period in the prior year. During the Quarter, the Company continued payments of the Entitlement Fund as per the agreement. Payments for the three months ended June 30, 2008, totaled \$0.3 million and are included in royalties. The increase in royalties on a per boe basis and absolute basis is due to increased oil production and revenue entitlement payments as per the Entitlement Fund agreement.

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.

Operating expenses:

	Three months ended June 30	
	2008	2007
Total	359	184
Per boe	4.36	7.58

Operating costs for the three months ended June 30, 2008 were \$0.4 million (\$4.36 per boe) compared to \$0.2 million (\$7.58 per boe) in the comparative period in the prior year. The decrease in operating costs is due to higher production volumes to spread fixed costs over and operational improvements. Operating costs per boe decreased 35 percent over the fourth quarter of fiscal 2008 primarily due to increased production volumes. Canoro is committed to being a low cost producer in North East India.

Depletion, depreciation and accretion expense:

Depletion

	Three months ended June 30	
	2008	2007
Total	1,728	1,837
Per boe	21.00	75.66

For the three months ended June 30, 2008 depletion, depreciation and accretion (“DD&A”) was \$1.7 million compared to \$1.8 million in the comparative period in the prior year. The decrease in the DD&A rate per boe is due to the substantial increase in proven reserves from the successful drilling campaign at Amguri. On a boe basis, the DD&A rate decreased 18 percent from the fourth quarter of fiscal 2008 due to the addition of proven reserves from Amguri 13B.

Capital expenditures:

The Company’s total capital expenditures during the three months ended June 30, 2008 amounted to \$6.6 million compared to \$4.9 million for the comparative period in 2007. The Company’s exploration and development expenditures were financed through a combination of cash on hand and funds generated from operations. The Company drilled two wells (1.3 net) during the Quarter, with a 50 percent success rate.

CORPORATE:

Interest income:

During the three months ended June 30, 2008, the Company earned interest income of \$0.1 million compared to \$0.2 for the same period in 2007. As at June 30, 2008, the Company had cash of \$24.5 million, which primarily is a result of the financing that closed on December 20, 2007, with an over allotment that closed January 9th, 2008.

General and administrative expenses:

General and administrative (“G&A”) costs for the three months ended June 30, 2008 were \$2.0 million compared to \$0.5 million in the comparative period 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. The Company expects G&A costs on an absolute basis to be consistent with the fourth quarter of fiscal 2008; however, to decrease on a per boe basis as sales volumes increase and staffing levels remain constant. Canoro believes it has assembled an excellent team to take the Company from an exploration company to an exploration and production company.

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 months ended June 30, 2008, was \$0.4 million compared to \$0.2 million in the comparative period in the prior year. Canoro believes that providing employees with stock options effectively aligns the employees’ goals with the shareholders and helps retain key employees. Canoro capitalized \$0.09 million for the quarter ended June 30, 2008 and \$0.04 million in the comparable period in the prior year of stock based compensation associated with exploration and development activities.

Net loss:

For the three months ended June 30, 2008, Canoro recorded a net loss of \$0.4 million compared to a net loss of \$2.9 million in the comparative period in 2007. Earnings for the three month period were adversely affected by non-cash items such as depletion, depreciation, accretion, and stock-based compensation.

Liquidity and Capital Resources:

Share Capital:

At June 30, 2008, the Company had 113,708,941 shares outstanding (March 31, 2008 – 112,992,273). 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 months ended June 30, 2008.

	Three months ended June 30, 2008	Three months ended June 30, 2007
Weighted average shares outstanding:		
Basic	113,134,922	93,472,439
Options and warrants ⁽¹⁾	-	-
Diluted	113,134,922	93,472,439
Trading Statistics		
High	1.64	1.31
Low	1.30	0.57
Average daily volume	174,005	90,983

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

At August 27, 2008, the Company had 113,742,277 shares outstanding and 8,698,666 options outstanding.

Capital Resources:

At June 30, 2008, the Company had \$31.4 million of net working capital, including cash and cash equivalents of \$24.5 million. As at June 30, 2008, the Company had no debt. The Company is currently undertaking the largest capital program in its history. The Company is forecasting net capital expenditures over the next 12 to 15 months to be approximately \$50 to \$55 million. Management anticipates that the Company will have adequate liquidity to fund future working capital and budgeted capital expenditures during the next 12-15 months from operating activities and cash on hand. New equity, if available and on favorable terms, may be utilized to expand the exploration and development program. The Company 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. As at June 30, 2008, the Company's bankers have issued letters of credit for \$9.7 million for varying periods expiring during the current fiscal period (March 31, 2008 – \$9.7 million). Subsequent to Quarter end, the Canadian Federal Government, through Export Development Canada, has undertaken to guarantee the obligations of the Company to a commercial bank regarding guarantees issued on behalf of the Company.

SUMMARY OF QUARTERLY RESULTS

(\$ thousands, except per share amounts)	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	4,201	1,715	1,091	1,253	748	433	570	715
Cash flow from/(used) in operating activities	(1,700)	(3,220)	(3,327)	274	77	323	489	(55)
Net Loss	(381)	(755)	(1,974)	(1,439)	(2,921)	(1,851)	(1,369)	(1,571)
Per share – basic and diluted	-	-	(0.02)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)
Capital expenditures	6,588	5,445	3,253	139	4,871	7,394	4,792	924
Total boe/day	904	390	288	271	267	198	218	240
Total Assets	91,704	90,364	90,098	67,732	59,974	59,005	53,948	54,223

The increase in revenue over the past eight quarters is primarily due to increased production from the Amguri field. The net loss has decreased over the past two quarters due to the increase in production and commodity prices. Total assets have increased from the first quarter of fiscal 2008 reflecting increased drilling and seismic activity.

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. 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.

Financial Risk Management:

The Company is exposed to financial risks due to the nature of its business and the financial assets and liabilities it holds. The following discussion reviews material financial risks, quantifies the associated exposures, and explains how these risks, and the Company's capital, are managed.

Additional information in respect of the Company's risks may be found in the Annual Information Form.

a) Market Risk

Changes in commodity prices and foreign currency exchange rates can have an impact on the Company's earnings and value of financial assets and liabilities.

Commodity price risk – Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed to commodity price risk due to the nature of its business. Oil and natural gas prices are impacted by global supply and demand, as well as political and other forces. For the majority of natural gas production, the Company receives a fixed price of 3,840 rupees (Rs) per 1000 m³, approximately \$2.73 per thousand cubic feet (mcf). The Company also has a contract for the life of production sharing contract to sell 12,000 m³/d (approximately 340 mcf per day) at 2,304 Rs per 1000 m³, (approximately \$1.64 per mcf). The Company is paid in rupees and is subject to foreign exchange fluctuations on the average price received on changes between the rupee and US\$. Although the Company is not directly impacted by fluctuations in natural gas prices due to the nature of their contracts, as prices around the world increase for natural gas there is continued market pressures to increase the price received for natural gas in India which would benefit the Company. The Company receives world oil prices for its oil production and is subject to price fluctuations. Prices continue to be volatile and can undergo significant changes in relatively short time periods. The Company may enter into derivative commodity price contracts in order to manage its commodity price risk.

Based on actual sales volumes recorded for the period ended June 30, 2008, a US\$1.00 per barrel increase (decrease) in oil prices would have increased (decreased) net earnings by \$0.03 million. As the Company continues to increase production, earnings will become more impacted by commodity prices, primarily oil.

Foreign currency exchange rate risk – Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting currency of the Company is United States dollars. Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the rupee and the US\$. Oil revenues are denominated in US\$, while natural gas revenues are denominated in Indian rupees. Operating and capital expenditures are incurred in various currencies, including, US dollars, Indian rupees and Canadian dollars. The majority of capital expenditures are incurred in US\$ and oil revenues are received in US\$ therefore the Company's exposure to foreign exchange is minimal.

The Company may enter into derivative foreign currency contracts in order to manage foreign currency exchange rate risk, but has not done so to date.

The table below shows the Company's exposure to foreign currencies for its financial instruments:

As at June 30, 2008	Total	USD	INR	CAD
	per FS ⁽¹⁾	US\$ Equivalent		
Cash and cash equivalents	14,783	10,838	820	3,125
Restricted cash	9,741	9,741	-	-
Accounts receivable	13,672	12,378	1,093	201
Accounts payable	(8,131)	(7,165)	(662)	(304)
Balance sheet exposure	30,065	25,792	1,251	3,022

⁽¹⁾ denotes Financial statements

The Company believes a three percent change in the US\$ against these foreign currencies would be reasonably possible within the next three month reporting period. A three percent strengthening of the US\$ would result in a change in earnings as follows (an equal but opposite impact to earnings would result if the US\$ weakened by three percent):

As at June 30, 2008	INR	CAD
US\$ Equivalent		
Decrease in earnings	38	91

b) Credit Risk

The Company is exposed to credit risk in respect to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held in operating accounts with highly rated Canadian banks and therefore the Company considers these assets to have negligible credit risk.

The Company's accounts receivable are primarily with joint venture partners and international oil and natural gas companies. The Company raises authorizations for expenditure and requires approval from its joint venture partners for all significant expenditures in order to mitigate its receivables collection risk. The Company's production base is entirely in the Assam state in Northeast India. Production is sold to a small number of highly rated international oil and gas companies and a Company owned by the State of Assam (refer to Note 10). It is the Company's policy to transact with only credit worthy counterparties. The Company has not experienced any collection problems with its counterparties and does not have any overdue receivable amounts as at June 30, 2008.

The carrying amount of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure. The Company does not have an allowance for doubtful accounts, and did not write off any receivables in the three months ended June 30, 2008.

c) Liquidity Risk

The Company manages its risk of not meeting its financial obligations through management of its capital structure, annual budgeting of its revenues, expenditures and cash flows. The Company expects its fiscal 2009 operating cash flow and cash on hand to exceed budgeted non-discretionary expenditures, providing added liquidity. As at June 30, 2008, the Company had working capital of \$31.4 million.

Accounts payable arise in the normal course of business, and all amounts are due within three months or less of the balance sheet date.

The Company believes it has adequate cash flows and cash on hand to discharge its financial obligations.

d) Capital Management

The Company defines its capital as shareholder's equity. The Company's objective is to maintain a strong capital position in order to execute its business plan and maximize value to shareholders. Availability of capital is critical for future success and as such, the Company strives to maintain strong relationships with the capital investment community. Methods employed to adjust the Company's capital structure could include any, all, or a combination of the following activities:

- Repurchase shares pursuant to a normal course issuer bid;
- Issue new shares through a public offering or private placement;
- Issue equity linked or convertible debt;
- Raise fixed or floating rate debt;

The Company is not subject to any externally imposed capital requirements.

Contractual obligations and commitments:

The Company has office lease commitments in Noida and Jorhat in India and Calgary, Canada.

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:

	Drilling contracts	Office leases	Total
2009	15,441	487	15,928
2010	4,553	605	5,158
2011	-	502	502
2012	-	190	190
2013	-	127	127
Total	19,994	1,911	21,905

The Company has an obligation to pay a revenue entitlement as described in Note 5.

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.

Guarantees and off-balance sheet arrangements:

Canoro has not entered into any off-balance sheet arrangements except for certain lease agreements entered into in the normal course of operations. All leases are operating leases with lease payments charged to operating expenses or general and administrative expenses according to the nature of the lease.

Recent Accounting Pronouncements:

The following accounting pronouncements have been issued by the AcSB, but were not in effect at the date of the current financial statements. These pronouncements may have an impact on the Company's future financial reporting.

Goodwill and Intangible Assets

Effective April 1, 2009, the Company will be required to adopt this standard, which replaces GAAP sections 3062 and 3450 and provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is currently assessing the impact of this standard.

Convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS")

In February of 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the requirement to report under International Financial Reporting Standards ("IFRS") with comparative 2010 periods converted as well. The Canadian Securities Administrators are in the process of examining the changes to securities rules as a result of this initiative. The Company has not completed development of its IFRS changeover plan, which will include an analysis of key GAAP differences and a plan to assess accounting policies under IFRS as well as the potential IFRS 1 exemptions.

2009 Outlook:

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.

2009 Capital Activities:

The Company is forecasting net capital expenditures over the next 12 to 15 months to be approximately \$50 to \$55 million.

2009 Production Guidance:

Canoro is expecting production for fiscal 2009 to average 1,200 boe/d to 1,300 boe/d with an exit rate of approximately 1,550 boe/d.

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 and at the Company's website at www.canoro.com.

Interim Consolidated Financial Statements of

CANORO RESOURCES LTD.

For the three months ended
June 30, 2008 and 2007

CANORO RESOURCES LTD.

Interim Consolidated Balance Sheets (unaudited)
(Thousands of United States dollars)

June 30, 2008 March 31, 2008

Assets

Current assets:

Cash and cash equivalents	14,783	23,993
Restricted cash (Note 7)	9,741	9,741
Investment	171	80
Accounts receivable (Note 10)	13,672	8,323
Inventory	133	401
Prepaid expenses and deposits	1,012	767
	<u>39,512</u>	<u>43,305</u>
Property, plant and equipment (Note 3)	52,192	47,059
	<u>91,704</u>	<u>90,364</u>

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	8,131	7,760
Asset retirement obligations (Note 4)	638	513
Shareholders' equity:		
Common shares (Note 6)	86,883	85,597
Contributed surplus (Note 6)	12,925	12,986
Accumulated other comprehensive income (Note 2)	8,332	8,332
Deficit	(25,205)	(24,824)
	<u>82,935</u>	<u>82,091</u>
Total liabilities and shareholders' equity	<u>91,704</u>	<u>90,364</u>

Entitlement fund (Note 5)

Contingent liabilities (Note 9)

Contractual obligations and commitments (Note 11)

See accompanying notes to the interim consolidated financial statements.

Approved by the Board:

Signed "Douglas R. Martin" Director

Signed "Harley L. Winger" Director

CANORO RESOURCES LTD.

Interim Consolidated Statements of Operations and Deficit (unaudited)
(Thousands of United States dollars)

Three months ended June 30	2008	2007
Revenues:		
Petroleum and natural gas sales	4,201	748
Royalties	(415)	(33)
Interest income and other	120	163
	<u>3,906</u>	<u>878</u>
Expenses:		
Operating	359	184
General and administrative	1,955	537
Stock-based compensation	444	208
Foreign exchange (gain)/loss	(108)	770
Unrealized investment (gain)/loss	(91)	263
Depletion, depreciation and accretion	1,728	1,837
	<u>4,287</u>	<u>3,799</u>
Net loss	(381)	(2,921)
Deficit, beginning of the period	(24,824)	(17,735)
Deficit, end of the period	<u>(25,205)</u>	<u>(20,656)</u>
Basic and diluted loss per share (Note 6)	-	(0.03)

Consolidated Statements of Comprehensive Income (unaudited)
(Thousands of United States dollars)

Three months ended June 30	2008	2007
Net loss	(381)	(2,921)
Other comprehensive income		
Foreign exchange adjustment on change in reporting currency	-	4,086
Comprehensive income/(loss)	<u>(381)</u>	<u>1,165</u>

See accompanying notes to the interim consolidated financial statements.

CANORO RESOURCES LTD.

Interim Consolidated Statements of Cash Flows (unaudited)
(Thousands of United States dollars)

Three months ended June 30	2008	2007
Operating Activities		
Net loss	(381)	(2,921)
Non cash items:		
Depletion, depreciation and accretion	1,728	1,837
Unrealized foreign exchange (gain)/loss	(135)	330
Unrealized investment (gain)/loss	(91)	263
Inventory write-down	-	35
Stock-based compensation	444	208
Net change in non-cash working capital	(3,265)	325
	(1,700)	77
Financing Activities		
Stock option proceeds	689	-
Investing Activities		
Additions to property, plant and equipment (net)	(6,588)	(4,871)
Restricted cash	-	1,036
Change in non-cash working capital	(1,572)	(2,548)
	(8,160)	(6,383)
Net effect of foreign exchange on cash denominated in foreign currencies	(39)	562
Net change in cash and cash equivalents	(9,210)	(5,744)
Cash and cash equivalents, beginning of period	23,993	13,012
Cash and cash equivalents, end of period	14,783	7,268
Cash flow supplemental information:		
Interest received	104	173

See accompanying notes to the interim consolidated financial statements.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 1

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

1. General:

Canoro Resources Ltd. (the "Company") was incorporated under the Companies Act (British Columbia) and continued under the Business Corporations Act (Alberta). The Company is engaged in the acquisition, development and exploration for, and production and marketing of petroleum and natural gas in India.

2. Significant accounting policies:

(a) Basis of presentation:

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended March 31, 2008. The disclosure which follows is incremental to the disclosure included with the annual financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended March 31, 2008. 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.

(b) Change in reporting currency:

Effective March 31, 2008, management changed the reporting currency of the Company from Canadian dollars (C\$) to United States dollars (\$), as the Company transacts substantially all of its business in United States dollars.

As at June 30	2008	2007
Accumulated other comprehensive income, beginning of period	8,332	3,137
Other comprehensive income		
Foreign exchange adjustment on change in reporting currency	-	4,086
Accumulated other comprehensive income, end of period	8,332	7,223

(c) Change in accounting policy:

Effective April 1, 2008, the Company's functional currency changed from Canada dollars to US\$ as a result of increased significance of the US\$ to the Company's cash flows. Amongst other things, this increased significance of the US\$ is a result of increased capital expenditures being in US\$ and an increased proportion of revenues being earned in US\$. As both the functional and reporting

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 2

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

currencies of the Company are in US\$, there are no translation gains and losses that will impact accumulated other comprehensive income.

Monetary assets and liabilities of the Company that are denominated in currencies other than US\$ are translated into its function currency at the rates of exchange in effect at the period end date. Any gains and losses are recorded in earnings.

3. Property, plant and equipment:

June 30, 2008			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties			
India	\$ 59,488	8,808	\$ 50,680
Office furniture and equipment			
Canada	965	218	747
India	985	220	765
	1,950	438	1,512
	\$ 61,438	9,246	\$ 52,192

March 31, 2008			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties			
India	\$ 52,846	\$ 7,124	\$ 45,722
Office furniture and equipment			
Canada	787	175	612
India	896	171	725
	1,683	346	1,337
	\$ 54,529	\$ 7,470	\$ 47,059

At June 30, 2008, expenditures associated with the Company's unproven properties totaling \$11.9 million (March 31, 2008 \$11.2 million) have been excluded from depletion. Estimated future development costs of \$15.7 million (March 31, 2008 – \$15.7 million) have been included in costs subject to depletion. During the period ended June 30, 2008, direct overhead costs totaling \$0.3 million (June 30, 2007 – \$0.1 million) were capitalized relating to the Company's exploration, development and property acquisition programs in India.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 3

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

4. Asset retirement obligations:

The following table represents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas assets as at June 30, 2008:

Asset retirement obligations, beginning of period	\$	513
Obligations incurred		98
Accretion expense		27
Asset retirement obligations, end of period	\$	638

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 provided limited-recourse funding of \$10.0 million for appraisal and development drilling in the Company's Amguri Field in Assam, India. The funds have been expended.

The fund does not have a participating interest in the field, nor is it responsible for future capital costs. The fund only receives payments based on the Company's 60 percent share of gross revenue from the Amguri Field ranging from seven percent before recovery of the original \$10.0 million and 3.5 percent thereafter. The agreement 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 \$15.0 million before recovery, or for \$12.8 million after recovery of the fund's initial \$10.0 million. If this termination option is exercised by the Company, the fund will be granted, subject to TSX approval, 5.0 million warrants to acquire 5.0 million common shares of the Company, exercisable within nine months from the date of issue at an exercise price of C\$ 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.

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:

	Number	Amount
Balance, beginning of period	112,992,273	\$ 85,597
Exercise of stock options	716,668	689
Transfer from contributed surplus	-	597
Balance, end of period	113,708,941	\$ 86,883

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 4

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

(c) Stock options:

The following table sets forth a reconciliation of the stock option plan activity for the three months ended June 30, 2008:

	Number	Weighted average exercise price (C\$)
Outstanding options, beginning of period	9,942,000	\$ 1.47
Granted	-	-
Exercised	(716,668)	0.96
Forfeited	(150,000)	1.61
Outstanding options, end of period	9,075,332	1.51
Options exercisable, end of period	6,271,690	\$ 1.57

Options	Outstanding at June 30, 2008	Weighted Average Remaining Contractual Life (years)	Exercisable at June 30, 2008	Weighted Average Remaining Contractual Life
Exercise Price				
\$ 0.50 to \$ 0.74	150,000	2.3	150,000	2.3
\$ 0.75 to \$ 0.99	1,440,000	2.3	1,390,000	2.3
\$ 1.00 to \$1.24	2,977,332	3.2	1,965,676	3.2
\$ 1.25 to \$1.49	1,780,000	3.6	883,342	3.0
\$ 1.50 to \$1.74	795,000	4.3	331,670	4.0
\$ 1.75 to \$1.99	1,223,000	2.8	841,002	2.0
\$ 4.34	710,000	1.6	710,000	1.6
	9,075,332	3.0	6,271,690	2.6

(d) Contributed surplus:

The following table sets forth a reconciliation of the contributed surplus for the three months ended June 30, 2008:

Balance, beginning of period	\$ 12,986
Stock-based compensation:	
Grant of options expensed, net of cancelled	444
Capitalized stock based compensation	92
Transfer to share capital	(597)
	(61)
Balance, end of period	\$ 12,925

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 5

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

(e) Loss per share:

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

	Three months ended	
	June 30	
	2008	2007
Basic	113,134,922	93,472,439
Diluted ⁽¹⁾	113,134,922	93,472,439

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

7. Restricted cash:

From time to time, the Company is required to post guarantees with the Government of India and letters of credit to its suppliers of goods and services. As at June 30, 2008, the Company's bankers issued letters of credit for \$9.7 million for varying periods expiring during the current fiscal period (March 31, 2008 – \$9.7 million).

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.

For the period ended June 30, 2008	Canada	India	Consolidated
Petroleum and natural gas sales	\$ -	4,201	\$ 4,201
Interest income and other	120	-	120
Net income (loss)/income	(1,997)	1,616	(381)
Capital expenditures	178	6,410	6,588
As at June 30, 2008			
Total assets	\$ 26,973	64,731	\$ 91,704

For the period ended June 30, 2007	Canada	India	Consolidated
Petroleum and natural gas sales	\$ -	748	\$ 748
Interest income and other	161	2	163
Net loss	(972)	(1,949)	(2,921)
Capital expenditures	7	4,864	4,871
As at June 30, 2007			
Total assets	\$ 13,821	46,152	\$ 59,943

9. 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.

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 6

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

10. Economic dependency:

All of the Company's crude oil production is sold to a publicly traded company. For the period ended June 30, 2008, approximately 81 percent of the Company's petroleum and natural gas sales was derived from this customer (June 30, 2007 - 54 percent). As at June 30, 2008, approximately 24 percent of the Company's total accounts receivable was from this customer (March 31, 2008 - 18 percent).

The majority of the Company's natural gas revenue is sold to a company that is owned by the State of Assam, India. For the period ended June 30, 2008, approximately 18 percent of the Company's total revenue was derived from this customer (June 30, 2007 - 22 percent).

11. Contractual obligations and commitments:

The Company has office lease commitments in Noida and Jorhat in India and Calgary, Canada.

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:

	Drilling contracts	Office leases	Total
2009	15,441	487	15,928
2010	4,553	605	5,158
2011	-	502	502
2012	-	190	190
2013	-	127	127
Total	19,994	1,911	21,905

The Company has an obligation to pay a revenue entitlement as described in Note 5.

12. Financial Risk Management

The Company is exposed to financial risks due to the nature of its business and the financial assets and liabilities it holds. The following discussion reviews material financial risks, quantifies the associated exposures, and explains how these risks, and the Company's capital, are managed.

Additional information in respect of the Company's risks may be found in the Annual Information Form.

a) Market Risk

Changes in commodity prices and foreign currency exchange rates can have an impact on the Company's earnings and value of financial assets and liabilities.

Commodity price risk – Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed to commodity price risk due to the nature of its business. Oil and natural gas prices are impacted by global supply and demand, as well as political and other forces. For the majority of natural gas production, the

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 7

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

Company receives a fixed price of 3,840 rupees (Rs) per 1000 m³, approximately \$2.73 per thousand cubic feet (mcf). The Company also has a contract for the life of production sharing contract to sell 12,000 m³/d (approximately 340 mcf per day) at 2,304 Rs per 1000 m³, (approximately \$1.64 per mcf). The Company is paid in rupees and is subject to foreign exchange fluctuations on the average price received on changes between the rupee and US\$. Although the Company is not directly impacted by fluctuations in natural gas prices due to the nature of their contracts, as prices around the world increase for natural gas there is continued market pressures to increase the price received for natural gas in India which would benefit the Company. The Company receives world oil prices for its oil production and is subject to price fluctuations. Prices continue to be volatile and can undergo significant changes in relatively short time periods. The Company may enter into derivative commodity price contracts in order to manage its commodity price risk.

Based on actual sales volumes recorded for the period ended June 30, 2008, a US\$1.00 per barrel increase (decrease) in oil prices would have increased (decreased) net earnings by \$0.03 million. As the Company continues to increase production, earnings will become more impacted by commodity prices, primarily oil.

Foreign currency exchange rate risk – Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting currency of the Company is United States dollars. Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the rupee and the US\$. Oil revenues are denominated in US\$, while natural gas revenues are denominated in Indian rupees. Operating and capital expenditures are incurred in various currencies, including, US dollars, Indian rupees and Canadian dollars. The majority of capital expenditures are incurred in US\$ and oil revenues are received in US\$ therefore the Company's exposure to foreign exchange is minimal.

The Company may enter into derivative foreign currency contracts in order to manage foreign currency exchange rate risk, but has not done so to date.

The table below shows the Company's exposure to foreign currencies for its financial instruments:

As at June 30, 2008	Total	USD	INR	CAD
	per FS ⁽¹⁾		US\$ Equivalent	
Cash and cash equivalents	14,783	10,838	820	3,125
Restricted cash	9,741	9,741	-	-
Accounts receivable	13,672	12,378	1,093	201
Accounts payable	(8,131)	(7,165)	(662)	(304)
Balance sheet exposure	30,065	25,792	1,251	3,022

⁽¹⁾ denotes Financial statements

The Company believes a three percent change in the US\$ against these foreign currencies would be reasonably possible within the next three month reporting period. A three percent strengthening of the US\$ would result in a change in earnings as follows (an equal but opposite impact to earnings would result if the US\$ weakened by three percent):

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 8

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

As at June 30, 2008	INR		CAD
	US\$ Equivalent		
Decrease in earnings	38		91

b) Credit Risk

The Company is exposed to credit risk in respect to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held in operating accounts with highly rated Canadian banks and therefore the Company considers these assets to have negligible credit risk.

The Company's accounts receivable are primarily with joint venture partners and international oil and natural gas companies. The Company raises authorizations for expenditure and requires approval from its joint venture partners for all significant expenditures in order to mitigate its receivables collection risk. The Company's production base is entirely in the Assam state in North East India. Production is sold to a small number of highly rated international oil and gas companies and a Company owned by the State of Assam (refer to Note 10). It is the Company's policy to transact with only credit worthy counterparties. The Company has not experienced any collection problems with its counterparties and does not have any overdue receivable amounts as at June 30, 2008.

The carrying amount of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure. The Company does not have an allowance for doubtful accounts, and did not write off any receivables in the three months ended June 30, 2008.

c) Liquidity Risk

The Company manages its risk of not meeting its financial obligations through management of its capital structure, annual budgeting of its revenues, expenditures and cash flows. The Company expects its 2009 operating cash flow and cash on hand to exceed budgeted non-discretionary expenditures, providing added liquidity. As at June 30, 2008, the Company had working capital of \$31.4 million.

Accounts payable arise in the normal course of business, and all amounts are due within three months or less of the balance sheet date.

The Company believes it has adequate cash flows and cash on hand to discharge its financial obligations.

d) Capital Management

The Company defines its capital as shareholder's equity. The Company's objective is to maintain a strong capital position in order to execute its business plan and maximize value to shareholders. Availability of capital is critical for future success and as such, the Company strives to maintain strong relationships with the capital investment community. Methods employed to adjust the Company's capital structure could include any, all, or a combination of the following activities:

- Repurchase shares pursuant to a normal course issuer bid;

CANORO RESOURCES LTD.

Notes to Consolidated Financial Statements, Page 9

For the periods ended June 30, 2008 and 2007 (unaudited)

(All tabular amounts are expressed in thousands of United States dollars, except share amounts or otherwise noted)

- Issue new shares through a public offering or private placement;
- Issue equity linked or convertible debt;
- Raise fixed or floating rate debt;

The Company is not subject to any externally imposed capital requirements.