

Consolidated Financial Statements of

CANACO RESOURCES INC.

As at and for the six month period ended December 31, 2008 (Unaudited – prepared by management)

Responsibility for financial statements

The accompanying financial statements for Canaco Resources Inc. (the “Company”) have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. These financial statements are unaudited and have not been reviewed by the auditors. The most significant of these accounting principles have been set out in the June 30, 2008 audited financial statements. There have been no changes to the accounting policies from the latest completed financial year-end. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent on future events. Therefore, estimates and approximations have been made using careful judgements. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

CANACO RESOURCES INC.
Interim Consolidated Balance Sheet

	December 31, 2008	June 30, 2008
	(unaudited)	
Expressed in Canadian dollars		
ASSETS		
Current		
Cash	\$ 2,993	\$ 540,121
Accounts receivable	41,226	161,419
Prepaid expenses	20,439	92,233
	64,658	793,773
Capital assets , net of accumulated amortization of \$1,683 (June 30, 2008 - \$512)	6,633	6,414
Mineral properties (note 3)	4,919,890	4,300,042
	\$ 4,991,181	\$ 5,100,229
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 475,655	\$ 310,155
Provision for reclamation costs	14,003	14,003
	489,658	324,158
SHAREHOLDERS' EQUITY		
Capital stock (note 4)	16,302,012	16,302,012
Warrants (note 4(c))	312,942	368,840
Contributed surplus (note 5)	1,873,579	1,817,681
Deficit	(13,987,010)	(13,712,462)
	4,501,523	4,776,071
	\$ 4,991,181	\$ 5,100,229

Going-concern (note 1)

Approved on behalf of the Board:

(signed) David S. Parsons Director

(signed) Brian Lock Director

CANACO RESOURCES INC.**Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit
(unaudited)**

	Cumulative three month period ended December 31,		Cumulative six month period ended December 31,	
	2008	2007	2008	2007
Expressed in Canadian dollars				
Expenses				
Amortization	\$ 586	\$ -	\$ 1,171	\$ -
Audit fees	1,775	1,911	1,935	1,911
Consulting and corporate development fees	35,925	57,121	99,872	109,284
Corporate financial services fees	30,000	-	30,000	-
Directors and advisory board fees	17,250	25,750	34,500	43,000
General and administrative	19,541	31,178	43,940	52,249
Investor/shareholder relations	23,063	78,747	75,014	139,503
Legal fees	4,282	8,624	7,408	13,964
Rent and occupancy costs	2,250	2,250	4,500	4,500
Stock-based compensation	-	-	-	67,071
Transfer agent and filing fees	9,266	10,463	12,648	14,143
Travel	1,423	29,156	15,902	40,875
	145,361	245,200	326,890	486,500
Loss before under noted items	(145,361)	(245,200)	(326,890)	(486,500)
Foreign exchange gain (loss)	(1,728)	18,923	51,255	67,677
Interest income	78	7,505	1,087	15,916
Net loss and comprehensive loss for period	(147,011)	(218,772)	(274,548)	(402,907)
Deficit, beginning of period	(13,839,999)	(11,503,792)	(13,712,462)	(11,319,657)
Deficit, end of period	\$ (13,987,010)	\$ (11,722,564)	\$ (13,987,010)	\$ (11,722,564)
Loss per share – basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares used in the calculation of loss per share – basic and diluted	42,997,071	30,784,658	42,997,071	29,268,508

CANACO RESOURCES INC.
Interim Consolidated Statements of Cash Flows
(unaudited)

	Cumulative three month period ended December 31,		Cumulative six month period ended December 31,	
	2008	2007	2008	2007
Expressed in Canadian dollars				
Cash flows from operating activities				
Net loss for period	\$ (147,011)	\$ (218,772)	\$ (274,548)	\$ (402,907)
Items not involving cash				
Amortization	585	-	1,171	-
Stock-based compensation	-	-	-	67,071
	(146,426)	(218,772)	(273,377)	(335,836)
Changes in operating assets and liabilities				
Accounts receivable	-	(11,336)	-	(6,056)
Prepaid expenses	11,806	30,507	40,108	42,130
Accounts payable and accrued liabilities	322,885	(59,280)	356,299	12,820
	188,265	(258,881)	123,030	(286,942)
Cash flows from investing activities				
Purchase of capital assets	-	-	(1,390)	-
Expenditures on mineral properties	(219,629)	(581,384)	(619,848)	(1,210,399)
Change in operating assets and liabilities relating to investing activities	(29,553)	60,784	(38,920)	179,522
	(249,182)	(520,600)	(660,158)	(1,030,877)
Cash flows from financing activities				
Shares and warrants issued for cash	-	56,000	-	1,056,000
Capital raising costs	-	(2,795)	-	(115,688)
Change in operating assets and liabilities relating to financing activities	-	20,143	-	21,900
	-	73,348	-	962,212
Decrease in cash and cash equivalents	(60,917)	(706,133)	(537,128)	(355,607)
Cash and cash equivalents, beginning of period	63,910	1,440,956	540,121	1,090,430
Cash and cash equivalents, end of period	\$ 2,993	\$ 734,823	\$ 2,993	\$ 734,823
Supplemental disclosure of cash flow information				
Interest received	\$ 78	\$ 4,250	\$ 1,087	\$ 15,296
Supplemental disclosure of non-cash investing and financing activities				
Shares issued for mineral properties	\$ -	\$ 48,000	\$ -	\$ 48,000
Stock options granted to project management	\$ -	\$ -	\$ -	\$ 64,416
Warrants issued to agents for brokered private placements	\$ -	\$ -	\$ -	\$ 24,875

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

1. Going-concern

These consolidated financial statements are prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company is in the exploration stage and currently derives no revenue from operations. The Company has financed its operations to date principally through equity financing. Substantial external financing will be required by the Company in order to fund its future operations, exploration of interests in mineral properties and to pursue other potential investments in the resources sector. During the six month period ended December 31, 2008, the Company had incurred a net loss totalling \$274,548 and the accumulated deficit at December 31, 2008 is \$13,987,010.

The ability of the Company to continue as a going-concern will depend upon the following:

- The ability to raise further funds through the issue of equity financing or through joint ventures; and,
- The sale of assets in the ordinary course of business.

Although the Company has been successful in obtaining the necessary financing to continue operations in the past, there can be no assurance that it will be able to continue to do so in the future.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used. Such adjustments could be material.

2. Accounting policies

Basis of presentation

The financial statements have been prepared using accounting principles generally accepted in Canada (“Canadian GAAP”) for interim reporting.

The accounting policies followed by the Company are set out in note 2 to the audited financial statements for the year ended June 30, 2008 and have been consistently followed in the preparation of these financial statements except that the Company has adopted the following CICA standards effective for the Company’s first quarter of fiscal 2009 commencing July 1, 2008.

i. Inventories

In March 2007, the CICA issued the new Handbook Section 3031, “Inventories”, which will replace Section 3030, “Inventories”. The new Section states that inventories shall be measured at the lower of cost and net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last in, first out method (LIFO) and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company has evaluated the impact of Section 3031 and determined that no adjustments are currently required.

ii. General standards on financial statement presentation

CICA Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has evaluated the impact of Section 1400 and determined there was no impact on its financial statement disclosure.

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

2. Accounting policies - continued

iii. Goodwill and intangible assets

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not expect the adoption of this standard to have an impact on its financial statements.

iv. International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Mineral properties

The following table summarizes the Company's mineral properties at December 31, 2008:

Area of Interest	Acquisition Costs	Exploration Expenditure	Total
Tanzania – Properties Under Option	\$ 542,652	\$ 2,303,700	\$ 2,846,352
Tanzania – Strategic Alliance (i)	439,168	584,566	1,023,734
Mexico – El Oro (ii)	187,552	862,252	1,049,804
	\$ 1,169,372	\$ 3,750,518	\$ 4,919,890

- i. During the six month period ended December 31, 2008, the formal agreement with Douglas Lake Minerals Inc. ("Douglas Lake") to form a strategic alliance for the exploration and development of mineral properties in Tanzania expired. However, both companies are continuing to assess the merits of the portfolio of properties and discussions are ongoing with Douglas Lake to advance properties. No determination has been made for the application of the amounts expended by the Company under the terms of Strategic Alliance Agreement to specific properties held under option.
- ii. On December 19, 2008, the terms of the Agreement were amended whereby a one year extension was granted by Goldcorp. Inc. to the date by which the second year exploration expenditures must be met so that the date moves from November 30, 2008 to November 30, 2009 and a one year extension to the date by which the third year exploration expenditures must be met so that the date is moved from November 30, 2009 to November 30, 2010. As consideration, Candente Resource Corp. and the Company have each agreed to issue an additional 125,000 shares in their respective share capital on or before November 30, 2010. Additionally, a one year extension was provided to the second option agreement to earn an additional 20% interest in the property to the date by which the exploration expenditures must be met so that the dates for the fourth year commitment moves from November 30, 2010 to November 30, 2011 and the fifth year commitment moves from November 30, 2011 to November 30, 2012.

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

3. Mineral properties - continued

The following table details the expenditures on mineral properties for the six month period ended December 31, 2008:

Areas of interest	Tanzania		Mexico	Total
	Properties Under Option	Strategic Alliance	El Oro	
Balance – June 30, 2008	\$ 2,334,897	\$ 1,023,734	\$ 941,411	\$ 4,300,042
Total acquisition costs for period	38	-	47,942	47,980
Exploration expenditure				
Advances	-	-	(383)	(383)
Camp operations	29,791	-	-	29,791
Diamond drilling	4,246	-	21,152	25,398
General & administrative	13,256	-	4,708	17,964
Geochemistry	68,951	-	-	68,951
Geology	72,435	-	23,045	95,480
Mobilization & transportation	62,831	-	860	63,691
Project management	232,029	-	728	232,757
Road construction	18,838	-	-	18,838
Technical services	4,528	-	9,055	13,583
Travel	4,512	-	1,286	5,798
Total exploration expenditure for period	511,417	-	60,451	571,868
Balance – December 31, 2008	\$ 2,846,352	\$ 1,023,734	\$ 1,049,804	\$ 4,919,890

4. Capital stock

- a) Authorized
Unlimited number of common shares without par value

- b) Common shares issued

	Number of Shares	Amount
Balance – June 30, 2008 and December 31, 2008	44,519,736	\$ 16,302,012

- c) Warrants
Share purchase warrant transactions for the six month period ended December 31, 2008 and June 30, 2008 are summarized as follows:

	December 31, 2008		June 30, 2008	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	8,577,354	\$ 368,840	4,631,343	\$ 448,249
Warrants issued	-	-	7,892,465	324,325
Broker warrants issued	-	-	684,889	44,515
Warrants expired	(1,885,715)	(55,898)	(4,631,343)	(448,249)
Closing balance	6,691,639	\$ 312,942	8,577,354	\$ 368,840

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

4. Capital stock – continued

At December 31, 2008, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
285,714	\$0.45	30-Aug-2009
5,531,750	\$0.35	19-Mar-2010
375,375	\$0.20	19-Mar-2010
475,000	\$0.35	10-Apr-2010
23,800	\$0.20	10-Apr-2010
6,691,639		

d) Stock options

On December 11, 2008, the shareholders approved the Stock Option Plan (the “Plan”), for which up to 10% of the issued share capital can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is set at the Company’s closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest when granted unless determined by the Board of Directors on a case by case basis, other than options granted to consultants performing investor relations activities, which vest in stages over twelve months with no more than one quarter vesting in any three month period. At December 31, 2008, 1,882,125 options are available for future grant under the Plan.

Stock option transactions for the six month period ended December 31, 2008 and the year ended June 30, 2008 are summarized as follows:

	December 31, 2008		June 30, 2008	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Opening balance	2,769,849	\$0.43	2,359,849	\$0.46
Options granted	-	-	485,000	\$0.30
Options expired	(200,000)	\$0.72	(75,000)	\$0.65
Closing balance	2,569,849	\$0.40	2,769,849	\$0.43

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

4. Capital stock - continued

At December 31, 2008, stock options outstanding are as follows:

Number of options outstanding	Exercise price \$	Expiry date
747,349	\$0.25	04-May-2009
65,000	\$0.44	21-Jun-2009
367,500	\$0.50	24-Feb-2010
25,000	\$0.59	24-Feb-2010
55,000	\$0.50	16-Jun-2010
200,000	\$0.50	05-Sep-2010
125,000	\$0.35	22-Dec-2010
400,000	\$0.65	13-Aug-2011
100,000	\$0.46	23-Jan-2012
485,000	\$0.30	18-Jul-2012
2,569,849		

5. Contributed surplus

	December 31, 2008	June 30, 2008
Opening balance	\$ 1,817,681	\$ 1,285,038
Fair value of options vested	-	84,394
Reallocation of fair value of warrants on expiry	55,898	448,249
Closing balance	\$ 1,873,579	\$ 1,817,681

6. Income tax

The Company's provision for income taxes differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates as a result of the following:

	December 31, 2008	December 31, 2007
Statutory rates	27.0%	27.0%
Income tax recovery computed at statutory rates	\$ 74,128	\$ 108,785
Permanent differences		
Other	18,811	25,556
Stock-based compensation	-	(18,109)
	18,811	7,447
Book to tax differences	295,395	71,095
Change in tax rate	-	(228,274)
Change in valuation allowance	(388,334)	40,947
Recovery of income taxes	\$ -	\$ -

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

6. Income tax - continued

The tax effects of temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	December 31, 2008	June 30, 2008
Enacted rates	27%	27%
Future tax assets		
Non-capital loss carry forwards	\$ 2,017,385	\$ 1,773,670
Capital losses	86,156	86,156
Financing costs	145,034	178,187
Resource	49,275	-
Other	3,534	33,514
Total gross future income tax assets	2,301,384	2,071,527
Less valuation allowance	(2,301,384)	(1,913,050)
Net future income tax assets	-	158,477
Less future tax liabilities – resource properties	-	(158,477)
Net future income tax	\$ -	\$ -

7. Related party transactions

(In addition to those disclosed elsewhere)

- a) At December 31, 2008, the Company owed \$166,170 to shareholders, officers, directors and management, which is included within accounts payable and accrued liabilities. The balance represents unpaid amounts relating to fees and expenses.
- b) During the six month period ended December 31, 2008, directors and officers charged \$95,097 in fees for services rendered. These transactions were entered into on a normal commercial basis.
- c) During the six month period ended December 31, 2008, a firm in which an officer of the Company is a partner charged fees of \$7,408. These transactions were entered into on a normal commercial basis.

8. Financial instruments

Financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. At December 31, 2008 and June 30, 2008, there were no significant differences between the carrying amounts of the financial instruments reported on the balance sheet and their estimated fair values due primarily to the short-term maturity of the financial instruments.

9. Management of capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity, as well the cash and cash equivalents.

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2008 (unaudited)

Expressed in Canadian dollars

9. Management of capital risk - continued

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in highly liquid short-term interest bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company will be required to access financial resources through equity placements in the junior resource market in the current year to carry out its planned programs or curtail its exploration activities to the extent of available financial resources.

10. Management of financial risks

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Mexico and Tanzania and a portion of its expenses are incurred in US dollars, Tanzanian shilling and Mexican peso. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar, Tanzanian shilling and Mexican peso could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars, Tanzanian shillings and Mexican pesos:

	December 31, 2008			June 30, 2008		
	USD	TZS	MXN	USD	TZS	MXN
Cash and cash equivalents	4,320	(11,958,318)	230,620	49,366	15,052,384	183,920
Accounts receivable	12,316	-	422,102	74,308	-	732,365
Accounts payable and accrued liabilities	(119,208)	(11,574,400)	(2,402,327)	(193,903)	(23,964,000)	(127,648)
Net asset (liability) position	(102,572)	(23,532,718)	(1,749,605)	(70,229)	(8,911,616)	788,637

Based on the above net exposure as at December 31, 2008 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar, Tanzanian shilling and Mexican peso would result in an increase/decrease of \$30,044 in the Company's net loss.

b) Credit risk

Credit risk is the risk of an unexpected loss of a customer or third party to a financial instrument fails to meet its contractual obligations.

Expressed in Canadian dollars

10. Management of financial risks - continued

The Company's accounts receivable consist of amounts due from the Federal Government of Canada for GST and Mexican government for VAT.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 9 to the interim financial statements.

Accounts payable and accrued liabilities are due within the current operating period.

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as result of a decline in the fair value of short-term investments included in cash and cash equivalents and short-term investments is limited because these investments, although classified as available-for-sale, are generally held to maturity.