



# CANACO RESOURCES INC.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX MONTH PERIOD ENDED  
DECEMBER 31, 2008 (Q2)

Management's discussion and analysis ("MD&A") provides a review of the performance of Canaco Resources Inc. ("Canaco" or the "Company") operations and has been prepared on the basis of available information up to February 23, 2009 and should be read in conjunction with unaudited interim consolidated financial statements for the six month period ended December 31, 2008, the audited financial statements for the year ended June 30, 2008 and the related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), as well as the Company's June 30, 2008 Annual MD&A. All dollar amounts referred to in this discussion and analysis are expressed in Canadian dollars except where indicated otherwise.

## **INTRODUCTION**

Canaco Resources Inc. (the "Company") was incorporated under the provisions of the Canada Business Corporations Act on January 13, 1987 and changed its name from Canaco Resources Ltd. in November 2003. The Company is in the business of acquiring and exploring gold and diamond projects in Tanzania and Mexico. The Company is listed on the TSX Venture Exchange (the "Exchange") as a Tier 2 mining issuer under the trading symbol – CAN and the Frankfurt Stock Exchange under the trading symbol – HJ6.

## **HANDENI PROJECT**

The Handeni Project is 100% owned by Canaco and covers 196 square kilometres. Gold was discovered in the area approximately 5 years ago (2003), spurring a gold rush and intense alluvial, then hard-rock mining until present. A mining village is established at Magambazi, the principal focus of the exploration effort on the Handeni Project.

Exploration thus far has focussed on defining the extent of the mineralizing system and on developing sound drill targets, and has included mapping, soil sampling, petrology, rock chip sampling and reverse circulation (RC) drilling as well as acquisition of remote sensing data sets including aeromagnetic data and IKONOS Landsat imagery.

During the six month period ended December 31, 2008, the Handeni project was the subject of limited exploration activity. Field programs consisted of ongoing geologic, prospecting and final preparations for the initiation of a diamond drill program at Magambazi. With the onset of the rainy season and limited capability for the Company to access short-term financing to commence the Magambazi drill program, a decision was made to place the project on care and maintenance until such time as favourable weather and improved financial markets conditions will enable the drill program to be initiated.

## **MAGEMBE PROPERTY**

The 46.05 square kilometre Magembe Property (PL 3920/2006) is located in the Mwanza District, Shinyanga Region of the United Republic of Tanzania, approximately 35 kilometres north-northeast of Shinyanga town, along the main road to Mwanza. The Magembe Property surrounds the famous Williamson Diamond Mine also known as Mwanza Mine. The Williamson Diamond Mine is owned 75 per cent by De Beers and 25 per cent by the government of Tanzania and Petra Diamonds, a South African based company, is currently negotiating to purchase the mine. Canaco's exploration at Magembe is being conducted under the terms of an Option Agreement with Douglas Lake Minerals whereby Canaco can earn a 75 per cent interest in the property through cash and share payments and spending \$2.5-million (U.S.) in exploration expenditures over four years (see news in Stockwatch on March 9, 2007).

There are two principle diamond targets being developed on the Magembe property. Alluvial diamonds are being mined in the south-west part of the property and are believed to be derived from diamondiferous kimberlites located within and/or around the Williamson Diamond Mine. In addition, interpretation of high resolution aeromagnetic data indicates the possibility of kimberlite intrusions in the northern part of the property, which are overlain by recent soil cover.

During the six month period ended December 31, 2008, the processing of samples of Magembe alluvial gravels, collected as part of Phase I exploration, was ongoing. Subsequent to the end of the period, the Company announced preliminary results from the processing of alluvial gravel samples completed. (News Release - February 3, 2009)

To date, 60 samples weighing a total of 12.4 tonnes have been processed from a total 45.9 tonnes of alluvial gravels from 220 samples collected in 2008. A total of 41 diamonds and diamond cleavages have been recovered from 12 of the 60 samples, with the largest stone weighing 0.22 carats. Importantly, the positive results are evenly spread over the sample region confirming the presence of diamondiferous gravels within the 900 meters by 100 meters area from where the processed samples were collected.

Of note is the fact that the recovered diamonds represent two distinct populations with respect to degradation, indicating two different sources; one proximal and one distal. The provenance of the recovered diamonds cannot be identified with

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certainty; however, the alluvial gravels of the Magembe property lie 5km south east of the Williamson (Mwadi) diamond pipe. Other diamondiferous pipes are known from the Shinyanga region based on government research, including four interpreted kimberlite targets on the northern portion of the Magembe property.

The processing of the remaining 160 samples is ongoing and results will be reported as they become available.

#### **EL ORO PROPERTY**

El Oro property is located in the east-west trending Trans-Mexican volcanic belt in the central part of Mexico. The El Oro property has excellent road access and is located 120 km northwest of Mexico City in the States of Mexico and Michoacán. The El Oro mines are past producers of gold and silver, and the mines hosted the largest known vein systems in the region. Past producing main veins varied between 1 m and 70 m in thickness, were mined over a 1.0 km to 3.5 km strike length, and over vertical distances of up to 250 m. Gold-silver mineralization in the El Oro property area is hosted in low sulphidation epithermal quartz and calcite veins. The El Oro property concession does not represent a producing property, and the Company's current operations consist of an exploratory search for mineable deposits of minerals.

Exploration at El Oro is being conducted co-operatively by Canaco and Candente Resource Corp. ("Candente") who entered into an option agreement to jointly acquire up to a 70% interest in the 67 square kilometer El Oro property. The El Oro property is being optioned from Minera Luismin SA de CV ("Luismin"), a 100 percent owned subsidiary of Goldcorp Inc. (Goldcorp). The option agreement, entered into jointly (50/50) by Canaco and Candente, gives the combined companies the right to earn up to a seventy percent (70%) interest in all of the 24 El Oro mining concessions (14,950 hectares), held by Luismin ("El Oro Agreement").

On December 19, 2008, the terms of the El Oro Agreement to earn a 50% interest in the in the property 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.

The timing for future exploration will depend on capital market conditions. Future drilling is recommended to test down dip mineralization intersected in the 2007 drilling. It is recommended to drill test identified NSAMT geophysical linears and geochemical targets in the Oriente area in 2008.

Piotr Lutynski, P.Eng., Manager Exploration (Candente), Michael Casselman, P.Geo., Director (Candente) and Andrew Lee Smith, P. Geo. Director (Canaco and Candente) are the qualified persons responsible for the review of the technical information contained under the El Oro Property.

#### **FINANCIAL POSITION**

As at December 31, 2008, the Company had current assets of \$64,658 and current liabilities of \$475,655 compared to current assets of \$793,773 and current liabilities of \$310,155 as at June 30, 2008. As a result, Canaco has a working capital deficiency of \$410,997 as at December 31, 2008 compared to working capital of \$483,618 as at June 30, 2008.

**RESULTS OF OPERATIONS**

	Three month period ended December 31,		Six month period ended December 31,	
	2008	2007	2008	2007
<b>Expenses</b>				
Amortization	\$ 586	\$ -	\$ 1,171	\$ -
Audit fees	1,775	1,911	1,935	1,911
Consulting & corporate development fees	35,925	57,121	99,872	109,284
Corporate financial services fees	30,000	-	30,000	-
Directors & advisory board fees	17,250	25,750	34,500	43,000
General & 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 & occupancy costs	2,250	2,250	4,500	4,500
Stock-based compensation	-	-	-	67,071
Transfer agent & 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)
Loss per share - basic & diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)

**NET LOSS**

The net loss for the three month period ended December 31, 2008 amounted to \$147,011 compared to a net loss for three month period ended December 31, 2007 of \$218,772. Included in the results for the three month period ended December 31, 2008 is a foreign exchange loss of \$1,728 and interest earned on surplus funds on hand of \$78. The net loss for the six month period ended December 31, 2008 amounted to \$274,548 compared to a net loss for six month period ended December 31, 2007 of \$402,907. Included in the results for the six month period ended December 31, 2008 is a foreign exchange gain of \$51,255 and interest earned on surplus funds on hand of \$1,087.

**EXPENSES**

Expenses for the three month period ended December 31, 2008 totalled \$145,361 compared to \$245,200 for the three month period ended December 31, 2007 representing a decrease of \$99,839 or 41%. For the six month period ended December 31, 2008, total expenses were \$326,890 compared to \$486,500 for the six month period ended December 31, 2007. After adjustment for stock-based compensation expensed in the six month period ended December 31, 2008 of \$Nil (December 31, 2007 - \$67,071), expenses for the respective periods totalled \$326,890 and \$419,429 representing a decrease of \$92,539 or 22%. Significant variances for the three month and six month periods ended December 31, 2008 compared to the three and six month periods ended December 31, 2007 are discussed below.

**Consulting & corporate development fees**

Consulting fees of \$35,925 in the three month period ended December 31, 2008 compared to \$57,121 reported in the corresponding comparative period. Consulting fees were \$99,872 in the six month period ended December 31, 2008 compared to \$109,284 in the same period of 2007. Fees charged to this account represent fees paid to external consultants, officers and directors for services rendered. The decrease in fees is a direct result of reduced corporate activity as a result of poor financial market conditions.

**Corporate financial services fees**

During the three month period ended December 31, 2008, the Company paid a fee of \$30,000 to an external consultant to source additional leads to fund the Company's projects.

**Directors & advisory board fees**

Commencing in January 2007, independent directors and the corporate secretary are being paid fees quarterly to compensate them for their time invested in fulfilling their duties.

**Investor relations/shareholders relations**

Investor relations' charges were \$23,063 for the three month period ended December 31, 2008 compared to \$78,747 for the three month period ended December 31, 2007. Investor relations' charges were \$75,014 for the current six month period ended December 31, 2008 compared to \$139,503 for the comparative period. Currently, investor relations' activities have been curtailed due to poor financial market conditions and limited financial resources. In the prior year, a program was initiated to promote Canaco to various investor groups with anticipation of additional financing being required to fund current projects.

**Travel**

Travel charges were \$1,423 for the three month period ended December 31, 2008 compared to \$29,156 for the three month period ended December 31, 2007. Travel charges were \$15,902 for the current six month period ended December 31, 2008 compared to \$40,975 for the comparative period. Travel in current year has been cutback due to poor financial market conditions and limited financial resources.

**CAPITAL EXPENDITURES**

During the six month period ended December 31, 2008, the Company spent \$619,729 (2007 - \$1,223,597)\* on its capital spending program. Capital expenditures by project and category are summarized as follows:

	Three month period ended		Six month period ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Acquisition				
El Oro, Mexico	\$ 500	\$ 8,490	\$ 47,942	\$ 8,490
Tanzania - Properties Under Option	38	4,128	38	74,544
Tanzania - Strategic Alliance			-	2,497
	538	12,618	47,980	85,531
Exploration expenditure*				
El Oro, Mexico	30,766	139,674	60,834	333,065
Tanzania - Properties Under Option	187,404	141,083	511,417	296,534
Tanzania - Strategic Alliance	-	300,446	-	498,539
	218,170	581,203	572,251	1,128,138
	218,708	593,821	620,231	1,213,669
Equipment	-	2,430	-	9,928
	\$ 218,708	\$ 596,251	\$ 620,231	\$ 1,223,597

\* - excludes advances (application of) totalling \$(383) (2007-\$13,198), equipment \$Nil (2007-\$9,928) and stock-based compensation of \$Nil (2007 - \$64,416)

**SUMMARY OF QUARTERLY RESULTS - UNAUDITED**

Quarter ended	Net revenues	Net loss (1)	Net loss per share - basic	Net loss per share - diluted
	\$	\$	\$	\$
31-Dec-08	Nil	(147,011)	(0.00)	(0.00)
30-Sep-08	Nil	(127,537)	(0.00)	(0.00)
30-Jun-08	Nil	(1,721,111)	(0.04)	(0.04)
31-Mar-08	Nil	(268,788)	(0.01)	(0.01)
31-Dec-07	Nil	(218,772)	(0.01)	(0.01)
30-Sep-07	Nil	(184,135)	(0.01)	(0.01)
30-Jun-07	Nil	(110,563)	(0.01)	(0.01)
31-Mar-07	Nil	(287,747)	(0.01)	(0.01)

(1) Values may not add to reported amount for the years then ended due to rounding.

There are no other meaningful trends evident from analysis of the summary of quarterly financial information over the last eight quarters other than those discussed through the MD&A with respect to the annual results.

**LIQUIDITY**

At December 31, 2008, the Company had cash of \$2,993 and a working capital deficiency of \$410,997.

Canaco has been successful in meeting its exploration capital requirements through the completion of equity placements in the past.

Cash on hand at December 31, 2008 is not adequate to meet requirements for fiscal 2009 to maintain property interests in good standing and fund minimal operating costs. To meet working capital requirements, the Company will have to access financial resources through equity placements in the junior resource market, procure industry partners for its primary exploration projects and/or sell its projects in exchange for equity/cash.

**CAPITAL RESOURCES**

Canaco has been successful in meeting its exploration capital requirements through the completion of equity placements. 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. Management is of the opinion that the basis upon which the financial statements have been prepared is appropriate in the circumstances. Notwithstanding management's expectations, there is a level of uncertainty that the Company will be able to continue as a going concern and therefore whether they will be able to realize assets and discharge liabilities in the normal course of business.

Canaco may be impacted by any potential downward trend in market conditions. Trends effecting Canaco's liquidity are dictated by the demands on financial resources created by the advancing nature of the Company's current exploration assets and the pursuit of a growth strategy that targets property acquisition, with their attendant exploration commitments and the Company's ability to access the financial resources required to meet these demands. As the exploration properties advance through exploration, they typically require more capital-intensive programs that apply pressure to the Company's financial resources. Additional planned exploration programs on the non-producing leaseholds will result in a steady drain to the Company's liquidity.

In acquiring the required capital to pursue the Company's business plan, capital will be generated from a combination of accessing junior equity markets, procuring industry partners for its primary exploration assets or sale of exploration assets for equity positions or cash.

Trends that affect the market generally, and the perception of Canaco within the marketplace, can affect the Company's ability to access capital in both a positive and negative way. Trends in this general market are defined by fluctuations in the global economy and the demand for metals and commodity prices. Trends in the perception of Canaco in the junior resource marketplace will be affected by general trends in the junior resource equity markets, the Company's performance in creating shareholder value and in demonstrating the ability to manage the Company's affairs and achieve mandated objectives.

The Company has historically financed its exploration programs through the issuance of equity capital, while at the same time trying to reduce shareholder dilution by securing joint venture partners where appropriate. Currently poor financial market conditions have made and will continue to make additional financing difficult in the short term. The Company's management intends to continue to seek out the best opportunities to maximize shareholder value by further exploration programs on its projects and by generating new discoveries. However, failure to secure additional financing at reasonable terms may significantly impact the Company's ability to continue as a going concern.

Uncertainty is a prevalent element in exploration and therefore can, on occasion, impede the Company's ability to meet its financial requirements and result in an inability to advance exploration assets and meet objectives in a timely manner.

Optional share, warrant, cash and exploration expenditure  
required to keep property acquisition agreement in good standing

Years ended June 30,	2009	2010	2011	2012	2013	Optional commitments to retain property agreements in good standing
<b>El Oro (Mexico)</b>						
Shares		125,000	125,000	-	-	250,000
Exploration expenditure		750,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 2,000,000
<b>Magembe (Tanzania)</b>						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Shares	250,000	500,000	-	-	-	750,000
Exploration expenditure	\$ 500,000	\$ 750,000	\$ 1,000,000	\$ -	\$ -	\$ 2,250,000
<b>Negero (Tanzania)</b>						
Cash	\$ 75,000	\$ 125,000	\$ -	\$ -	\$ -	\$ 200,000
Shares	200,000	500,000	-	-	-	700,000
Exploration expenditure	\$ 250,000	\$ 500,000	\$ 1,250,000	\$ -	\$ -	\$ 2,000,000
<b>Kwadijava (Tanzania)</b>						
Cash	\$ 75,000	\$ 125,000	\$ -	\$ -	\$ -	\$ 200,000
Shares	200,000	500,000	-	-	-	700,000
Exploration expenditure	\$ 250,000	\$ 500,000	\$ 1,250,000	\$ -	\$ -	\$ 2,000,000
<b>Summary totals</b>						
Cash	\$ 150,000	\$ 250,000	\$ -	\$ -	\$ -	\$ 400,000
Shares	400,000	1,125,000	125,000	-	-	1,650,000
Exploration expenditure	\$ 1,000,000	\$ 2,500,000	\$ 4,750,000	\$ 1,250,000	\$ 1,250,000	\$ 8,250,000

## TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Canaco has had transactions with individuals and Companies considered related parties. Related party transactions involve normal commercial compensation for services rendered by senior management, officers, directors or insiders of the Company and by companies with which they are associated as owners, contractors or employees.

**Andrew Lee Smith, President, CEO and Director:** provides contracted consulting services to the Company through Iron Mask Explorations Ltd., a company in which Mr. Smith is the sole proprietor. As a Director, Mr. Smith did not receive any compensation during the three month period ended December 31, 2008.

**David Smalley, Corporate Secretary** provides legal services to the Company through the firm of Fraser & Company, a firm in which he is a Partner. As Corporate Secretary, Mr. Smalley received cash compensation of \$2500.

**Jacqueline Tucker, CFO:** provides contracted consulting services to the Company through J.M. Tucker Inc., a company in which Ms. Tucker is the sole proprietor.

**Brian Lock, Director:** provides services to the Company in his capacity as a director. As a Director, Mr. Lock received cash compensation of \$6,500.

**David S. Parsons, Chairman Audit Committee and Director:** provides services to the Company in his capacity as a director and chairman of the audit committee. As a Director, Mr. Parsons received cash compensation of \$12,000.

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**Geoffrey Peretz, Director:** provides services to the Company in his capacity as a director through C3 Ventures Ltd. and Camelot Capital Corporation Ltd., companies in which Mr. Peretz is the sole proprietor or partner. As a Director, Mr. Peretz received cash compensation of \$2,500.

**Andrew Saxton, Chairman Compensation Committee and Director:** provides services to the Company in his capacity as a director and chairman of the compensation committee through his company, Saxton Capital Corporation. As a Director, Mr. Saxton received cash compensation of \$6,500. Mr. Saxton resigned as a director on October 28, 2008.

**Randy Smallwood, Chairman Acquisition Committee and Director:** provides services to the Company in his capacity as a director and chairman of the acquisition committee. As a Director, Mr. Smallwood received cash compensation of \$4,500.

During the six month period ended December 31, 2008, the Company was charged \$95,097 by officers and directors for consulting and corporate development fees. During the six month period ended December 31, 2008, Fraser & Company, a firm in which David Smalley, an officer of the Company, is a partner charged fees of \$7,408 for legal services. As at December 31, 2008, directors and officers were owed \$158,670 in respect of services and expense reimbursements.

Transactions with related parties are measured at the exchange rate, which is the amount established and agreed to by the related parties and which are similar to those negotiable with third parties.

## PROPOSED TRANSACTIONS

As of December 31, 2008, the Company has no proposed material transactions.

## CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Canaco are disclosed in note 2 to the consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practises of the Company and the likelihood of materially different results being reported.

### Mineral Properties and Related Deferred Costs

The Company follows the method of accounting for its interests in mineral properties whereby all costs related to acquisition, exploration and development are capitalized by area of interest. These expenditures are carried forward where rights to tenure of the areas of interest are current and it is expected the expenditure will be recovered through successful development and exploitation of the area of interest or alternatively by its sale. Expenditures are also carried forward where activities are continuing in the area of interest but have not yet reached a stage of development which permits reasonable assessments of the existence or otherwise of economically recoverable reserves. Expenditures that no longer satisfy the above criteria are written off.

On a periodic basis, management reviews the carrying value of each of the Company's interests in mineral properties to assess whether there has been any impairment in value. If it is determined that future cash flows are less than the carrying values a write down to the estimated fair value of such deferred mineral property costs will be charged to operations.

From time to time, the Company acquires and disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee, and accordingly, are recorded as mineral property costs (recoveries) when payments are made or received.

Although the Company has taken steps to verify title to mineral properties in which it has an interest according to the usual industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects

#### Reclamation Costs

The amounts recorded for reclamation costs are estimates based on engineering studies and management's assessment of the work that is anticipated to remediate the El Oro, Morogoro and Handeni sites based on the current state of ground disturbance. The provision for reclamation is determined on an annual basis.

#### Stock-Based Compensation and Warrants

Compensation expense for options and warrants granted is determined based on estimated fair values of the options and warrants at the time of grant, the cost of which is recognized over the vesting period of the respective options and warrants. The key parameters impacting the calculation of fair value of options and warrants are the share volatility and the expected life.

### FINANCIAL INSTRUMENTS

Financial instruments consist of cash, accounts receivable, 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.

### ACCOUNTING POLICIES

The Company has established accounting policies generally accepted in Canada and applicable to development stage enterprises in the resource sector, which are applied on a consistent basis.

### CHANGES IN ACCOUNTING POLICIES

#### NEW ACCOUNTING STANDARDS

##### INVENTORIES

In March 2007, the CICA issued the new Handbook Section 3031, "Inventories", which will replace Section 3030, "Inventories". The new Section mentions 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 Company has evaluated the impact of Section 3031 and determined that no adjustments are currently required.

##### 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 Company has evaluated the impact of Section 1400 and determined that there was no impact on its financial statement disclosure.

##### 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 that adoption of this standard to have an impact on its financial statements.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

Over the next five years, the CICA will adopt its new strategic plan for the direction of accounting standards in Canada as ratified in 2006. As part of that plan, Canadian accounting standards for public companies will converge with IFRS. The Company will continue to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

**OTHER MD&A REQUIREMENTS****ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Refer to financial statements for capitalized or expensed exploration and development costs, general and administration expenses and other material costs.

**OUTSTANDING SHARE (DATA)**

As at December 31, 2008 and February 23, 2009, Canaco had 44,519,736 common shares, 6,691,639 warrants and 2,569,849 options issued and outstanding.

**RISK FACTORS**

Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration activities will result in any discoveries of new bodies of commercial deposits. There is also no assurance that if a commercial deposit is discovered that the ore body would be economical for commercial production. Discovery of mineral deposits is dependent upon a number of factors and significantly influenced by the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit is also dependent upon a number of factors, which are beyond the Company's control. Some of these factors are the attributes of the deposit, market, government policies and regulation and environmental protection.

**DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to Management.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures at June 30, 2008 and have concluded they are adequate and effective to ensure accurate and complete disclosure. It should be noted while the Company's Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all error and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal controls over financial reporting and during this process we have identified a weakness in internal controls over financial reporting which is as follows:

Due to the limited number of staff at the Company, it is not possible to achieve complete segregation of duties.

Management and the Board of Directors work to mitigate the risk of material misstatement in financial reporting. In addition, when complex accounting and technical issues arise during the preparation of quarterly financial statements

outside consulting expertise is engaged. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of material misstatement.

#### **CAUTION ON FORWARD-LOOKING STATEMENTS**

*The MD&A contains certain forward-looking statements concerning anticipated development in Canaco's operation in future periods. Forward-looking statements are frequently, but not always identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. The forward-looking statements are set forth principally under the heading "Outlook" in the MD&A and may include statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of commodities or other statements that are not statement of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of Canaco may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. Canaco's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and Canaco does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from Canaco's expectations include uncertainties involved in disputes and litigation, fluctuations in commodity prices and currency exchange rates; uncertainties relating to interpretation of drill results and the geology, continuity and grade of deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and economic return; the need for cooperation of government agencies and native groups in the exploration and development of properties and the issuance of required permits; the need to obtain additional financing to develop properties and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in construction projects and uncertainty in meeting anticipated program milestones; uncertainty as to timely availability of permits and other government approvals and other risks and uncertainties disclosed in other information released by Canaco from time to time and filed with the appropriate regulatory agencies.*

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Canaco Resources Inc.

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**P R O F I L E**

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Date of Formation: Jan 3 1987	Stock Symbol: CAN
Governing Canada Jurisdiction:	Auditor: PricewaterhouseCoopers LLP, Chartered Accountants
Industry junior natural resource - Classification: mining	Transfer Agent: Computershare Investor Services Inc
CUSIP Number: 134804	Size of Issuer Under \$10,000,000 (Assets):
Financial Year-End: June 30	