

Consolidated Financial Statements of

CANACO RESOURCES INC.

As at and for the years ended June 30, 2009 and 2008

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements for Canaco Resources Inc. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles and contain estimates based on management's judgment. A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by its shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards to allow them to express an opinion on the financial statements.

The Audit Committee of the Board of Directors, which is composed of a majority of independent directors, has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

(signed) Andrew Lee Smith Chief Executive Officer (signed) Jacqueline M. Tucker Chief Financial Officer

Vancouver, British Columbia
October 27, 2009

AUDITORS' REPORT

To the Shareholders of
Canaco Resources Inc.

We have audited the consolidated balance sheets of Canaco Resources Inc. as at June 30, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants
October 27, 2009

CANACO RESOURCES INC.
Consolidated Balance Sheets
June 30,

	2009	2008
Expressed in Canadian dollars		
ASSETS		
Current		
Cash	\$ 1,949,160	\$ 540,121
Accounts receivable	21,440	161,419
Prepaid expenses	53,744	92,233
	2,024,344	793,773
Capital assets , net of accumulated amortization of \$2,946 (2008-\$512)	5,986	6,414
Investment in Candente Gold Corp. (note 3)	1,300,001	-
Mineral properties (note 4)	2,414,417	4,300,042
	\$ 5,744,748	\$ 5,100,229
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,137,486	\$ 310,155
Loan payable (note 5)	350,000	-
	1,487,486	310,155
Asset retirement obligations (note 6)	6,651	14,003
	1,494,137	324,158
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	17,605,700	16,302,012
Warrants (note 7(d))	788,380	368,840
Contributed surplus (note 8)	1,982,457	1,817,681
Deficit	(16,125,926)	(13,712,462)
	4,250,611	4,776,071
	\$ 5,744,748	\$ 5,100,229

Going concern (note 1)
Subsequent events (notes 5, 7(b), 7(d) & 7(e))

Approved on behalf of the Board:

(signed) David S. Parsons _____

(signed) Brian Lock _____ Director

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

CANACO RESOURCES INC.
Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended June 30,

	2009	2008
Expressed in Canadian dollars		
Expenses		
Amortization	\$ 2,433	\$ 512
Audit	27,787	27,411
Consulting and corporate development fees	205,184	200,161
Corporate financial services	97,500	30,000
Directors and advisory board fees	59,401	97,500
General and administrative	95,712	90,668
Investor/shareholder relations	119,385	226,709
Legal fees	27,819	15,980
Rent and occupancy costs	13,000	9,000
Stock-based compensation	12,643	67,071
Transfer agent and filing fees	23,749	24,655
Travel	55,252	78,033
	739,865	867,700
Loss before under noted items	(739,865)	(867,700)
Foreign exchange gain (loss)	63,992	(28,132)
Interest income	1,087	24,129
Interest on term loan (note 5)	(19,833)	-
Write off of mineral properties (note 4)	(1,718,845)	(1,521,102)
Net loss and comprehensive loss for year	(2,413,464)	(2,392,805)
Deficit, beginning of year	(13,712,462)	(11,319,657)
Deficit, end of year	\$ (16,125,926)	\$ (13,712,462)
Loss per share – basic and diluted	\$ (0.05)	\$ (0.07)
Weighted average number of common shares used in the calculation of loss per share – basic and diluted	46,316,248	34,913,130

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

CANACO RESOURCES INC.
Consolidated Statements of Cash Flows
For the years ended June 30,

	2009	2008
Expressed in Canadian dollars		
Cash flows from operating activities		
Net loss for year	\$ (2,413,464)	\$ (2,392,805)
Items not involving cash		
Amortization	2,433	512
Stock-based compensation	12,643	67,071
Write off of mineral properties	1,718,845	1,521,102
	(679,543)	(804,120)
Changes in operating assets and liabilities		
Accounts receivable	(19,178)	5,280
Prepaid expenses	22,100	2,342
Accounts payable and accrued liabilities	267,809	(20,320)
	(408,812)	(816,818)
Cash flows from investing activities		
Purchase of capital assets	(2,005)	(6,926)
Expenditures on mineral properties	(909,664)	(2,382,661)
Costs relating to transfer of mineral property	(134,674)	-
Change in operating assets and liabilities relating to investing activities	290,787	(484,360)
	(755,556)	(2,873,947)
Cash flows from financing activities		
Loan payable	350,000	-
Shares and warrants issued for cash	2,270,000	3,458,700
Capital raising costs	(490,874)	(317,879)
Change in operating assets and liabilities relating to financing activities	444,281	(365)
	2,573,407	3,140,456
Increase (decrease) in cash	1,409,039	(550,309)
Cash, beginning of year	540,121	1,090,430
Cash, end of year	\$ 1,949,160	\$ 540,121
Supplemental disclosure of cash flow information		
Interest paid	\$ 14,000	\$ -
Interest received	\$ 1,087	\$ 24,129
Supplemental disclosure of non-cash investing and financing activities		
Shares issued for mineral properties	\$ -	\$ 60,000
Consideration received for mineral property transferred (note 3)	\$ 1,300,001	\$ -
Shares and warrants issued for finders fees in connection with non-brokered private placement	\$ 50,000	\$ -
Stock options granted to project management	\$ -	\$ 17,324
Warrants issued to agents for non-brokered private placements	\$ -	\$ 44,515

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

CANACO RESOURCES INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2009 and 2008

Expressed in Canadian dollars

1. Going concern

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Several adverse conditions cast significant doubt on the validity of that assumption. During the year ended June 30, 2009, the Company incurred a net loss and utilized funds in operations totalling \$2,413,464 and \$408,812, respectively. The accumulated deficit at June 30, 2009 is \$16,125,926. The Company has limited financial resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its mineral property projects.

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;
- Continued financial support from creditors; and,
- The sale of non-core 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. Summary of significant accounting policies

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canaco Resources (BC) Inc., Canaco Resources (BC) 2009 Inc. and Canaco Tanzania Limited and its proportionate interest in Minera CCM SA de CV from the respective dates of formation up to the date of disposition. All inter-entity balances and transactions have been eliminated.

b) Cash

Cash includes cash and term deposits with an original maturity date of 90 days or less.

c) Amortization

Capital assets are amortized using the declining balance method at the rate of 30% per annum.

d) Mineral properties

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 are determined to be impaired are written off.

On a periodic basis and when events and circumstances indicate possible impairment, management reviews the carrying value of each of the Company's mineral properties. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices, proven and probable reserves, resources and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the property interest carrying value.

Expressed in Canadian dollars

2. Summary of significant accounting policies - continued

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the property interest is written down to its estimated fair value.

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.

e) Asset retirement obligations

The Company recognizes a liability for its legal obligations associated with the retirement of long lived assets when the liability is incurred. A liability is recognized initially at fair value if a reasonable estimate of the fair value can be made and the resulting amount would be capitalized as part of the long lived asset. In subsequent periods, the Company adjusts the carrying amounts of the asset and liability for changes in estimates of the amount or timing of the underlying future cash flows.

It is reasonably possible that the Company's estimates of its ultimate reclamation and site restoration liability could change as a result of changes in regulations or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis.

f) Capital raising costs

Costs directly identifiable with the raising of capital are charged against the related share capital and warrants.

g) Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 7(e). Under the plan, options are granted at an exercise price equal to market value. Any consideration paid by the directors and employees on the exercise of share purchase options is credited to share capital along with the associated contributed surplus, if any.

Stock-based awards made to employees and non-employees are measured and recognized using the Black Scholes fair valuation method. For employees, the fair value of the options at the date of the grant is accrued and charged to operations or capitalized to a mineral property, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. For non-employees, the fair value of the options is measured and on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date which the equity instrument is vested and non-forfeitable.

h) Loss per share

Loss per share computations are based upon the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon the exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Diluted loss per share for the years ended June 30, 2009 and 2008 is the same as basic loss per share, as the effect of conversion of outstanding options and warrants is anti-dilutive.

i) Income tax

Income taxes are accounted for under the assets and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying value and the tax basis of assets and liabilities.

CANACO RESOURCES INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2009 and 2008

Expressed in Canadian dollars

2. Summary of significant accounting policies - continued

Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period during which the change in rates is considered to be substantially enacted. Future income tax assets are evaluated and if realization is considered "more likely than not", no valuation allowance is provided.

j) Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting policies requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property costs, asset retirement obligations, stock-based compensation and future tax balances. Financial results as determined by actual events could differ from those estimates.

k) Foreign exchange

Foreign currency transactions and balances and accounts of the Company's subsidiaries, all of which are integrated foreign operations are translated into Canadian dollars as follows:

- i. Income and expenses at average exchange rates for each year;
- ii. Monetary items at the rates of exchange prevailing at balance sheet dates;
- iii. Non-monetary items at the historical exchange rates; and,
- iv. Exchange gains and losses arising from translation are included in the determination of loss for each year.

l) Financial Instruments – Recognition and Measurement

Section 3855 requires that all financial assets, except those classified as held to maturity or loans and receivables must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are initially recorded at fair value and subsequently measured at amortized cost. In addition, equity instruments with no active market are recorded at cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

In accordance with this standard, the Company has classified its cash and cash equivalents as held-for-trading and investments as available-for-sale. Amounts receivable and promissory note receivable are classified as loans and receivables. Accounts payable and accrued charges are classified as other liabilities.

m) Comprehensive income

Comprehensive income is the change in a Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities, which are not included in net income (loss) until realized.

Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. If a decline in fair value is significant or prolonged it is deemed to be other-than-temporary and the loss is recognized in net earnings.

CANACO RESOURCES INC.
Notes to Consolidated Financial Statements
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Expressed in Canadian dollars

2. Summary of significant accounting policies - continued

n) New accounting pronouncements

i. Convergence with International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles (“Canadian GAAP”) with IFRS over an expected five year transitional period. The AcSB announced in February 2008 that 2011 will be the changeover date for publicly-listed companies to use IFRS, replacing Canadian 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 ending December 31, 2010. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS has not been determined.

ii. Business combinations/consolidated financial statements/non-controlling interest

In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) adopted Handbook sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements” and 1602, Non-Controlling Interest”, which superseded current sections 1581, “Business Combinations” and 1600, “Consolidated Financial Statements”. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections are the Canadian equivalent to IFRS.

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.

3. Transfer of El Oro, Mexico

On April 24, 2009, the Company and Candente Resource Corp. (“Candente”) created a new company, Candente Gold Corp. (“Candente Gold”), to focus on exploration and development of precious metals in Latin America.

On April 30, 2009, the Company and Candente completed the transfer to Candente Gold of their respective 50% interests in Minera CCM, S.A. de C.V. (“Minera”), the Mexican company that holds the option on the El Oro gold property in Mexico. The property is being optioned from Minera Luismin SA de CV (Luismin), a 100% owned subsidiary of Goldcorp Inc. (“Goldcorp”) pursuant to the terms an Option Agreement entered into on May 12, 2006. As consideration for the transfer of the El Oro interests, Candente Gold issued 5 million common shares (note 5) and a promissory note to each of the Company and Candente. Each promissory note has a principal amount of CAD \$1,300,000, payable in cash at the Company’s option or convertible into common shares of Candente Gold on or before April 30, 2011 (note 5). In connection with the transfer of its interest in El Oro, the Company recorded a credit to contributed surplus of \$96,235 representing the excess of the value of the promissory note over the carrying value of mineral property net of transfer costs. At June 30, 2009, the Company recorded its investment in Candente Gold at a nominal value of \$1.

CANACO RESOURCES INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2009 and 2008

Expressed in Canadian dollars

3. Transfer of El Oro, Mexico - continued

The Company and Candente have agreed to issue to Luismin, S.A. de C.V. (“Luismin”) 125,000 common shares on or before November 30, 2009 and an additional 125,000 common shares in their share capital on or before November 30, 2010, if they wish to proceed with the exercise of the options, as provided in the agreements entered into by the Company, Candente, Luismin and Desarrollos Mineros San Luis, S.A. de C.V. (“Desarrollos”) in connection with the granting of the options of the El Oro property to the Company and Candente. In order to maintain the El Oro Option Agreement in good standing, Candente Gold must complete its unit financing on or before November 30, 2009. The financing is being conducted on a best efforts basis to raise proceeds of up to \$10 million with a minimum target of \$5 million.

4. Mineral properties

The following table summarizes the Company’s mineral properties at June 30, 2009:

Area of Interest	Acquisition Costs	Exploration Expenditure	Total
Tanzania – Properties Under Option	\$ 459,924	\$ 1,954,493	\$ 2,414,417

The following table details the expenditures on mineral properties for the year ended June 30, 2009:

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 year	157,933	-	47,942	205,875
Exploration expenditure				
Camp operations	39,215	-	-	39,215
Diamond drilling	4,245	-	21,152	25,397
General & administrative	49,747	-	6,271	56,018
Geochemistry	80,362	-	-	80,362
Geology	72,435	-	36,824	109,259
Mobilization & transportation	76,275	-	860	77,135
Project management	275,485	-	728	276,213
Technical services	18,351	-	11,255	29,606
Travel	4,685	-	2,649	7,334
Total exploration expenditure for year	620,800	-	79,739	700,539
Total expenditures on mineral properties before under noted items	3,113,630	1,023,734	1,069,092	5,206,456
Transfer of mineral property (note 3)	-	-	(1,069,092)	(1,069,092)
Write off of mineral properties	(699,213)	(1,023,734)		(1,722,947)
Balance – June 30, 2009	\$ 2,414,417	\$ -	\$ -	\$ 2,414,417

The following table summarizes the Company’s mineral properties at June 30, 2008:

Area of Interest	Acquisition Costs	Exploration Expenditure	Total
Tanzania – Properties Under Option	\$ 542,616	\$ 1,792,281	\$ 2,334,897
Tanzania – Strategic Alliance	439,168	584,566	1,023,734
Mexico – El Oro	139,611	801,800	941,411
	\$ 1,121,395	\$ 3,178,647	\$ 4,300,042

CANACO RESOURCES INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2009 and 2008

Expressed in Canadian dollars

4. Mineral properties - continued

The following table details the expenditures on mineral properties for the year ended June 30, 2008:

Areas of interest	Tanzania		Mexico	Total
	Properties	Strategic Alliance	El Oro	
Balance – June 30, 2007	\$ 2,022,340	\$ 805,603	\$ 530,519	\$ 3,358,462
Total acquisition costs for year	222,114	2,497	20,490	245,101
Exploration expenditure				
Advances	-	-	(6,275)	(6,275)
Camp construction	10,307	-	-	10,307
Camp operations	145,593	16,850	-	162,443
Diamond drilling	154,433	-	224,681	379,114
Equipment	38,714	5,902	-	44,616
General & administrative	51,139	13,118	11,111	75,368
Geochemistry	30,809	68	-	30,877
Geology	128,135	51,964	105,716	285,815
Geophysics	118,222	-	-	118,222
Mobilization & transportation	239,968	4,737	154	244,859
Project management	543,112	94,285	26,998	664,395
Reclamation	2,549	-	150	2,699
Road construction	45,042	-	-	45,042
Stock-based compensation	14,725	2,599	-	17,324
Technical services	23,741	14,274	25,009	63,024
Travel	65,056	11,837	2,858	79,751
Total exploration expenditure for year	1,611,545	215,634	390,402	2,217,581
Total expenditures on mineral properties before write off	3,855,999	1,023,734	941,411	5,821,144
Write off of mineral properties	(1,521,102)	-	-	(1,521,102)
Balance – June 30, 2008	\$ 2,334,897	\$ 1,023,734	\$ 941,411	\$ 4,300,042

Tanzania

Handeni Property

The Handeni Gold Project consists of two contiguous claims totalling 200 square kilometres, Magambazi and Kilindi. The property is located in the Handeni district, Tanga Region of Tanzania

- i. On July 26, 2007, the Company entered an Option Agreement (the “Agreement”) with local miners and Magambazi Mines Company Ltd. to acquire a 100% interest in the Magambazi gold mining licences over a two year period. Additionally, the Agreement included a provision whereby the rights to explore could be extended for an additional year. The Magambazi gold property is subject to four primary mining licences expiring on June 7, 2010 covering an area of 4.5 square kilometres.

Under the terms of the Agreement, the Company paid a total of US\$136,000 for the right to explore the Magambazi licences over a two year period and an additional US\$120,000 for the extension to the term for a further year. At any time prior to the third anniversary date (April 28, 2010), the Company can elect to make a cash payment of US\$1,800,000 to acquire a 100% interest in the Magambazi mining licences, subject to a 2% net smelter return royalty. Requisite regulatory approval of the transaction was obtained on October 11, 2007.

CANACO RESOURCES INC.
Notes to Consolidated Financial Statements
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Expressed in Canadian dollars

4. Mineral properties - continued

- ii. The Kilindi property is 100% owned by the Company and is subject to a Prospecting Licence expiring November 23, 2010 covering an area of area of 196.3 square kilometres.

Write off of mineral properties

	2009	2008
Properties under option – agreements not maintained in good standing		
Magembe (Forfeited on second anniversary date - May 7, 2009)	\$ 648,917	\$ -
Morogoro/Morogoro North (Forfeited on second anniversary date - November 6, 2008)	9,938	1,521,102
Negero and Kwadijava (Douglas Lake could not provide confirmation of title to the Prospecting Licences)	40,358	-
	699,213	1,521,102
Strategic Alliance Agreement (Terminated August 1, 2008)	1,023,734	-
Total mineral property expenditures written off (per tables above)	1,722,947	1,521,102
Less - asset retirement obligation	(4,102)	-
Write off of mineral properties	\$ 1,718,845	\$ 1,521,102

5. Loan payable

As part of the Agreement between Candente and the Company to transfer the El Oro property to Candente Gold, the Company had the right to receive a minimum cash sum of \$300,000 to reduce the promissory note on or before May 28, 2009. However, if Candente and Candente Gold did not have sufficient funds to pay the Company on May 28, 2009, then, at the Company's election, Candente and Candente Gold would arrange for, and the Company would accept a loan advance on the terms set out below.

A non-revolving term loan, due August 6, 2009, bearing interest at the rate of 24% per annum payable monthly. Subsequent to year end, the loan term was extended to November 6, 2009. Candente has provided an unlimited guarantee to the lender promising payment in full of the Company's indebtedness if the Company is unable to repay in full on the revised due date. Additionally, the Company transferred 500,000 shares in Candente Gold to the lender when the original agreement was entered into and 250,000 shares in Candente Gold as consideration when the due date of the loan was extended.

6. Asset retirement obligations

The Company has an obligation under various agreements to reclaim and restore the lands disturbed by its exploration activities. Future reclamation costs have been reflected on the balance sheet as at June 30, 2009 at \$6,651 to provide for the fair value estimate at that time to reclaim properties under option in Tanzania.

7. Capital stock

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

CANACO RESOURCES INC.
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Expressed in Canadian dollars

7. Capital stock - continued

b) Common shares issued

	Number of Shares		Amount
Balance – June 30, 2007	28,459,806	\$	13,470,031
Non-brokered private placement ((i.), (ii.), (iii.) & (iv.))	15,784,930		3,458,700
Mineral properties	275,000		60,000
Reallocation of fair value of warrants issued			(360,346)
Capital raising costs			(326,373)
Balance- June 30, 2008	44,519,736		16,302,012
Non-brokered private placement ((v.) & (vi.))	46,400,000		2,320,000
Reallocation of fair value of warrants issued			(618,543)
Capital raising costs			(397,769)
Balance- June 30, 2009	90,919,736	\$	17,605,700

- i. On August 31, 2007, the Company completed a non-brokered private placement of 3,571,430 units at a price of \$0.28 per unit. The gross proceeds of the unit placement totaled \$1,000,000. Each unit is comprised of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.45 per share up to August 30, 2008. The selling agent was paid a cash commission of \$70,000 and issued 285,714 broker's warrants. Each broker warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.45 and the broker warrants expire August 30, 2009. A finders' fee of \$19,608 was paid to a corporation at arms length to the Company.
- ii. On October 30, 2007, the Company completed a non-brokered placement of 200,000 units at \$0.28 per unit for gross proceeds of \$56,000. Each unit consists of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.45 per share up to October 29, 2008.
- iii. On March 20, 2008, the Company completed a non-brokered placement of 11,063,500 units at \$0.20 per unit for gross proceeds of \$2,212,700. Each unit consists of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.35 per share up to March 19, 2010. The selling agents were paid a cash commission of \$150,150 and issued broker options to acquire up to an aggregate of 375,375 units. Each broker option entitles the holder to acquire units at a price of \$0.20 per unit (each unit being one share and one-half warrant with the same terms as the private placement).
- iv. On April 11, 2008, the Company completed a non-brokered private placement of 950,000 units at \$0.20 per unit for gross proceeds of \$190,000. Each unit consists of one common share and one-half share purchase warrants, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.35 per share up to April 10, 2010. The selling agents were paid a cash commission of \$9,520 and issued broker options to acquire up to an aggregate of 23,800 units. Each broker option entitles the holder to acquire units at a price of \$0.20 per unit (each unit being one share and one-half warrant with the same terms as the private placement). Directors of the Company acquired 470,000 of the units issued.
- v. On April 7, 2009, the Company completed a non-brokered private placement of 5,400,000 units at \$0.05 per unit for gross proceeds of \$270,000. Each unit consists of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.07 per share up to April 6, 2010 and \$0.10 per share up to April 6, 2011. Directors of the Company acquired 400,000 of the units issued.

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7. Capital stock - continued

vi. On June 26, 2009, the Company completed a non-brokered private placement of 40,000,000 units at \$0.05 per unit for gross proceeds of \$2,000,000. Each unit consists of one common share and one-half share purchase warrant, each whole share purchase warrant entitling the holder to acquire one common share at a price of \$0.07 per share up to June 25, 2010 and \$0.10 per share up to June 25, 2011. Additionally, the Company issued 1,000,000 units (each unit being one share and one-half warrant with the same terms as the private placement) as a finders fee.

Subsequent to June 30, 2009, the Company issued 500,000 common shares to a firm in which an officer of the Company is a partner to satisfy a debt obligation amounting to \$50,000.

c) Escrowed shares
 At June 30, 2009, 22,666 shares are held in escrow. The release of these shares is based on the future exploration expenditures, discovery of an ore deposit and achieving commercial mineral production.

d) Warrants
 Share purchase warrant transactions for the respective financial years ended June 30 are summarized as follows:

	2009		2008	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	8,577,354	\$ 368,840	4,631,343	\$ 448,249
Warrants issued	22,700,000	462,094	7,892,465	324,325
Broker warrants issued	500,000	13,344	684,889	44,515
Warrants expired	(1,885,715)	(55,898)	(4,631,343)	(448,249)
Closing balance	29,891,639	\$ 788,380	8,577,354	\$ 368,840

The fair value of the 22,700,000 warrants issued in connection with unit private placements completed during the financial year ended June 30, 2009 totalled \$605,199 net of warrant issue costs amounting to \$143,105 (net \$462,094). The fair value of the 500,000 broker warrants issued in connection with unit private placements completed during the financial year ended June 30, 2009 totalled \$13,344. The warrants and broker warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued	Fair value	Warrant issue costs	Net
1 year	203%	0%	1.00%	2,700,000	\$ 71,437	\$ 17,021	\$ 54,415
1 year	207%	0%	1.26%	20,000,000	533,762	126,084	407,679
				22,700,000	\$ 605,199	\$ 143,105	\$ 462,094
1 year	207%	0%	1.26%	500,000	\$ 13,344	\$ -	\$ 13,344

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7. Capital stock - continued

The fair value of the 7,892,465 warrants issued in connection with unit private placements completed during the financial year ended June 30, 2008 totalled \$360,346 net of warrant issue costs amounting to \$36,021 (net \$324,325). The fair value of the 684,889 broker warrants issued in connection with unit private placements completed during the financial year ended June 30, 2008 totalled \$44,515. The warrants and broker warrants were valued using the Black-Scholes valuation model, using the following assumptions:

Warrant term	Volatility	Dividend yield	Risk-free interest rate	Warrants Issued	Fair value	Warrant issue costs	Net
1 year	71%	0%	4.35%	1,785,715	\$ 62,129	\$ 8,559	\$ 53,570
1 year	65%	0%	4.11%	100,000	2,451	122	2,329
2 years	74%	0%	2.56%	5,531,750	271,584	24,190	247,394
2 years	76%	0%	2.67%	475,000	24,182	3,150	21,032
				7,892,465	\$ 360,346	\$ 36,021	\$ 324,325
2 years	82%	0%	4.35%	285,714	\$ 24,875	-	\$ 24,875
2 years	74%	0%	2.56%	375,375	18,429	-	18,429
2 years	76%	0%	2.67%	23,800	1,211	-	1,211
				684,889	\$ 44,515	\$ -	\$ 44,515

At June 30, 2009, the following share purchase warrants are outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date	Number of warrants exercisable
285,714	\$0.45	30-Aug-2009	285,714
5,531,750	\$0.35	19-Mar-2010	5,531,750
375,375	\$0.20	19-Mar-2010	375,375
475,000	\$0.35	10-Apr-2010	475,000
23,800	\$0.20	10-Apr-2010	23,800
2,700,000	\$0.07/\$0.10	06-Apr-2011	-
20,500,000	\$0.07/\$0.10	25-Jun-2011	-
29,891,639			6,691,639

Subsequent to June 30, 2009, the following share purchase warrant transactions occurred:

- i. 285,714 warrants expired unexercised;
- ii. 219,425 broker warrants were exercised for proceeds of \$87,770 and 438,850 common shares and 219,425 share purchase warrants were issued. Each warrant entitles the holder to acquire one common share at a price of \$0.35 per share up to March 19, 2010;
- iii. 7,000 broker warrants were exercised for proceeds of \$2,800 and 14,000 common shares and 7,000 share purchase warrants were issued. Each warrant entitles the holder to acquire one common share at a price of \$0.35 per share up to April 10, 2010; and,
- iv. 708,925 warrants were exercised for proceeds of \$227,124.

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7. Capital stock - continued

e) 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 June 30, 2009, 7,154,939 options are available for future grant under the Plan.

Stock option transactions for the respective financial years ended June 30 and the number of stock options outstanding at the end of the years are summarized as follows:

	2009		2008	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	2,769,849	\$0.43	2,359,849	\$0.46
Options granted	379,535	\$0.25	485,000	\$0.30
Options expired	(1,012,349)	\$0.36	(75,000)	\$0.65
Options cancelled	(200,000)	\$0.46	-	-
Closing balance	1,937,035	\$0.43	2,769,849	\$0.43

The fair value of the 379,535 options granted during the fiscal year ended June 30, 2009 amounted to \$12,643 resulting in compensation expense of \$12,643. The options were valued using the Black-Scholes valuation model, using the following weighted average assumptions: expected option term of three years; volatility of 134%; dividend yield of 0%; and risk-free interest rate of 1.40%. The fair value of the 485,000 options granted during the fiscal year ended June 30, 2008 amounted to \$74,780; resulting in compensation expense of \$67,071 being recorded and the balance of \$7,709 being charged to mineral properties. The options were valued using the Black-Scholes valuation model, using the following weighted average assumptions: expected option term of three years; volatility of 79%; dividend yield of 0%; and risk-free interest rate of 4.65%.

At June 30, 2009, stock options outstanding are as follows:

Number of options outstanding and exercisable	Range of exercise prices	Weighted Average Exercise Price of Options Exercisable	Weighted Average Remaining Contractual Life
914,535	\$0.25-\$0.35	\$0.28	3.65 years
622,500	\$0.46-\$0.50	\$0.49	1.16 years
400,000	\$0.59-\$0.65	\$0.65	2.03 years
1,937,035			

Subsequent to June 30, 2009, the Company granted 5,725,000 stock options to directors, officers, employees and consultants with an exercise price of \$0.10 up to July 9, 2014 and 15,000 stock options were converted for proceeds of \$1,500 and 15,000 common shares were issued.

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8. Contributed surplus

	2009	2008
Opening balance	\$ 1,817,681	\$ 1,285,038
Fair value of options vested	12,643	84,394
Reallocation of fair value of warrants on expiry	55,898	448,249
Transfer of El Oro mineral property	96,235	-
Closing balance	\$ 1,982,457	\$ 1,817,681

9. 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:

	2009	2008
Income tax recovery computed at statutory rates	\$ 730,122	\$ 785,251
Permanent differences		
Other	13,255	(39,486)
Stock-based compensation	(3,825)	(22,011)
	9,430	(61,497)
Book to tax differences	353,393	(504,041)
Change in tax rate – future tax assets	(69,283)	(157,478)
Change in valuation allowance	(1,023,662)	(62,235)
Recovery of income taxes	\$ -	\$ -

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:

	2009	2008
Enacted rates	27.23%	28.1%
Future tax assets		
Non-capital loss carry forwards	\$ 2,096,971	\$ 1,773,670
Capital losses	82,965	86,156
Financing costs	220,759	178,187
Resource properties	684,628	-
Other	0	33,514
Total gross future income tax assets	3,085,323	2,071,527
Less valuation allowance	(3,085,323)	(1,913,050)
Net future income tax assets	-	158,477
Less future tax liabilities – resource properties	-	(158,477)
Net future income tax	\$ -	\$ -

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9. Income tax - continued

At June 30, 2009, Canaco Resources Inc. has non-capital losses of approximately \$4,706,978, which may be carried forward to apply against future year's income for Canadian income tax purposes, subject to final determination by taxation authorities, expiring as follows:

2010	\$	63,468
2011		238,320
2015		588,915
2026		946,533
2027		821,178
2028		971,806
2029		<u>1,076,758</u>
	\$	<u>4,706,978</u>

10. Related party transactions

(In addition to those disclosed elsewhere)

- a) At June 30, 2009, the Company owed \$150,398 (2008 -\$ 59,102) 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 fiscal year ended June 30, 2009, directors and officers charged \$186,759 (2008-\$216,999) in fees for services rendered. These transactions were entered into on a normal commercial basis.
- c) During the fiscal year ended June 30, 2009, a firm in which an officer of the Company is a partner charged fees of \$73,430 (2008-\$58,104) for legal services, of which \$29,688 (2008-\$15,444) was charged to operations, \$Nil (2008-\$19,809) to mineral properties, \$28,127 (2008-\$22,851) to capital raising costs and \$15,615 (2008-\$Nil) to contributed surplus. These transactions were entered into on a normal commercial basis.

11. 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.

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.

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.

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11. Management of capital risk - continued

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. Further information related to management of capital risk and liquidity is set out in note 1.

12. Financial instruments

a) Analysis of financial assets and financial liabilities

The table below sets out the Company's classification for each of its financial assets and liabilities at June 30, 2009.

	Financial assets held-for-trading	Financial assets available-for-sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash	\$ 1,949,160	\$ -	\$ -	\$ -	\$ 1,949,160
Accounts receivable	-	-	21,440	-	21,440
Investment	-	1	-	-	1
Promissory note	-	-	1,300,000	-	1,300,000
Accounts payable and accrued charges	-	-	-	(1,137,486)	(1,137,486)
Loan payable	-	-	-	(350,000)	(350,000)
	\$ 1,949,160	\$ 1	\$ 1,321,440	\$ 1,487,486	\$ 1,783,115

b) Fair values

The carrying value of the Company's accounts receivable, promissory note, accounts payable and accrued charges and loan payable approximate their fair value at June 30, 2009 and 2008 due to their short term nature.

c) Management of financial risk

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

i. Currency risk

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

At June 30, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Tanzanian shillings:

	USD	TZS
Cash (bank indebtedness)	(7,155)	1,480,577
Accounts receivable	1,945	-
Accounts payable and accrued liabilities	(67,842)	(162,969,080)
Net asset (liability) position	(73,052)	(161,488,503)

12. Financial instruments - continued

Based on the above net exposure as at June 30, 2009 and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and Tanzanian shilling would result in an increase/decrease of \$20,879 in the Company's net loss.

ii. Credit risk

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

The Company's accounts receivable consist of amounts due from the Federal Government of Canada for GST and amounts due from various parties for expense advances.

iii. 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's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 11 to the audited financial statements.

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

iv. 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.

Interest rate risk is limited to the cash balances only.

13. Segmented information

The Company's principal business segment is the acquisition, exploration and development of mineral properties. All of the Company's mineral properties are in the exploration and development stage and therefore exploration costs are deferred. The Company's current activities are focused in Tanzania (note 4).