



CANACO RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED
JUNE 30, 2009

Management's Discussion and Analysis ("MD&A") provides a review of the performance of Canaco Resources Inc. ("Canaco" or the "Company") operations and compares its performance with those of the preceding year. This discussion provides an indication of future developments along with issues and risks that can be expected to impact future operations. This report has been prepared on the basis of available information up to October 27, 2009 and should be read in conjunction with the financial statements and the related notes thereto, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). 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. 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 Resources Inc and covers 196 square kilometres. Gold was discovered in the area approximately 6 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.

Gold is hosted in high-grade metamorphosed mafic to felsic volcanic and sedimentary rocks of Archaean or Proterozoic Age. Mineralisation is vein-related structurally-controlled mesothermal gold associated with sulphide including pyrrhotite and arsenopyrite. The dominant host rocks are garnet-silica altered amphibolite, with lesser gneiss (biotite-kyanite-quartz-feldspar).

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

Exploration on the Project is ongoing, with advanced exploration including RC/Diamond drilling commencing in September 2009, to test the Magambazi, Magambazi North and Majiri Bomba target areas. Other exploration recommended for the near future includes a detailed airborne heli-magnetic survey and EM survey across the Project, generation of detailed DEM and topographic contours, expansion soil sampling and mapping, and infill soil geochemistry where reconnaissance sampling has defined anomalous areas. RAB drilling will be required in areas of significant cover along strike of known mineralization.

The system has excellent potential for the discovery of a new gold deposit, as demonstrated by the intensity of local artisanal mining, tenor of gold assay results and size of anomalies in soil geochemical sampling (including coincident As anomalism) and the ore grades and width intercepts from channel rock chip samples taken from the artisanal mine exposures. Recent academic studies (Kabete 2008, age dating) highlight the area as prospective for traditional (but metamorphosed) Achaean orogenic gold deposits within the Sukumaland Corridor, the host to major deposits (i.e. Bulyanhulu, Golden Pride, Geita) in the Lake Victoria Goldfields.

On September 8, 2009, the Company announced the initiation of diamond drilling at the Magambazi gold prospect located in the Handeni region of the United Republic of Tanzania. The Company released assay results on October 22, 2009 from drill holes recently completed as part of at the Company's diamond drilling program at the Magambazi gold prospect, located in the Handeni region of the United Republic of Tanzania.

Interpretation of the drill hole data to date reveals that the "Magambazi Mineralized Zone" is a broad, intense siliceous alteration zone with sulphide mineralization (pyrrhotite, arsenopyrite, pyrite and chalcopyrite) and frequent occurrences of trace visible gold. Contained within this broad envelope are two geologically and geochemically distinct intervals of moderate to high-grade gold mineralization (the "upper" and "lower" lodes). The Magambazi Mineralized Zone is now interpreted as a structurally controlled, steeply plunging gold-bearing shoot that is exposed at surface and increases in width down-section.

High grade mineralization in the Magambazi Mineralized Zone including the upper and lower lodes have been intersected in drill Hole MGZD001 as well as MGZD004, 5 and 7, (all three holes drilled on the section 80 metres south of the discovery hole -- see Table 1). Current and future drilling is planned to extend mineralization down dip (greater than 150m below surface) and down plunge.

TABLE 1 – Magambazi Drill Results to Date – Significant Intercepts

Drill Hole	East (metres)	North (metres)	Azimuth	Dip	From (metres)	To (metres)	Interval ⁽¹⁾ (metres)	Au Grade ⁽²⁾ (grams/tonne)	Notes
MGZD001 ⁽⁴⁾	10176	60440	60	-50	148	207	59	4.28 ⁽³⁾	Mineralized Zone
	Including				154	166	12	4.18	Upper Lode
	Including				189	206	17	10.38	Lower Lode
MGZD004	10249	60360	60	-50	110	137	27	2.82	Mineralized Zone
	Including				113	120.5	7.5	2.85	Upper Lode
	Including				127	137	10	5.15	Lower Lode
MGZD005	10247	60360	60	-65	128	169	41	3.32 ⁽³⁾	Mineralized Zone
	Including				128	144	16	3.34	Upper Lode
	Including				161	169	8	9.95	Lower Lode
MGZD007		60360	60	-79	156	196	40	<i>Assays Pending</i>	Mineralized Zone
	Including				156	169	13	<i>Assays Pending</i>	Upper Lode
	Including				187.5	196	8.5	<i>Assays Pending</i>	Lower Lode
MGZD002	10169.5	60440	60	-75	239	242	3	1.53	
	And				255	272.6	17.6	0.93	
MGZD003	10172	60440	60	-61	218.2	219.2	1	4.8	Partial Intercept Mineralized Zone
MGZD006		60520	60	-50	0		0	<i>Assays Pending</i>	

(1) Drill intercept lengths are down-hole lengths reflecting apparent widths of mineralization with true widths ranging between 60% - 100% of the reported down-hole lengths.

(2) The calculation of drill intercept employs a 0.3 gAu/t cut-off and no cutting grade for high gold values

(3) Previously reported (see press release of October 6, 2009); grade calculation includes 8 internal waste.

(4) Grade calculation includes 18m internal waste

Drill holes MGZ002, 3 and 6 encountered mineralization, but transected geology on the footwall of a fault that bounds the Main Zone mineralization immediately north of the discovery hole (MGZD001), resulting in a partial intercept of the Main Zone in hole MGZD003 and the intersection of mineralization apparently unrelated to the Main Zone target in holes MGZD002 and 6.

The Magambazi prospect lies at the southern end of the 10-kilometre Handeni gold trend. This area of anomalous gold geochemistry is defined by soil sampling surveys and the presence of artisanal mining operations including the company's Magambazi, Magambazi North, Semwaliko, Semwaliko North and Majiri Bomba prospects.

The Company has the option to earn a 100 per-cent interest in the Magambazi property by making a \$1.8-million (U.S.) cash payment on or before April 28, 2010 to Magambazi Mines Ltd., a Tanzanian company that represents the interests of artisanal miners and local families, which will be subject to a 2 per-cent net smelter royalty (NSR).

MAGEMBE PROPERTY

The 46.05 square kilometre Magembe Property (PL 3920/2006) is located in the Mwadui 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 Mwadui 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, which 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.

As of May 2009, the Canaco option with Douglas Lake has ceased to be in effect. As such, all of the expenditures capitalized to date on this mineral property (\$648,917) have been written off in the financial statements for the year ended June 30, 2009.

Discussions with Douglas Lake for the renewal of the Magembe option were initiated but remain pending the results of the claim renewal applications that were filed by Canaco and Douglas Lake for the property in May 2009. To date, The Ministry of Mines for Tanzania has not formally addressed the tenure issues with respect to the claim renewal applications. Once the ownership issues are resolved, further consideration will be directed toward future exploration of the Magembe property by Canaco.

TRANSFER OF EL ORO PROPERTY

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.

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.

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. At June 30, 2009, a loan advance of \$350,000 was outstanding. The non-revolving term loan was due August 6, 2009 and bears 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

SELECTED FINANCIAL INFORMATION

Selected Annual Consolidated Financial Information

(Expressed in Canadian Dollars)

	2009	2008	2007
	\$	\$	\$
Revenues	-	-	-
Net loss	(2,413,464)	(2,392,805)	(2,048,211)
Net loss per share - basic	(0.05)	(0.07)	(0.07)
Net loss per share - diluted	(0.05)	(0.07)	(0.07)
Cash dividends	-	-	-
Total assets	5,744,748	5,100,229	4,583,343
Long term liability	6,651	14,003	11,304
Shareholders' equity	4,250,611	4,776,071	3,883,661
Share capital	17,605,700	16,302,012	13,470,031
Warrants	788,380	368,840	448,249
Contributed surplus	1,982,457	1,817,681	1,285,038
Deficit	(16,125,926)	(13,712,462)	(11,319,657)

FINANCIAL POSITION

As at June 30, 2009, the Company had current assets of \$2,024,344 and current liabilities of \$1,487,486 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 of \$536,858 at June 30, 2009 compared to working capital of \$483,618 as at June 30, 2008. Included in current liabilities at June 30, 2009 is a \$350,000 non-revolving term loan.

Share capital and warrants as at June 30, 2009 totalled \$18,394,080 compared to \$16,670,852 as at June 30, 2008. During the fiscal year ended June 30, 2009, the Company raised additional capital of \$2,320,000 from the issue of 46,400,000 shares and 23,200,000 warrants. Additionally, 1,885,715 warrants that were outstanding as at June 30, 2008 expired unexercised in the first and second quarter of the most recently completed financial year end.

RESULTS OF OPERATIONS

	Three month period ended June 30,		Fiscal year ended June 30,	
	2009	2008	2009	2008
Expenses				
Amortization	\$ 631	\$ 512	\$ 2,433	\$ 512
Audit fees	25,852	25,500	27,787	27,411
Consulting & corporate development fees	51,587	37,025	205,184	200,161
Corporate financial services fees	22,500	30,000	97,500	30,000
Directors & advisory board fees	13,134	13,750	59,401	97,500
General & administrative	26,460	19,567	95,712	90,668
Investor/shareholder relations	23,870	34,389	119,385	226,709
Legal fees	19,971	1,291	27,819	15,980
Rent & occupancy costs	5,500	2,250	13,000	9,000
Stock-based compensation	12,643	-	12,643	67,071
Transfer agent & filing fees	2,116	3,186	23,749	24,655
Travel	19,177	15,383	55,252	78,033
	<u>223,441</u>	<u>182,853</u>	<u>739,865</u>	<u>867,700</u>
Loss before under noted items	(223,441)	(182,853)	(739,865)	(867,700)
Foreign exchange gain (loss)	18,826	(20,861)	63,992	(28,132)
Interest income	-	3,705	1,087	24,129
Interest on term loan	(19,833)	-	(19,833)	-
Write off of mineral properties	(1,718,845)	(1,521,102)	(1,718,845)	(1,521,102)
	<u>(1,943,293)</u>	<u>(1,721,111)</u>	<u>(2,413,464)</u>	<u>(2,392,805)</u>
Net loss and comprehensive loss for period	\$ (1,943,293)	\$ (1,721,111)	\$ (2,413,464)	\$ (2,392,805)
Loss per share - basic & diluted	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.07)
Weighted average number of shares outstanding - basic & diluted	<u>51,793,773</u>	<u>44,339,103</u>	<u>46,316,248</u>	<u>34,913,130</u>

NET LOSS

The net loss for the three month period ended June 30, 2009 amounted to \$1,943,293 compared to a net loss for three month period ended June 30, 2008 of \$1,721,111. Included in the results for the three month period ended June 30, 2009 is a foreign exchange gain of \$18,826, interest on term loan of \$19,833 and a write off of mineral properties of \$1,718,845. The net loss for the fiscal year ended June 30, 2009 amounted to \$2,413,464 compared to a net loss for fiscal year ended June 30, 2008 of \$2,392,805. Included in the results for the fiscal year ended June 30, 2009 is a foreign exchange gain of \$63,992, interest earned on surplus funds on hand of \$1,087, interest on term loan of \$19,833 and a write off of mineral properties of \$1,718,845, details of which are set out in the table below.

Table of Mineral Property Write Offs

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

EXPENSES

Expenses for the three month period ended June 30, 2009 totalled \$223,441 compared to \$182,853 for the three month period ended June 30, 2008 representing an increase of \$40,588 or 22%. After adjustment for stock-based compensation expensed in the current period of \$12,643 (2008 - \$Nil), expenses totalled \$210,798 compared to the prior expenses of \$182,853 for the three month period ended June 30, 2008 representing an increase of \$27,945 or 15%.

For the fiscal year ended June 30, 2009, total expenses were \$739,865 compared to \$867,700 for the fiscal year ended June 30, 2008. After adjustment for stock-based compensation expensed in the fiscal year ended June 30, 2009 of \$12,643 (June 30, 2008 - \$67,071), expenses for the respective periods totalled \$727,222 and \$800,629 representing a decrease of \$73,407. Significant variances for the three month period and fiscal year ended June 30, 2009 compared to the three month period and fiscal year ended June 30, 2008 are discussed below.

Consulting & corporate development fees

Consulting fees of \$51,587 in the three month period ended June 30, 2009 compared to \$37,025 reported in the corresponding comparative period. Consulting fees were \$205,184 in the fiscal year ended June 30, 2009 compared to \$200,161 in the same period of 2008. Fees charged to this account represent fees paid to external consultants, officers and directors for services rendered. The increase in the fees for the current year is a direct result of contracting an external consultant to assist in managing corporate affairs.

Corporate financial services fees

During the three month period ended June 30, 2009, the Company paid a fee of \$22,500 to an external consultant to source additional leads to fund the Company's projects. For the year ended June 30, 2009 the Company paid cumulative fees of \$97,500 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.

General & administrative

General and administrative expenses for the three month period ended June 30, 2009 totaled \$26,460 compared to \$19,567 for the three month period ended June 30, 2008. General and administration fees were \$95,712 for the fiscal year ended June 30, 2009 compared to \$90,668 in the same period of 2008. Included in this category are bank fees, communications lines (telephone, facsimile and internet), delivery, interest, office supplies, printing and reproduction.

Investor relations/shareholders relations

Investor relations' charges were \$23,870 for the three month period ended June 30, 2009 compared to \$34,389 for the three month period ended June 30, 2008. Investor relations' charges were \$119,385 for the current fiscal year ended June 30, 2009 compared to \$226,709 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.

Legal fees

Legal fees of \$19,971 for the three month period ended June 30, 2009 compared to \$1,291 for the three month period ended June 30, 2008. Legal fees were \$27,819 for the fiscal year ended June 30, 2009 compared to \$15,980 reported in the same period of 2008. In the current year, there were a number of general corporate matters that arose that required consultation with legal counsel to obtain their advice.

Travel

Travel charges were \$19,177 for the three month period ended June 30, 2009 compared to \$15,383 reported in the corresponding comparative period. Travel charges were \$55,252 for the current fiscal year ended June 30, 2009 compared to \$78,033 for the comparative period. Travel in current year has been cutback for the first three quarters of the most recently completed financial year end due to poor financial market conditions and limited financial resources.

CAPITAL EXPENDITURES

During the year ended June 30, 2009, the Company spent \$906,414 (2008 - \$2,388,934) on its capital spending program. Capital expenditures by project and category are summarized as follows:

	Year ended June 30,	
	2009	2008
Acquisition		
El Oro, Mexico	\$ 47,942	\$ 8,490
Tanzania - Properties Under Option	157,933	174,114
Tanzania - Strategic Alliance	-	2,497
	205,875	185,101
Exploration expenditure*		
El Oro, Mexico	79,739	396,527
Tanzania - Properties Under Option	620,800	1,555,557
Tanzania - Strategic Alliance	-	207,133
	700,539	2,159,217
	906,414	2,344,318
Equipment	-	44,616
	\$ 906,414	\$ 2,388,934

* - excludes advances (application of) totalling \$Nil (2008-\$6,275) and stock-based compensation of \$Nil (2008 - \$17,324)

SUMMARY OF QUARTERLY RESULTS - UNAUDITED

Quarter ended	Net revenues	Net loss (1)	Net loss per share - basic	Net loss per share - diluted
	\$	\$	\$	\$
30-Jun-09	Nil	(1,943,293)	(0.04)	(0.04)
31-Mar-09	Nil	(195,623)	(0.00)	(0.00)
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)	(0.04)	(0.04)

(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 June 30, 2009, the Company had cash of \$1,949,160 and working capital of \$536,858.

Canaco has been successful in meeting its exploration capital requirements through the completion of equity placements in the past. On April 7, 2008, the Company completed the first tranche of the non-brokered private placement of 5,400,000 units at a price of \$0.05 per unit for gross proceeds of \$270,000. The second tranche of the non-brokered private placement of 40,000,000 units closed on June 26, 2009 for gross proceeds of \$2,000,000. Each unit is comprised of one common share and one-half share purchase warrant. Each whole share purchase warrant is exercisable for one common share at a price of \$0.07 per share for the first year and at a price of \$0.10 per share for the second year. 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.

Cash on hand at June 30, 2009 is not considered adequate to meet requirements for fiscal 2010 based on the proposed exploration programs and budgeted general and administrative expenses. 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 AND GOING CONCERN

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. Recent malaise in the Canadian equity capital markets in particular for junior exploration companies could make securing 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.

CONTRACTUAL OBLIGATIONS

Canaco does not have any contractual obligations with respect to its mineral properties. The Company has the right to acquire a 100% interest Magambazi gold primary mining licences by making a cash payment of US\$1,800,000 on or before April 28, 2010 to Magambazi Mines Company Ltd. subject to a 2% net smelter return royalty, which is exercisable at the Company's discretion.

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 by companies with which they are associated as owners, contractors or employees.

Dr. Jingbin Wang, Chairman and Director: provides services to the Company in his capacity as a director. As a Director, Dr. Wang did not receive any compensation during the financial year ended June 30, 2009.

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 fiscal year ended June 30, 2009.

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 \$5,000.

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.

Mr Chaoxian Zhou, Deputy General Manager: provides services to the Company as an Officer.

Miss Lingling Yang, Director of Corporate Communications: provides services to the Company as an Officer.

Mr. Shuixing Fu, Director: provides services to the Company in his capacity as a director. As a Director, Dr. Wang did not receive any compensation during the financial year ended June 30, 2009.

Brian Lock, Director: provides services to the Company in his capacity as a director. During the fiscal year ended June 30, 2009, \$13,000 in aggregate has been recorded as payable to Mr. Lock to compensate him for time to fulfil his duties and obligations to the Company in his capacity as a director.

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. During the fiscal year ended June 30, 2009, \$24,000 in aggregate has been recorded as payable to Mr. Parsons to compensate him for time to fulfil his duties and obligations to the Company in his capacity as a director.

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. During the fiscal year ended June 30, 2009, \$4,135 in aggregate has been recorded as payable to Mr. Peretz to compensate him for time to fulfil his duties and obligations to the Company in his capacity as a director. Mr Peretz resigned from the Board of Directors and all board committees effective April 28, 2009. Mr. Peretz has agreed to continue assisting the Company in the capacity of a consultant and as a member of the Company's advisory board.

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. During the fiscal year ended June 30, 2009, \$4,267 in aggregate has been recorded as payable to Mr. Saxton to compensate him for time to fulfil his duties and obligations to the Company in his capacity as a director. 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. During the fiscal year ended June 30, 2009, \$9,000 in aggregate has been recorded as payable to Mr. Smallwood to compensate him for time to fulfil his duties and obligations to the Company in his capacity as a director.

During the fiscal year ended June 30, 2009, the Company was charged \$186,759 by officers and directors for consulting and corporate development fees. During the fiscal year ended June 30, 2009, Fraser & Company, a firm in which David Smalley, an officer of the Company, is a partner charged fees of \$73,430 for legal services. As at June 30, 2009, directors and officers were owed \$150,398 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 June 30, 2009, the Company has no material proposed transactions.

FINANCIAL INSTRUMENTS

Financial instruments consist of cash, accounts receivable, promissory note receivable, accounts payable and accrued liabilities and loan payable. At June 30, 2009 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.

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.

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

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 July 1, 2012 will require the restatement for comparative purposes of amounts reported by the Company for the year ending July 1, 2011. 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.

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.

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.

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 June 30, 2009, Canaco had 90,919,736 common shares, 29,891,639 warrants and 1,937,035 options issued and outstanding.

As at October 23, 2009, Canaco had 92,596,511 common shares, 28,897,000 warrants and 7,647,035 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.

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 the 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.

Canaco Resources Inc.

P R O F I L E

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Fax Number: 604 899-1240	Stock Exchange: TSX Venture
Date of Formation: Jan 3 1987	Stock Symbol: CAN
Governing Jurisdiction: Canada	Auditor: PricewaterhouseCoopers LLP, Chartered Accountants
Industry Classification: junior natural resource - mining	Transfer Agent: Computershare Investor Services Inc
CUSIP Number: 134804	Size of Issuer (Assets): Under \$10,000,000
Financial Year-End: June 30	