

*Interim Consolidated Financial Statements of*

**CANACO RESOURCES INC.**

*As at and for the three month period September 30, 2009*

*Responsibility for financial statements*

*The accompanying financial statements for Canaco Resources Inc. (the “Company”) have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. These financial statements are unaudited and have not been reviewed by the auditors. The most significant of these accounting principles have been set out in the June 30, 2009 audited consolidated financial statements. There have been no changes in accounting policies from the latest completed financial year-end. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.*

**CANACO RESOURCES INC.**  
**Interim Consolidated Balance Sheet**  
(Unaudited)

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
Expressed in Canadian dollars		
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 834,853	\$ 1,949,160
Accounts receivable	19,615	21,440
Prepaid expenses	37,345	53,744
	891,813	2,024,344
<b>Capital assets</b> , net of accumulated amortization of \$3,343 (June 30, 2009-\$2,946)	9,984	5,986
<b>Investment in Candente Gold Corp.</b> (note 3)	1,300,001	1,300,001
<b>Mineral properties</b> (note 4)	2,895,291	2,414,417
	<b>\$ 5,097,089</b>	<b>\$ 5,744,748</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 496,689	\$ 1,137,486
Loan payable (note 5)	350,000	350,000
	846,689	1,487,486
<b>Asset retirement obligations</b>	6,651	6,651
	853,340	1,494,137
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b> (note 6)	17,741,803	17,605,700
<b>Warrants</b> (note 6(c))	760,876	788,380
<b>Contributed surplus</b> (note 7)	2,445,631	1,982,457
<b>Deficit</b>	(16,704,561)	(16,125,926)
	4,243,749	4,250,611
	<b>\$ 5,097,089</b>	<b>\$ 5,744,748</b>

Going concern (note 1)  
Subsequent events (notes 3, 5, 6(c), 6(d) & 13)

Approved on behalf of the Board:

(signed) Brian Lock

(signed) David S. Parsons Director

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

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

<b>For the three month period ended September 30,</b>	<b>2009</b>	<b>2008</b>
Expressed in Canadian dollars		
<b>Expenses</b>		
Amortization	\$ 397	\$ 585
Audit	-	160
Consulting and corporate development fees	97,750	63,947
Corporate financial services	22,500	-
Directors and advisory board fees	17,250	17,250
General and administrative	23,939	24,399
Investor/shareholder relations	22,122	51,951
Legal fees	7,299	3,126
Rent and occupancy costs	4,500	2,250
Stock-based compensation	383,772	-
Transfer agent and filing fees	2,490	3,382
Travel	33,524	14,479
	615,543	181,529
Loss before under noted items	(615,543)	(181,529)
Foreign exchange gain	56,741	52,983
Interest income	-	1,009
Interest on term loan	(19,833)	-
Net loss and comprehensive loss for period	(578,635)	(127,537)
Deficit, beginning of period	(16,125,926)	(13,712,462)
<b>Deficit, end of period</b>	<b>\$ (16,704,561)</b>	<b>\$ (13,839,999)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares used in the calculation of loss per share – basic and diluted</b>	<b>89,753,867</b>	<b>42,997,071</b>

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

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

**For the three month period ended September 30,** **2009** **2008**

Expressed in Canadian dollars

<b>Cash flows from operating activities</b>		
Net loss for period	\$ (578,635)	\$ (127,537)
Items not involving cash		
Amortization	397	585
Stock-based compensation	383,772	-
	(194,466)	(126,952)
Changes in operating assets and liabilities		
Accounts receivable	6,292	-
Prepaid expenses	8,878	28,302
Accounts payable and accrued liabilities	(44,994)	33,415
	(224,290)	(65,235)
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(4,395)	(1,390)
Expenditures on mineral properties	(426,347)	(400,219)
Change in operating assets and liabilities relating to investing activities	(98,468)	(9,367)
	(529,210)	(410,976)
<b>Cash flows from financing activities</b>		
Shares and warrants issued for cash	86,520	-
Capital raising costs	(3,046)	-
Change in operating assets and liabilities relating to financing activities	(444,281)	-
	(360,807)	-
Decrease in cash	(1,114,307)	(476,211)
Cash, beginning of period	1,949,160	540,121
<b>Cash, end of period</b>	<b>\$ 834,853</b>	<b>\$ 63,910</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest received	\$ -	\$ 1,009
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Shares issued to settle debt obligation	\$ 50,000	\$ -
Stock options granted to project management	\$ 54,527	\$ -
Warrants issued to agents for non-brokered private placements	\$ -	\$ -

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

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 three month period ended September 30, 2009, the Company incurred a net loss and utilized funds in operations totalling \$578,635 and \$224,290, respectively. The accumulated deficit at September 30, 2009 is \$16,704,561. 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. Accounting policies**

### **a) Basis of presentation**

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

The accounting policies followed by the Company are set out in note 2 to the audited consolidated financial statements for the year ended June 30, 2009 and have been consistently followed in the preparation of these financial statements except that the Company has adopted the following CICA standard effective for the Company's first quarter of fiscal 2010 commencing July 1, 2009.

#### **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 adoption of this standard has had no impact on the Company's financial statements.

### **b) New accounting pronouncements**

#### **i. Convergence with International Financial Reporting Standards ("IFRS")**

The Canadian Accounting Standards Board ("AcSB") recently confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations and also affect certain business functions.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed before June 30, 2010. The progress of the evaluation and implementation plan will be addressed in the Company's quarterly and annual MD&As for the year ended June 30, 2010. The evaluation and implementation plan will address the impact of IFRS on:

Expressed in Canadian dollars

## **2. Accounting policies - continued**

- Accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or prospective basis;
- Information technology and data systems;
- Internal control over financial reporting;
- Disclosure controls and procedures, including investor relations and external communications plans;
- Financial reporting expertise, training requirements and the need for assistance from outside expertise; and,
- Post implementation monitoring to access any future developments of IFRS.

### 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.

## **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 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. 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 September 30, 2009, the Company recorded its investment in Candente Gold at a nominal value of \$1.

By way of a letter agreement dated September 30, 2009 (the “Amended Letter Agreement”) with Luismin, the Company, Candente and Minera obtained a reduction in the area subject to Luismin’s “back-in right” and an extension to various terms of the Option Agreement, subject to certain conditions being met on or before November 30, 2009, including Candente Gold raising the necessary funds to meet the revised terms of the Amended Letter Agreement and receiving conditional approval for the listing of the shares on the TSX and receipt of regulatory approvals for the Amended Letter Agreement. The Amended Letter Agreement:

- provides that Luismin’s back-in right to buy 40% of the property no longer includes the portion of the El Oro claim that contains the historic workings and is now limited to the exploration claims;
- effectively extends the Option Agreement and payment of consideration for the Option to November 30, 2013; and,
- changes the share consideration portion of the option payments to shares in Candente Gold (with the majority of such shares to be issued by Candente Gold) and increases the number of shares to be issued, provided that in the event Candente Gold’s shares are not listed on the TSX in accordance with the terms of the Amended Letter Agreement, the Company and Candente will issue to Luismin 125,000 shares of their respective capitals on or before November 30, 2009 (shares issued). Additionally, the Company was required to pay outstanding invoices for claim renewal (paid).

**CANACO RESOURCES INC.**  
**Notes to Interim Consolidated Financial Statements**  
**September 30, 2009 (unaudited)**

Expressed in Canadian dollars

**4. Mineral properties**

The following table summarizes the Company's mineral properties at September 30, 2009:

<b>Area of Interest</b>	<b>Acquisition Costs</b>	<b>Exploration Expenditure</b>	<b>Total</b>
Tanzania – Properties Under Option	\$ 459,924	\$ 2,435,367	\$ 2,895,291

The following table details the expenditures on mineral properties for the three month period ended September 30, 2009:

Balance – June 30, 2009	\$ 2,414,417
Exploration expenditure	
Advances	33,008
Camp operations	51,241
Diamond drilling	183,573
Equipment	4,285
General & administrative	26,595
Geology	9,503
Mobilization & transportation	19,206
Stock-based compensation	54,527
Technical services	63,628
Travel	35,308
Total exploration expenditure for period	480,874
<b>Balance –September 30, 2009</b>	<b>\$ 2,895,291</b>

*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 into 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.

- 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 196.3 square kilometres.

**CANACO RESOURCES INC.**  
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**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 November 6, 2009 (repaid November 4, 2009), bearing interest at the rate of 24% per annum payable monthly. 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 from August 6, 2009 to November 6, 2009.

**6. Capital stock**

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

- b) Common shares issued

	<b>Number of Shares</b>	<b>Amount</b>
Balance- June 30, 2009	90,919,736	\$ 17,605,700
Debt settlement	500,000	50,000
Warrants exercised	462,600	86,520
Fair market value of warrants exercised	-	2,629
Capital raising costs	-	(3,046)
	<b>91,882,336</b>	<b>\$ 17,741,803</b>

- c) Warrants

Share purchase warrant transactions for the three month period ended September 30, 2009 and the financial year ended June 30, 2009 are summarized as follows:

	<b>September 30, 2009</b>		<b>June 30, 2009</b>	
	<b>Number of warrants</b>	<b>Amount</b>	<b>Number of warrants</b>	<b>Amount</b>
Opening balance	29,891,639	\$ 788,380	8,577,354	\$ 368,840
Warrants issued	181,300	8,914	22,700,000	462,094
Broker warrants issued	-	-	500,000	13,344
Warrants exercised	(100,000)	(2,629)	-	-
Broker warrants exercised	(181,300)	(8,914)	-	-
Warrants expired	(285,714)	(24,875)	(1,885,715)	(55,898)
<b>Closing balance</b>	<b>29,505,925</b>	<b>\$ 760,876</b>	<b>29,891,639</b>	<b>\$ 788,380</b>

**CANACO RESOURCES INC.**  
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**6. Capital stock - continued**

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

<b>Number of warrants outstanding and exercisable</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
5,681,050	\$0.35	19-Mar-2010
201,075	\$0.20	19-Mar-2010
482,000	\$0.35	10-Apr-2010
16,800	\$0.20	10-Apr-2010
2,625,000	\$0.07/\$0.10	06-Apr-2011
20,500,000	\$0.07/\$0.10	25-Jun-2011
<b>29,505,925</b>		

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

- i. 50,950 broker warrants were exercised for proceeds of \$20,830 and 100,900 common shares and 50,950 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;
  - ii. 2,154 broker warrants were exercised for proceeds of \$861 and 4,307 common shares and 2,154 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;
  - iii. 2,027,250 warrants were exercised for proceeds of \$359,538; and,
  - iv. 100,000 warrants were granted entitling the holder to acquire one common share at a price of \$0.50 per share up to March 4, 2010.
- d) Stock options

On December 11, 2008, the shareholders approved the Stock Option Plan (the "Plan"), for which up to 10% of the issued share capital can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is set at the Company's closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest when granted unless determined by the Board of Directors on a case by case basis, other than options granted to consultants performing investor relations activities, which vest in stages over twelve months with no more than one quarter vesting in any three month period. At September 30, 2009, 1,551,199 options are available for future grant under the Plan.

Stock option transactions for the three month period ended September 30, 2009 and the financial year ended June 30, 2009 and the number of stock options outstanding at the end of the periods are summarized as follows:

	<b>September 30, 2009</b>		<b>June 30, 2009</b>	
	<b>Number of options</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Number of options</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>
Opening balance	1,937,035	\$0.43	2,769,849	\$0.43
Options granted	5,725,000	\$0.10	379,535	\$0.25
Options expired	-	-	(1,012,349)	\$0.36
Options cancelled	-	-	(200,000)	\$0.46
<b>Closing balance</b>	<b>7,662,035</b>	<b>\$0.18</b>	<b>1,937,035</b>	<b>\$0.43</b>

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

**6. Capital stock - continued**

The fair value of the 5,725,000 options granted during the three month period ended September 30, 2009 amounted to \$438,298 resulting in compensation expense of \$438,299 of which \$54,527 was charged to mineral properties and \$383,772 to operations. The options were valued using the Black-Scholes valuation model, using the following weighted average assumptions: expected option term of 2.89 years; volatility of 139%; dividend yield of 0%; and risk-free interest rate of 1.85%.

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

<b>Number of options outstanding and exercisable</b>	<b>Range of exercise prices</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>
5,725,000	\$0.10	\$0.10	4.45 years
914,535	\$0.25-\$0.35	\$0.28	3.41 years
622,500	\$0.46-\$0.50	\$0.49	0.83 years
400,000	\$0.59-\$0.65	\$0.65	1.78 years
7,662,035			

Subsequent to September 30, 2009, 15,000 options were exercised for proceeds of \$1,500.

**7. Contributed surplus**

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
Opening balance	\$ 1,982,457	\$ 1,817,681
Fair value of options vested	438,299	12,643
Reallocation of fair value of warrants on expiry	24,875	55,898
Transfer of El Oro mineral property	-	96,235
<b>Closing balance</b>	<b>\$ 2,445,631</b>	<b>\$ 1,982,457</b>

**8. 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:

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Income tax recovery computed at statutory rates	\$ 169,286	\$ 34,435
Permanent differences		
Other	17,942	15,951
Stock-based compensation	(112,277)	-
	(94,335)	15,951
Book to tax differences	(816,228)	299,249
Change in tax rate – future tax assets	20,695	-
Change in valuation allowance	720,582	(349,635)
<b>Recovery of income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

**CANACO RESOURCES INC.**  
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**8. Income tax - continued**

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

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
Enacted rates	27.35%	27.17%
Future tax assets		
Non-capital loss carry forwards	\$ 2,359,784	\$ 2,096,971
Capital losses	82,965	82,965
Financing costs	205,978	220,759
Mineral properties	-	684,628
Total gross future income tax assets	2,648,727	3,085,323
Less valuation allowance	(2,365,568)	(3,085,323)
Net future income tax assets	283,159	-
Less future tax liabilities – mineral properties	(283,159)	-
<b>Net future income tax</b>	<b>\$ -</b>	<b>\$ -</b>

**9. Related party transactions**

*(In addition to those disclosed elsewhere)*

- a) At September 30, 2009, the Company owed \$132,082 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 three month period ended September 30, 2009, directors and officers charged \$92,812 in fees for services rendered. These transactions were entered into on a normal commercial basis.
- c) During the three month period ended September 30, 2009, a firm in which an officer of the Company is a partner charged fees of \$7,299 for legal services. These transactions were entered into on a normal commercial basis.

**10. 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.

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Expressed in Canadian dollars

**10. Management of capital risk - continued**

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

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

The Company will be required to access financial resources through equity placements in the junior resource market in the current year to carry out its planned programs or curtail its exploration activities to the extent of available financial resources. Further information related to management of capital risk and liquidity is set out in note 1.

**11. 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 September 30, 2009.

	Financial assets held- for-trading	Financial assets available-for- sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash	\$ 834,853	\$ -	\$ -	\$ -	\$ 834,853
Accounts receivable	-	-	19,615	-	19,615
Investment	-	1	-	-	1
Promissory note	-	-	1,300,000	-	1,300,000
Accounts payable and accrued charges	-	-	-	(496,689)	(496,689)
Loan payable	-	-	-	(350,000)	(350,000)
	\$ 834,853	\$ 1	\$ 1,319,615	\$ 846,689	\$ 1,307,780

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 September 30, 2009 and June 30, 2009 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.

## **11. Financial instruments - continued**

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

	<b>USD</b>	<b>TZS</b>
Cash	1,701	70,113,245
Accounts receivable	1,945	-
Accounts payable and accrued liabilities	(79,510)	(35,006,356)
<b>Net asset (liability) position</b>	<b>(75,864)</b>	<b>35,106,889</b>

Based on the above net exposure as at September 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 \$5.321 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 10 to the interim 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.

## **12. 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).

## **13. Subsequent event**

Subsequent to September 30, 2009, the Company announced its intention to proceed with a brokered and non-brokered private placement of \$5,350,000 through the sale of units at \$0.35 per unit. Each unit will consist of one common share and one-half share purchase warrant. Each full warrant will entitle the holder to acquire one common share at \$0.45 in the first year and \$0.75 in the second year. Closing of the private placement is scheduled to be early December 2009.