

Notice to Readers

The attached unaudited interim consolidated financial statements for the three and six months ended December 31, 2009, are being re-filed to correct an error in the recorded fair value of the Company's investment in Candente Gold Corp., the related future income tax effect, and change in other comprehensive income.

Interim Consolidated Financial Statements of

CANACO RESOURCES INC.

As at and for the six month period ended December 31, 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)

	December 31, 2009	June 30, 2009
Expressed in Canadian dollars	(Restated note 2)	
ASSETS		
Current		
Cash	\$ 4,958,434	\$ 1,949,160
Accounts receivable	20,542	21,440
Prepaid expenses	30,908	53,744
	5,009,884	2,024,344
Capital assets , net of accumulated amortization of \$4,283 (June 30, 2009-\$2,946)	9,043	5,986
Investment in Candente Gold Corp. (note 4)	2,481,828	1,300,001
Mineral properties (note 5)	4,283,453	2,414,417
	\$ 11,784,208	\$ 5,744,748
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 698,289	\$ 1,137,486
Loan payable	-	350,000
	698,289	1,487,486
Asset retirement obligations	6,651	6,651
	704,940	1,494,137
SHAREHOLDERS' EQUITY		
Capital stock (note 6)	22,670,221	17,605,700
Warrants (note 6(c))	2,008,950	788,380
Contributed surplus (note 7)	2,337,679	1,982,457
Accumulated other comprehensive income (note 8)	1,004,553	-
Deficit	(16,942,135)	(16,125,926)
	11,079,268	4,250,611
	\$ 11,784,208	\$ 4,250,611

Going concern (note 1)
Subsequent events (notes 3, 4, 5(c) & 5(d))

Approved on behalf of the Board:

(signed) David S. Parsons

(signed) Brian Lock

Director

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

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

	Cumulative three month period ended December 31,		Cumulative six month period ended December 31,	
	2009	2008	2009	2008
	(Restated note 2)		(Restated note 2)	
Expressed in Canadian dollars				
Expenses				
Amortization	\$ 940	\$ 586	\$ 1,337	\$ 1,171
Audit	1,275	1,775	1,275	1,935
Consulting and corporate development fees	127,601	35,925	225,351	99,872
Corporate financial services	22,500	30,000	45,000	30,000
Directors and advisory board fees	13,722	17,250	30,972	34,500
General and administrative	28,278	19,541	52,218	43,940
Investor/shareholder relations	80,833	23,063	102,954	75,014
Legal fees	48,215	4,282	55,513	7,408
Rent and occupancy costs	4,621	2,250	9,121	4,500
Stock-based compensation	-	-	383,772	-
Transfer agent and filing fees	8,006	9,266	10,495	12,648
Travel	55,865	1,423	89,390	15,902
	391,856	10,6891	1,007,398	28,5500
Loss before under noted items	(391,856)	(145,361)	(1,007,398)	(326,890)
Foreign exchange gain	(14,110)	(1,728)	42,631	51,255
Interest income	-	78	-	1,087
Interest on term loan	(8, 882)	-	(28, 715)	-
Loss before future income tax recovery	(414,848)	-	(993,483)	-
Future income tax recovery	177,274	-	177,274	-
Net loss for period	(237,574)	(147,011)	(816,209)	(274,548)
Deficit, beginning of period	(16,704,561)	(13,839,999)	(16,125,926)	(13,712,462)
Deficit, end of period	\$ (16,942,135)	\$ (13,987,010)	\$ (16,942,135)	\$ (13,987,010)
Loss per share – basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares used in the calculation of loss per share – basic and diluted	93,398,300	42,997,071	92,578,801	42,997,071

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

CANACO RESOURCES INC.
Interim Consolidated Statements of Comprehensive Income
(Unaudited)

	Cumulative three month period ended December 31,		Cumulative six month period ended December 31,	
	2009	2008	2009	2008
	(Restated note 2)		(Restated note 2)	
Net loss for period before other comprehensive income	\$ (237,574)	\$ (147,011)	\$ (816,209)	\$ (274,548)
Unrealized gains (losses) on available-for-sale investments (note 8)	1,004,553	-	1,004,553	-
Comprehensive income	\$ 766,979	\$ (147,011)	\$ 188,344	\$ (274,548)

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

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

	Cumulative three month period ended December 31,		Cumulative six month period ended December 31,	
	2009	2008	2009	2008
	(Restated note 2)		(Restated note 2)	
Expressed in Canadian dollars				
Cash flows from operating activities				
Net loss for period	\$ (237,574)	\$ (147,011)	\$ (816,209)	\$ (274,548)
Items not involving cash				
Amortization	940	585	1,337	1,171
Stock-based compensation	11,767	-	395,539	-
Future income tax recovery	(177,274)		(177,274)	
	(402,141)	(146,426)	(596,607)	(273,377)
Changes in operating assets and liabilities				
Accounts receivable	(3,012)	-	3,280	-
Prepaid expenses	(1,085)	11,806	7,793	40,108
Accounts payable and accrued liabilities	(57,703)	322,885	(93,294)	356,299
	(463,941)	188,265	(678,828)	123,030
Cash flows from investing activities				
Purchase of capital assets	-	-	(4,395)	(1,390)
Expenditures on mineral properties	(1,388,162)	(219,629)	(1,814,509)	(619,848)
Costs related to transfer of mineral properties	(22,585)	-	(22,585)	-
Change in operating assets and liabilities relating to investing activities	215,283	(29,553)	116,815	(38,920)
	(1,195,464)	(249,182)	(1,724,674)	(660,158)
Cash flows from financing activities				
Repayment of loan	(350,000)	-	(350,000)	-
Shares and warrants issued for cash	6,367,020	-	6,453,540	-
Capital raising costs	(287,662)	-	(290,709)	-
Change in operating assets and liabilities relating to financing activities	44,226	-	(400,055)	-
	5,773,584	-	5,412,776	-
Increase (decrease) in cash	4,114,179	(60,917)	3,009,274	(537,128)
Cash, beginning of period	844,255	63,910	1,949,160	540,121
Cash, end of period	\$ 4,958,434	\$ 2,993	\$ 4,958,434	\$ 2,993

Supplemental disclosure of cash flow information

Interest received	\$ -	\$ 78	\$ -	\$ 1,087
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Supplemental disclosure of non-cash investing and financing activities

Shares issued to satisfy obligations pursuant to an option agreement	\$ 61,250	\$ -	\$ 61,250	\$ -
Shares issued to settle debt obligation	\$ -	\$ -	\$ 50,000	\$ -
Stock options granted to project management	\$ -	\$ -	\$ 54,527	\$ -
Shares and warrants issued to agents for private placements	\$ 273,408	\$ -	\$ 273,408	\$ -

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

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2009 (unaudited)

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 six month period ended December 31, 2009, the Company incurred a net loss and utilized funds in operations totalling \$993,482 and \$678,828, respectively. The accumulated deficit at December 31, 2009 is \$17,119,409. The Company has 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. Restatement

In the previously released unaudited December 31, 2009, consolidated financial statements, the company concluded that the value of the Company's investment in Candente Gold Corp. was equal to the market value on the day the shares were listed for trading on the TSX Exchange. The shares were held in escrow at the time of listing and consequently the Company has determined that the mark to market value of the shares at December 31, 2009, was lower than the quoted market value of the shares. In addition, future income taxes on the mark to market adjustment had not been recorded. The financial results as at and for the three and six month period ended December 31, 2009, have been restated to reflect both of these factors, resulting in the following changes:

	As previously reported		As restated	
Balance Sheet				
Investment in Candente Gold Corp	\$	3,000,000	\$	2,481,828
Accumulated other comprehensive income		1,699,999		1,004,553
Deficit, end of period		(17,119,409)		(16,942,135)
<hr/>				
	Three Months Ended		Six Months Ended	
	December 31, 2009			
Statement of Operations	As previously reported	As restated	As previously reported	As restated
Future income tax recovery	-	177,274	-	177,274
Net loss for period	(414,847)	(237,574)	(993,482)	(816,209)
Loss per share	(0.00)	(0.00)	(0.01)	(0.01)
Other comprehensive income	1,699,999	1,004,553	1,699,999	1,004,553

Expressed in Canadian dollars

3. 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:

- 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.

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2009 (unaudited)

Expressed in Canadian dollars

4. Investment in Candente Gold Corp. ("Candente Gold")

	December 31, 2009		June 30, 2009	
	Cost	Accumulated unrealized holding gains (losses)	Carrying value	Carrying value
			(Restated note 2)	
Promissory note, payable in cash at the Company's option or convertible into common shares of Candente Gold on or before April 30, 2011	\$ 1,300,000	\$ -	\$ 1,300,000	\$ 1,300,000
4,250,000 common shares	1	1,181,827	1,181,828	1
	\$ 1,300,001	\$ 1,181,827	\$ 2,481,828	\$ 1,300,001

The common shares are subject to a Voluntary Escrow Agreement; whereby, 10% of the shares were released on the date Candente Gold was listed on the TSX Venture Exchange (January 4, 2010) and the balance are to be released in equal tranches of 15% every six months over a three year period.

5. Mineral properties

The following table summarizes the Company's mineral properties at December 31, 2009:

Area of Interest	Acquisition Costs	Exploration Expenditure	Total
Tanzania – Handeni Property	\$ 459,924	\$ 3,821,518	\$ 4,281,442
Ethiopia	2,011	-	2,011
	\$ 461,935	\$ 3,821,518	\$ 4,283,453

The following table details the expenditures on mineral properties for the six month period ended December 31, 2009:

Mineral properties	Tanzania - Handeni Property	Ethiopia	Total
Balance – June 30, 2009	\$ 2,414,417	\$ -	\$ 2,414,417
Total acquisition costs for period	-	2,011	2,011
Exploration expenditure			
Advances	1,031	-	1,031
Camp operations	100,583	-	100,583
Diamond drilling	1,260,191	-	1,260,191
Equipment	5,494	-	5,494
General & administrative	37,560	-	37,560
Geochemistry	72,649	-	72,649
Geology	9,503	-	9,503
Mobilization & transportation	71,226	-	71,226
Stock-based compensation	54,527	-	54,527
Technical services	179,366	-	179,366
Travel	74,895	-	74,895
	1,867,025	-	1,867,025
Balance– December 31, 2009	\$ 4,281,442	\$ 2,011	\$ 4,283,453

Expressed in Canadian dollars

5. Mineral properties - continued

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 covering an area of 4.5 square kilometers, which are renewable by the owners upon expiration of the licences term (June 7, 2010).

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 (July 26, 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.

Ethiopia

Subsequent to December 31, 2009, the Company entered into a Letter of Intent with Beijing Donia Resources Co. Ltd. ("Donia") to acquire 70% of the outstanding shares of Harvest Mining PLC ("Harvest"), a private Ethiopian exploration company. Harvest owns a 100% interest in 605 km² of exploration concessions in the Tigray state of Ethiopia.

The purchase price is CAD \$6,000,000, payable on closing as follows:

- i. CAD \$4,000,000 in cash; and,
- ii. issuance of an additional 3,508,771 shares to Donia at a deemed price of \$0.57 per share (based on the closing price of the past 30 trading days from the date of the Letter of Intent plus a 5% premium).

The acquisition is subject to a 90 day due diligence period and obtaining approvals from third parties, the TSX Venture Exchange and shareholders, if required.

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2009 (unaudited)

Expressed in Canadian dollars

6. Capital stock

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

	Number of Shares	Amount
Balance- June 30, 2009	0	\$ 0
Debt settlement	500,000	50,000
Options exercised	315,000	31,500
Fair market value of options exercised		24,116
Private placements (i.) (ii.)	15,335,199	5,367,320
Shares issued as commissions (ii.)	270,000	94,500
Reallocation of fair value of warrants issued		(1,330,649)
Shares issued for property	125,000	61,250
Warrants exercised	4,283,244	1,054,721
Fair market value of warrants exercised		137,116
Capital raising costs		(425,353)
	111,748,179	\$ 22,670,221

- i. On December 7, 2009, the Company completed a non-brokered private placement of 8,339,999 units at \$0.35 per unit for gross proceeds of \$2,919,000. 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 December 6, 2010 and \$0.75 per share up to December 6, 2011. Directors of the Company acquired 400,000 of the units issued.
- ii. On December 15, 2009, the Company completed a private placement of 6,995,200 units at \$0.35 per unit for gross proceeds of \$2,448,320. 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 December 14, 2010 and \$0.75 per share up to December 14, 2011. Part of the private placement was brokered and the broker was paid a commission, portion of which was taken in cash and a portion in units (28,000 in cash and 210,000 units) and 7% in agent's warrants (280,000 agent's warrants). In addition, the broker received a corporate finance fee of 60,000 shares and 240,000 warrants. The warrants issued to the broker have the same terms as the subscriber warrants.

c) Warrants

Share purchase warrant transactions for the six month period ended December 31, 2009 and the financial year ended June 30, 2009 are summarized as follows:

	December 31, 2009		June 30, 2009	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	29,891,639	\$ 788,380	8,577,354	\$ 368,840
Warrants issued - private placements	7,667,601	1,191,886	22,700,000	462,094
Broker warrants issued	1,041,400	178,908	500,000	13,344
Warrants issued for services	100,000	11,767	-	-
Warrants exercised	(3,793,812)	(137,116)	-	-
Warrants expired	(285,714)	(24,875)	(1,885,715)	(55,898)
Closing balance	34,621,114	\$ 2,008,950	29,891,639	\$ 788,380

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2009 (unaudited)

Expressed in Canadian dollars

6. Capital stock - continued

The fair value of the warrants issued in connection with unit private placements completed during the six month period ended December 31, 2009 totalled \$1,330,649 net of warrant issue costs amounting to \$138,763 (net \$1,191,886). The fair value of the broker warrants issued in connection with unit private placements completed during the six month period ended December 31, 2009 totalled \$178,908. The fair value of the warrants issued for services during the six month period ended December 31, 2009 totalled \$11,767. 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	187%	0%	1.23%	4,170,001	\$ 746,737	\$ 64,697	\$ 682,040
1 year	169%	0%	1.29%	3,497,600	583,912	74,066	509,846
				7,667,601	\$ 1,330,649	\$ 138,763	\$ 1,191,886
1 year	187%	0%	1.23%	416,400	\$ 74,566	\$ -	\$ 74,566
1 year	169%	0%	1.29%	625,000	104,342	-	104,342
				1,041,400	\$ 178,908	\$ -	\$ 178,908
.35 year	211%	0%	.31%	100,000	\$ 11,767	\$ -	\$ 11,767

At December 31, 2009, the following share purchase warrants are outstanding:

Number of warrants outstanding and exercisable	Exercise price \$	Expiry date
3,298,501	\$0.35	19-Mar-2010
139,813	\$0.20	19-Mar-2010
484,153	\$0.35	10-Apr-2010
14,646	\$0.20	10-Apr-2010
1,375,000	\$0.07/\$0.10	06-Apr-2011
20,500,000	\$0.07/\$0.10	25-Jun-2011
100,000	\$0.50	04-Mar-2010
4,586,401	\$0.45/\$0.75	06-Dec-2011
4,122,600	\$0.45/\$0.75	14-Dec-2011
34,621,114		

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2009 (unaudited)

Expressed in Canadian dollars

7. Capital stock - continued

Subsequent to December 31, 2009, the following share purchase warrant transactions occurred:

- i. 16,800 broker warrants were exercised for proceeds of \$6,720 and 33,600 common shares and 16,800 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,
- ii. 3,633,403 warrants were exercised for proceeds of \$907,691.

d) Stock options

On December 10, 2009, the shareholders approved the Stock Option Plan (the "Plan"), for which up to 10% of the issued share capital can be reserved for issuance to executive officers and directors, employees and consultants. The exercise price of the options is set at the Company's closing share price on the day before the grant date less the applicable discount permitted under the TSX Venture Exchange policies. The options have a maximum term of five years and vest when granted unless determined by the Board of Directors on a case by case basis, other than options granted to consultants performing investor relations activities, which vest in stages over twelve months with no more than one quarter vesting in any three month period. At December 31, 2009, 3,852,782 options are available for future grant under the Plan.

Stock option transactions for the six month period ended December 31, 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:

	December 31, 2009		June 30, 2009	
	Number of options	Weighted Average Exercise Price of Options Exercisable	Number of options	Weighted Average Exercise Price of Options Exercisable
Opening balance	\$8,482,034.45	\$0.43	2,769,849	\$0.43
Options granted	5,725,000	\$0.10	379,535	\$0.25
Options exercised	(315,000)	\$0.10	-	-
Options expired	-	-	(1,012,349)	\$0.36
Options cancelled	-	-	(225,000)	\$0.44
Closing balance	\$13,892,034.4	\$0.19	1,912,035	\$0.43

The fair value of the 5,725,000 options granted during the six month period ended December 31, 2009 amounted to \$438,299 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 December 31, 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
5,410,000	\$0.10	\$0.10	4.34 years
889,535	\$0.25-\$0.35	\$0.28	3.15 years
622,500	\$0.46-\$0.50	\$0.49	0.57 years
400,000	\$0.59-\$0.65	\$0.65	1.52 years
7,322,035			

Subsequent to December 31, 2009, the following stock option transactions occurred:

- i. 160,000 stock options were converted for proceeds of \$16,000 and 160,000 common shares were issued; and,

- ii. 2,800,000 stock options were granted to directors, officers, employees and consultants with an exercise price of \$0.67 up to January 21, 2015.

CANACO RESOURCES INC.
Notes to Interim Consolidated Financial Statements
December 31, 2009 (unaudited)

Expressed in Canadian dollars

7. Contributed surplus

	December 31, 2009	June 30, 2009
Opening balance	\$ 1,982,457	\$ 2039
Fair value of options vested	438,299	12,643
Fair value of options exercised	(24,116)	-
Reallocation of fair value of warrants on expiry	24,874	55,898
Transfer of El Oro mineral property	(83,835)	96,235
		2,337,679
Closing balance	\$ 2,337,679	\$ 1,982,457

8. Accumulated other comprehensive loss

	December 31, 2009	June 30, 2009
Opening balance	\$ -	\$ -
Unrealized gains (losses) on available-for-sale investments	1,181,827	-
Less future income tax provision	(177,274)	-
Closing balance	\$ 1,004,553	\$ -

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:

	December 31, 2009	December 31, 2008
Income tax recovery computed at statutory rates	\$ 290,655	\$ 74,128
Permanent differences		
Other	20,101	18,811
Stock-based compensation	(112,277)	-
	(92,176)	18,811
Book to tax differences	(1,047,793)	295,395
Change in tax rate – future tax assets	44,026	-
Change in valuation allowance	628,014	(388,334)
Recovery of income taxes	\$ (177,274)	\$ -

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9. Income tax - continued

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

	December 31, 2009	June 30, 2009
Enacted rates	27%	27.17%
Future tax assets		
Non-capital loss carry forwards	\$ 2,862,771	\$ 2,096,971
Capital losses	82,965	82,965
Financing costs	321,575	220,759
Mineral properties	-	684,628
Total gross future income tax assets	3,267,311	3,085,323
Less valuation allowance	(2,610,554)	(3,085,323)
Net future income tax assets	656,757	-
Less future tax liabilities – mineral properties	(656,757)	-
Net future income tax	\$ -	\$ -

10. Related party transactions

(In addition to those disclosed elsewhere)

- a) At December 31, 2009, the Company owed \$125,163 to shareholders, officers, directors and management, which is included within accounts payable and accrued liabilities. The balance represents unpaid amounts relating to fees and expenses.
- b) During the six month period ended December 31, 2009, directors and officers charged \$240,245 in fees for services rendered. These transactions were entered into on a normal commercial basis.
- c) During the six month period ended December 31, 2009, a firm in which an officer of the Company is a partner charged fees of \$47,525 for legal services. 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.

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11. 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.

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 December 31, 2009.

	Financial assets held- for-trading	Financial assets available-for- sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash	\$ 4,958,434	\$ -	\$ -	\$ -	\$ 4,958,434
Accounts receivable	-	-	18,840	-	18,840
Investment	-	1,181,828	-	-	1,181,828
Promissory note	-	-	1,300,000	-	1,300,000
Accounts payable and accrued charges	-	-	-	(698,289)	(698,289)
	\$ 4,958,434	\$ 1,181,828	\$ 1,318,840	\$ (698,289)	\$ 6,760,813

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 December 31, 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.

12. Financial instruments - continued

At December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Tanzanian shillings:

	USD	TZS
Cash	2,354	43,974,143
Accounts receivable	1,945	-
Accounts payable and accrued liabilities	(82,325)	(33,134,526)
Net asset (liability) position	(78,026)	10,839,617

Based on the above net exposure as at December 31, 2009 and assuming that all other variables remain constant, a 15% depreciation or appreciation of the Canadian dollar against the US dollar and Tanzanian shilling would result in an increase/decrease of \$7,332 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.

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).