

Consolidated Financial Statements
(Expressed in Canadian dollars)

CANGOLD LIMITED

Years ended June 30, 2011 and 2010



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

To The Shareholders of Cangold Limited

We have audited the accompanying consolidated financial statements of Cangold Limited, which comprise the consolidated balance sheets as at June 30, 2011 and 2010, the consolidated statements of operations and deficit, comprehensive loss, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cangold Limited as at June 30, 2011 and June 30, 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that Cangold Limited requires additional financing to carry out its planned exploration and development plans. These conditions, along with other matters as set forth in Note 1 in the financial statements, indicate the existence of a material uncertainty that may cause significant doubt about Cangold Limited's ability to continue as a going concern.



Chartered Accountants

October 19, 2011
Vancouver, Canada

CANGOLD LIMITED

Consolidated Balance Sheets
(Expressed in Canadian dollars)

June 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 950,460	\$ 103,163
Marketable securities	3,000	82,190
Amounts receivable (note 4)	146,294	126,569
Prepaid expenses and advances	12,523	19,858
	<u>1,112,277</u>	<u>331,780</u>
Mineral properties (note 6)	90,000	90,000
	<u>\$ 1,202,277</u>	<u>\$ 421,780</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 249,098	\$ 79,668
Due to related parties (note 8)	397,478	174,247
	<u>646,576</u>	<u>253,915</u>
Shareholders' equity:		
Capital stock (note 7)	10,563,544	10,563,423
Contributed surplus (note 7(c))	1,182,264	1,182,264
Advances on share subscriptions (note 7(f))	915,877	-
Accumulated other comprehensive income (loss) (note 10)	(5,250)	22,451
Deficit	<u>(12,100,734)</u>	<u>(11,600,273)</u>
	555,701	167,865
Continuing operations (note 1)		
Subsequent events (note 14)		
	<u>\$ 1,202,277</u>	<u>\$ 421,780</u>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"Kaare G. Foy" Director

"Martin B. Carsky" Director

CANGOLD LIMITED

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

	2011	2010
Expenses:		
Amortization	\$ -	\$ 2,764
Consulting	63,320	42,794
Director fees	75,000	75,000
Filing fees	14,018	9,852
Investor relations	69,502	53,419
Mineral property exploration expenditures (note 5)	30,448	73,894
General exploration expenses	178,069	161,292
Office and miscellaneous	22,605	28,100
Professional fees	77,830	66,117
Rent	28,026	26,451
Transfer agent fees	5,979	5,825
Loss before undernoted	(564,797)	(545,508)
Interest income	-	1,165
Interest expense	(5,601)	(3,664)
Foreign exchange loss	(2,033)	(13,553)
Loss on disposal of capital assets	-	(4,408)
Gain on sale of marketable securities	71,970	5,044
Impairment loss on marketable securities	-	(11,250)
	64,336	(26,666)
Loss for the year	(500,461)	(572,174)
Deficit, beginning of year	(11,600,273)	(11,028,099)
Deficit, end of the year	\$(12,100,734)	\$(11,600,273)
Loss per share, basic and diluted	\$ (0.03)	\$ (0.03)
Weighted average number of outstanding common shares	17,588,185	16,528,760

See accompanying notes to consolidated financial statements.

CANGOLD LIMITED

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

	2011	2010
Loss for the year	\$ (500,461)	\$ (572,174)
Unrealized gain on marketable securities	44,269	35,951
Other than temporary impairment loss on marketable securities	-	11,250
Realized gain transferred to income	(71,970)	-
Comprehensive loss for the year	\$ (528,162)	\$ (524,973)

See accompanying notes to consolidated financial statements.

CANGOLD LIMITED

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows used in operating activities:		
Loss for the year	\$ (500,461)	\$ (572,174)
Items not involving cash:		
Amortization	-	2,764
Impairment loss on marketable securities	-	11,250
Loss on disposal of capital assets	-	4,408
Shares issued for mineral exploration expenditures	3,000	6,750
Shares received on sale of mineral property interest	(8,250)	-
Gain on sale of marketable securities	(71,970)	(5,044)
Changes in non-cash operating working capital:		
Amounts receivable	(19,725)	17,062
Prepaid expenses and advances	7,335	(12,038)
Accounts payable and accrued liabilities	169,430	(68,247)
Net cash used in operating activities	(420,641)	(615,269)
Cash flows provided by investing activities:		
Proceeds from sale of capital assets	-	11,045
Proceeds from sale of marketable securities	131,709	12,000
Net cash provided by investing activities	131,709	23,045
Cash flows provided by financing activities:		
Issuance of shares for cash, net of issue costs	-	522,078
Proceeds from advances on share subscriptions	915,877	-
Transaction costs, share consolidation	(2,879)	-
Due to related parties	223,231	138,220
Net cash provided by financing activities	1,136,229	660,298
Increase in cash and cash equivalents	847,297	68,074
Cash and cash equivalents, beginning of year	103,163	35,089
Cash and cash equivalents, end of year	\$ 950,460	\$ 103,163
Supplementary cash flow information:		
Interest income received	\$ -	\$ 1,165
Interest expense paid	590	1,883
Non-cash financing and investing transactions:		
Warrants and options issued for financing fee	-	1,968

See accompanying notes to the consolidated financial statements.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

1. Nature and continuance of operations:

Cangold Limited (the Company) was continued under the Business Corporation Act (Yukon) on March 17, 1997 and continued under the Business Corporations Act (British Columbia) on December 22, 2004.

The Company is in the business of acquiring, exploring and developing mineral resource properties and is directing substantially all of its efforts towards the exploration and related development of the properties. None of the properties in which the Company has an interest were in production at the balance sheet date; therefore, the Company has not generated revenue from these principal business activities.

During the years ended June 30, 2011 and 2010, the Company recorded losses of approximately \$500,000 and \$572,000, respectively, and used cash for operations of approximately \$421,000 and \$615,000, respectively. As at June 30, 2011, the Company had an accumulated deficit of approximately \$12,101,000 compared with \$11,600,000 at June 30, 2010. As at June 30, 2011, the Company had a working capital balance of \$466,000 compared with \$78,000 as of June 30, 2010. The Company has sufficient cash on hand to sustain operations for the year ending June 30, 2012. However, these factors raise substantial doubt about the Company's ability to continue as a going concern on a longer term basis.

Notwithstanding continued losses and operating cash flow deficiencies, these financial statements have been prepared by management on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities and commitments in the normal course of business.

The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities is dependent upon the existence of economically recoverable mineral reserves and the ability to raise adequate financing from lenders, shareholders and other investors to support such business activities. It is anticipated that the Company will rely on the equity markets in the upcoming fiscal year to meet its financing needs, including funding future exploration activity.

Given the current economic environment, there can be no assurance that such financing will be available to the Company on acceptable terms, or at all. Failure to continue as a going concern would require the Company's assets and liabilities to be presented on a liquidation basis, which would differ materially from the going concern basis.

Subsequent to June 30, 2011, the Company closed a \$5 million non-brokered private placement financing (note 14).

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Coboro Minerales de Mexico, S.A. de C.V. Significant inter-company balances and transactions are eliminated on consolidation.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

2. Significant accounting policies (continued):

(b) Use of estimates:

The preparation of these financial statements requires management to make certain estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the assumptions used in determining the fair value of non-cash stock-based compensation and assessing mineral properties for impairment. Due to the inherent uncertainty involved with making such estimates, actual results could differ from these estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and have maturity dates of three months or less from the date of purchase.

(d) Marketable securities:

Marketable securities are carried at market value based upon quoted market prices.

(e) Reclamation deposits:

Reclamation deposits are recorded at cost.

(f) Mineral properties:

The Company expenses, as incurred, periodic option payments related to mineral properties, exploration expenditures and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. Mineral property acquisition costs including the cash consideration paid and the fair value of common shares issued for mineral property interests, pursuant to the terms of the relevant agreement, are capitalized. If the Company owns an interest in a mineral property, exploration expenditures are recognized for only the Company's proportionate interest in the property.

Mineral property exploration and development expenditures incurred subsequent to the determination of the feasibility of mining operations are capitalized until the property to which they relate is placed into production, sold, abandoned or the exploration rights are allowed to lapse. Once commercial production has commenced, these accumulated costs will be amortized to operations by unit-of-production depletion based on proven and probable reserves. If a mineral property is abandoned or the mineral deposit proves to be uneconomical or it is determined otherwise that its carrying value cannot be supported by future production or sale, then previously capitalized costs are written down and charged against operations in the year of abandonment or in the year such determination of impairment is made.

Mineral property sales proceeds or option payments received for exploration rights are treated as cost recoveries.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
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Years ended June 30, 2011 and 2010

2. Significant accounting policies (continued):

(g) Equipment:

Equipment is recorded at cost. Amortization of computer equipment and drilling equipment is provided at 30% per annum on a declining balance basis.

Equipment is assessed for future recoverability when events or conditions indicate that the carrying value of the asset may be impaired by estimating future undiscounted cash flows. When the net carrying amount of equipment exceeds its estimated net recoverable amount, the asset is written down to its fair value with a charge to operations.

(h) Stock-based compensation:

The Company grants stock options in accordance with the TSX Venture Exchange (TSX-V) policies (note 7(e)).

The Company accounts for stock-based payments granted to non-employees after July 1, 2002 and employees after July 1, 2005 using the fair value based method. Under the fair value based method, compensation cost is measured at fair value and charged to operations over the service period which normally is the period during which the options vest.

(i) Foreign currency translation:

The reporting and functional currency of the Company is the Canadian dollar. The functional currency of its Mexican subsidiary is also the Canadian dollar.

As the Company's Mexican subsidiary is dependent on funding from its parent, the temporal method of translating the foreign subsidiary accounts has been adopted. Under this method, monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in operations.

(j) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and tax loss carry forwards. Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to be recovered or settled.

The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is, in management's estimation, more likely than not to be realized.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
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2. Significant accounting policies (continued):

(k) Asset retirement obligations:

The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. The Company has no material asset retirement obligations as at June 30, 2011 and 2010.

(l) Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, marketable securities, amounts receivable, accounts payable and accrued liabilities and amounts due to related parties.

Transaction costs are expensed as incurred for financial instruments designated as held-for-trading. The effective interest rate method of amortization is used for any transaction costs for financial instruments measured at amortized cost, which includes loans and receivables and other financial liabilities.

Held-for-trading financial instruments include cash and cash equivalents which are recorded at fair value. Unrealized gains and losses related to revaluations are recorded in net income for the period.

Available-for-sale financial assets include marketable securities which are recorded at fair value. Unrealized gains and losses resulting from revaluation are included in other comprehensive income. When the assets are sold or an other than temporary impairment write-down is required, the accumulated fair value adjustments recognized in other comprehensive income are included in the statement of operations.

Loans and receivables include amounts receivable, and are initially measured at fair value and subsequently measured at amortized cost. Gains and losses resulting from revaluations, impairment write-downs and foreign exchange translation adjustments are recognized in net earnings for the period.

Other financial liabilities include accounts payable and accrued liabilities and amounts due to related parties, are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method. Gains and losses resulting from revaluation and foreign exchange translation adjustments are recognized in net earnings for the period.

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2. Significant accounting policies (continued):

(l) Financial instruments (continued):

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is permanently impaired using the following criteria:

- For available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the statement of operations.
- For loans and receivables, a provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor or delinquency in payments are considered indicators that a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

(m) Loss per share:

Basic loss per share is computed by dividing the loss by the weighted average number of common shares outstanding during the reporting period. Diluted loss or earnings per share is computed similar to basic loss per share except that the weighted average number of common shares outstanding is increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options or warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. Diluted loss per share is the same as basic loss per share because the effect on the basic loss per share of outstanding options and warrants is anti-dilutive.

(n) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

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3. Recent accounting pronouncements:

International Financial Reporting Standards (IFRS):

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own previously followed generally accepted accounting principles. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011 and restatement of the opening balance sheet as at July 1, 2010.

The execution of the Company's IFRS conversion plan is underway, including the evaluation of financial impact upon IFRS adoption, development of IFRS accounting policies, and redesign of business processes. The Company does not anticipate there will be material changes in accounting policies nor a material impact on the financial statements except for changes to financial statement note disclosure.

4. Amounts receivable:

	2011	2010
Value added tax recoverable	\$ 129,299	\$ 124,716
Other	16,995	1,853
	\$ 146,294	\$ 126,569

The Company, through its Mexican subsidiary, pays value added tax on the purchase and sale of goods and services at a rate of 16%. The net amount paid or payable is viewed as recoverable, but such recovery is subject to review and assessment by local tax authorities.

5. Mineral property exploration expenditures:

The continuity of expenditures on mineral properties for year ended June 30, 2011 is as follows:

	Casummit (a)	Thorn (b)	Los Venados (c)	Plomo (d)	2011
Exploration expenditures:					
Option payments	\$ -	\$ -	\$ -	\$ 17,686	\$ 17,686
Project administration	4,365	-	4,119	18,778	27,262
	4,365	-	4,119	36,464	44,948
Cost recoveries (note 5(b))	-	(14,500)	-	-	(14,500)
	4,365	(14,500)	4,119	36,464	30,448
Cumulative expenditures, beginning of period	1,189,229	1,973,691	576,404	755,668	4,494,992
Cumulative expenditures, end of period	\$1,193,594	\$ 1,959,191	\$ 580,523	\$ 792,132	\$ 4,525,440

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

5. Mineral property exploration expenditures (continued):

The continuity of expenditures on mineral properties for year ended June 30, 2010 is as follows:

	Casummit (a)	Thorn (b)	Los Venados (c)	Plomo (d)	2010
Exploration expenditures:					
Option payments	\$ -	\$ -	\$ 32,118	\$ 14,683	\$ 46,801
Legal	7,819	-	-	-	7,819
Project administration	4,753	-	11,315	9,456	25,524
	12,572	-	43,433	24,139	80,144
Cost recoveries (note 5(b))	-	(6,250)	-	-	(6,250)
	12,572	(6,250)	43,433	24,139	73,894
Cumulative expenditures, beginning of period	1,176,657	1,979,941	532,971	731,529	4,421,098
Cumulative expenditures, end of period	\$1,189,229	\$ 1,973,691	\$ 576,404	\$ 755,668	\$ 4,494,992

(a) Casummit Lake property:

On June 19, 2009, Premier Gold Mines Limited (Premier) sold its 49% interest in the Argosy property to the Company. Under the terms of the acquisition, the Company issued Premier a total of 400,000 shares of Cangold with a fair value of \$80,000 and made a cash payment of \$10,000. Premier retained a 0.5% net smelter return (NSR), which can be purchased for \$500,000. A further underlying 2% NSR remains in force and Cangold can purchase 1% for \$500,000.

The Company previously had a 51% participating interest in, and was the operator of, a Joint Venture formed for the exploration and development of the Casummit Lake mining claims located in the Red Lake Mining Division, Northwestern Ontario, commonly known as the Argosy Gold Mine property (the Argosy Property). Under the terms of the Joint Venture, the operator proposed the exploration programs. The expenditures disclosed in the table above reflect only the Company's proportionate 51% interest in the Casummit Lake property. The Company initially incurred 100% of costs under the exploration programs and recovered 49% of such costs from the 49% owner.

No exploration expenditures were incurred during the years ended June 30, 2011 and 2010.

(b) Thorn property:

The Company had an undivided 51% interest in, and was the operator of, a Joint Venture formed for the exploration of the Check-Mate, Stuart and Thorn Claims ("Thorn property") which are situated in the Atlin Mining Division, Northwestern British Columbia. Under the terms of the Joint Venture, the operator proposed the exploration programs. The expenditures disclosed in the table above reflect only the Company's proportionate 51% interest in the Thorn property. The Company had initially incurred 100% of the costs under exploration programs and recovered 49% of such costs from the 49% owner.

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5. Mineral property exploration expenditures (continued):

(b) Thorn property (continued):

On April 11, 2008, the Company signed an agreement with Rimfire Minerals Corp. (Rimfire) whereby Rimfire purchased Cangold's 51% interest in the Thorn Property in exchange for a cash payment of \$100,000 and 100,000 shares in Rimfire with a fair value of \$129,000. The Company is also entitled to 25% of any proceeds from the future sale or optioning of this property by Rimfire. Furthermore, the Company is to receive from Rimfire \$1,000,000 or 250,000 Rimfire common shares, at Rimfire's election, should the Thorn property be placed into commercial production while Rimfire owns at least 10% of the property.

On August 5, 2009, Rimfire Minerals Corp. combined with Geoinformatics Exploration Inc. to form a new entity, Kiska Metals Corporation. Geoinformatics Exploration Inc. completed a one for three share consolidation and a name change to Kiska Metals Corporation (TSX-V: KSK).

On June 3, 2010, Kiska Metals Corporation entered into an option agreement with Brixton Metals Corporation on the Thorn Property. Under the Brixton/Kiska option agreement, Brixton may earn a 51% interest in the Thorn property by making cash payments totaling \$200,000 and by issuing 400,000 shares and incurring \$5 million in exploration expenses over a four year period. Brixton may earn an additional 14% by spending an additional \$10 million over an additional three years if Kiska elects not to joint venture. As per the Kiska (formerly Rimfire) and Cangold agreement, Cangold is entitled to receive 25% of cash and share payments made to Kiska in connection with project deals. In the year ended June 30, 2011, it received \$14,500 (2010 - \$6,250).

(c) Los Venados:

On July 13, 2007, the Company signed an option agreement to acquire a 100% interest in the Los Venados Property in Sonora, Mexico. The Company could acquire a 100% interest in the Los Venados property by making staged cash payments totaling \$250,000 (\$90,000 paid as of June 30, 2010) and issuing 100,000 shares (60,000 shares issued as of June 30, 2010) over five years. The acquisition was subject to a 2% NSR, half of which could be purchased for \$500,000.

The Company terminated its option on the Los Venados property on July 16, 2010.

(d) Plomo:

On November 9, 2007, the Company signed an option agreement to acquire a 100% interest in the Plomo Property in Sonora, Mexico. The Company can acquire a 100% interest in the Plomo property by making staged cash payments totaling \$100,000 (\$45,000 paid as of June 30, 2011) and issuing 140,000 shares (100,000 shares issued as of June 30, 2011) over five years. The Plomo Property is subject to a 2% NSR, half of which can be purchased for \$500,000.

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5. Mineral property exploration expenditures (continued):

(d) Plomo (continued):

In consideration for the purchase, the Company must make further payments totaling \$55,000 and issue 40,000 shares as follows:

In the calendar year of	2011	2012	Total
Cash payments	\$ 25,000	\$ 30,000	\$ 55,000
Share payments	20,000	20,000	40,000

6. Mineral properties:

	2011	2010
Canada:		
Argosy mine (note 5(a))	\$ 90,000	\$ 90,000
	\$ 90,000	\$ 90,000

7. Capital stock:

On May 27, 2011, the Company consolidated its outstanding common shares on a basis of one post-consolidation share for every five pre-consolidation shares as approved by the shareholders of the Company. All comparative figures have been adjusted retrospectively.

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued:

	Number of shares	Assigned value
Balance, June 30, 2009	76,825,745	\$ 10,036,563
Share consolidation 5:1	(61,460,601)	
Issue of shares pursuant to mineral property option agreements Los Venados and Plomo properties	30,000	6,750
Private placement at \$0.25 per unit, net of costs ⁽ⁱ⁾	2,180,000	522,078
Issue of warrants for financing services	-	(1,968)
Balance, June 30, 2010	17,575,144	\$ 10,563,423

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7. Capital stock (continued):

(b) Issued (continued):

	Number of shares	Assigned value
Balance, June 30, 2010	17,575,144	\$ 10,563,423
Issue of shares pursuant to mineral property option agreement	20,000	3,000
Share transaction costs	-	(2,879)
Balance, June 30, 2011	17,595,144	\$ 10,563,544

On December 21, 2009, the Company issued 2,180,000 units by private placement at a price of \$0.25 per unit (Unit), for gross proceeds of \$545,000 and paid cash issuance costs of \$22,922. Each Unit consisted of one common share and one non-transferable share purchase warrant. Each full warrant entitles the holder to acquire, upon exercise, one additional common share at \$0.50 per share until December 20, 2010. After the expiration of the hold period, the Company has the right to accelerate the expiry date of the warrants should the closing price of the Company's shares on the TSX Venture Exchange be at least \$1.00 for 20 consecutive trading days.

On December 2, 2010, the Company amended the terms of the 2,180,000 warrants to extend the expiry date from December 20, 2010 to December 20, 2011 provided that the exercise period will be reduced to 30 calendar days if, for any 10 consecutive trading days during the unexercised term of the warrant (the "Premium Trading Days"), the closing price of the common shares of the Company is at least \$1.00. The reduced exercise period of 30 days will begin 7 calendar days after the 10th Premium Trading Day. As of June 30, 2011, there is no change in the exercise price, which remains at \$0.50 per share.

The Company also issued 40,200 finder warrants entitling the holder to acquire, upon exercise, one common share of the Company at \$0.50 per share until December 20, 2010. The fair value of finder warrants of \$1,968 is recorded as a cost of financing and is included in contributed surplus.

(c) Contributed surplus:

Balance, June 30, 2009	\$ 1,180,296
Issue of warrants for financing services	1,968
Balance, June 30, 2010 and June 30, 2011	\$ 1,182,264

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Notes to the Consolidated Financial Statements
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7. Capital stock (continued):

(d) Warrants:

The continuity of share purchase warrants for 2011 is as follows:

Series	Exercise price	Expiry date	2010	Issued	Exercised	Expired	2011
Series "P" ⁽ⁱⁱ⁾	\$0.50	Dec 20, 2011	2,180,000	-	-	-	2,180,000
Finder Warrants	\$0.50	Dec 20, 2010	40,200	-	-	(40,200)	-
			2,220,200	-	-	(40,200)	2,180,000

The continuity of share purchase warrants for 2010 is as follows:

Series	Exercise price	Expiry date	2009	Issued	Exercised	Expired	2010
Purchase Warrants	\$2.50	Dec 16, 2009	100,000	-	-	(100,000)	-
Series "N" ⁽ⁱ⁾	\$0.50	March 24, 2010	592,500	-	-	(592,500)	-
Series "O"	\$0.50	March 12, 2010	470,000	-	-	(470,000)	-
Finder Warrants	\$0.50	March 12, 2010	32,200	-	-	(32,200)	-
Series "P" ⁽ⁱⁱ⁾	\$0.50	Dec 20, 2011	-	2,180,000	-	-	2,180,000
Finder Warrants	\$0.50	Dec 20, 2010	-	40,200	-	-	40,200
			1,194,700	2,220,200	-	(1,194,700)	2,220,200

(i) On March 6, 2009, the Board of Directors approved amending the terms of the 592,500 outstanding "N" warrants by reducing the exercise price from \$1.00 to \$0.50 and extending the expiry date from March 24, 2009 to March 24, 2010.

(ii) Note 7(b)

(e) Stock options:

Pursuant to the policies of the TSX-V, the Company may grant incentive stock options to its officers, directors, employees and consultants. TSX-V policies permit the Company's directors to grant incentive stock options for the purchase of shares of the Company to qualified persons as incentive for their services. Pursuant to the Company's Amended and Restated Incentive Stock Option Plan (2009), stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the outstanding issue of the Company at the time of granting and may not exceed 5% of the outstanding issue to any individual (maximum of 2% to any consultant) in any 12 month period. The exercise price of stock options is determined by the board of directors of the Company by reference to the market value of the shares at the date of grant. Options have expiry dates of no longer than five years from the date of grant and terminate 30 days following the termination of the participant's employment. Vesting of options determined at the time of granting of the options is at the discretion of the board of directors unless otherwise specified. Once approved and vested, the options are exercisable at any time.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

7. Capital stock (continued):

(e) Stock options (continued):

The continuity of common share stock options for 2011 is as follows:

Exercise price	Expiry date	2010	Granted	Cancelled/ expired	Exercised	2011
\$0.75	May 7, 2011	5,000	-	(5,000)	-	-
\$0.75	May 3, 2012	25,000	-	-	-	25,000
\$0.75	December 20, 2012	105,000	-	-	-	105,000
\$0.75	April 30, 2013	385,000	-	-	-	385,000
		520,000	-	(5,000)	-	515,000
Weighted average exercise price		\$0.75	-	\$0.75	-	\$0.75

As at June 30, 2011, 515,000 options with a weighted average exercise price of \$0.75 (2010 - \$0.75) were exercisable. The weighted average remaining contractual life of the options is 1.7 years.

The continuity of common share stock options for 2010 is as follows:

Exercise price	Expiry date	2009	Granted	Cancelled/ expired	Exercised	2010
\$0.80	September 7, 2009	40,000	-	(40,000)	-	-
\$0.60	March 29, 2010	180,000	-	(180,000)	-	-
\$0.75	May 7, 2011	5,000	-	-	-	5,000
\$0.75	May 3, 2012	25,000	-	-	-	25,000
\$0.75	December 20, 2012	105,000	-	-	-	105,000
\$0.75	December 20, 2009	88,000	-	(88,000)	-	-
\$0.75	December 31, 2009	30,000	-	(30,000)	-	-
\$0.75	April 30, 2013	385,000	-	-	-	385,000
		858,000	-	(338,000)	-	520,000
Weighted average exercise price		\$0.70	-	\$0.70	-	\$0.75

(f) Advances on share subscriptions:

As at June 30, 2011, the Company received a total of \$915,877 (2010 – nil) in advances on share subscriptions to be applied to future private placements (note 14(a)).

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

8. Related party transactions:

For the year ended June 30, 2011, expenses totaling \$219,816 (2010 - \$266,628) for consulting, accounting, rent and office were charged to the Company by officers, directors or companies controlled by the directors of the Company.

As at June 30, 2011, \$397,478 (2010 - \$174,247) was due to officers, directors or companies controlled by the directors of the Company. The amounts owing are due on demand and unsecured. Of the total balance owing at June 30, 2011, \$126,531 is interest bearing.

9. Income taxes:

Income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of approximately 27.50% (2010 – 29.25%) to the loss before income taxes. The reasons for the differences are as follows:

	2011	2010
Net loss before tax	\$ (500,461)	\$ (572,174)
Canadian income tax rate	27.50%	29.25%
Computed tax recovery	(137,627)	(167,361)
Non-deductible items	(15,276)	5,079
Decrease in future Canadian federal income tax rate	12,754	4,342
Difference in tax rates in foreign jurisdictions	6,191	11,820
Change in valuation allowance	163,619	112,034
Other items	(29,661)	34,086
Income tax recovery	\$ -	\$ -

At June 30, 2011, the Company had operating losses carried forward of \$5,057,000 (2010 - \$4,372,000) and capital losses carried forward of \$3,704,000 (2010 - \$3,648,000). The operating losses at June 30, 2011 include \$4,210,000 (2010 - \$3,562,000) in Canada and \$847,000 (2010 - \$810,000) in Mexico. The operating losses in Canada expire at various dates to 2031. The operating losses in Mexico expire at various dates to 2021. The capital losses are without expiry.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

9. Income taxes (continued):

As at June 30, 2011 and 2010, the tax effect of the significant components of the Company's future tax assets is as follows:

	2011	2010
Future tax assets:		
Non-capital loss carry forwards	\$ 1,200,592	\$ 1,032,188
Net capital loss carry forwards	463,051	456,006
Mineral properties	830,526	832,570
Financing costs	12,526	14,654
Other	16,402	24,060
Total future tax assets	2,523,097	2,359,478
Valuation allowance	(2,523,097)	(2,359,478)
Future tax assets, net of allowance	\$ -	\$ -

Management believes that it is not more likely than not that it will create sufficient taxable income to realize its future tax assets. As a result, a full valuation allowance has been recognized.

10. Accumulated other comprehensive income (loss):

	2011	2010
Balance, beginning of period	\$ 22,451	\$ (24,750)
Unrealized gain on marketable securities	44,269	35,951
Realized gain on marketable securities included in net income	(71,970)	-
Other than temporary impairment loss on marketable securities	-	11,250
Balance, end of period	\$ (5,250)	\$ 22,451

11. Capital management:

The Company's objectives when managing capital are to:

- ensure there are adequate capital resources to safeguard the Company's ability to continue as a going concern,
- maintain adequate levels of funding to support the acquisition and exploration of mineral properties
- maintain investor, creditor and market confidence to sustain future development of the business, and
- provide returns to shareholders and benefits for other stakeholders.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

11. Capital management (continued):

The properties in which the Company currently has an interest are in the exploration stage and as such, the Company is dependent on external financing to fund its activities. To undertake planned exploration, during the financial period ended June 30, 2011, the Company received \$915,877 in advances on share subscriptions as a part of a \$5 million non-brokered private placement which closed subsequent to June 30, 2011 (note 14).

The Company manages its capital in a manner that provides sufficient funding for operational activities. Annual capital and operating expenditure budgets, and rolling forecasts, are used to determine the necessary capital requirements. These budgets are updated for changes in the underlying assumptions, economic conditions and risk characteristics of the underlying assets, as necessary. In order to maintain or adjust the capital structure, the Company may secure funds through equity capital raised by way of private placements. For the year ended June 30, 2011, there were no changes in quantitative and qualitative data about the Company's objectives, policies and processes for managing capital as compared to the prior period.

Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

As at June 30, 2011, total managed capital, comprised of shareholders' equity, was \$555,701 (2010 – \$167,865).

12. Fair value of financial instruments:

The carrying values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term nature of the items. For the year ended June 30, 2011, a fair value adjustment of \$44,269 for marketable securities designated as available-for-sale has been recognized in other comprehensive income. The fair values of marketable securities are based on current bid prices at June 30, 2011. Available-for-sale financial assets are denominated in Canadian dollars.

Canadian GAAP requires disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at June 30, 2011 and 2010:

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

12. Fair value of financial instruments (continued):

Financial instruments at fair value as at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 950,460	\$ -	\$ -	\$ 950,460
Marketable securities	3,000	-	-	3,000
	\$ 953,460	\$ -	\$ -	\$ 953,460

Financial instruments at fair value as at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 103,163	\$ -	\$ -	\$ 103,163
Marketable securities	82,190	-	-	82,190
	\$ 185,353	\$ -	\$ -	\$ 185,353

13. Financial risk exposure and risk management:

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continuation of the Company's exploration program, and limited exposure to credit and market risks. There were no changes to the objectives or the process from the prior period.

The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Concentration risk:

Concentration risk exists in cash and cash equivalents because significant balances are maintained with one financial institution. The risk is mitigated because the financial institution is a prime Canadian bank.

(b) Credit risk:

Credit risk primarily arises from the Company's cash and cash equivalents and amounts receivable. The risk exposure is limited to their carrying amounts at the balance sheet date. Cash and cash equivalents are held as cash deposits or invested in guaranteed investment certificates with various maturity dates. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the bank and the investment grade of the guaranteed investment certificates.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
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Years ended June 30, 2011 and 2010

13. Financial risk exposure and risk management (continued):

(b) Credit risk (continued):

Amounts receivable primarily consists of value added tax recoverable (VAT). To reduce credit risk, the Company regularly reviews the collectability of its amounts receivable. There is no indication at June 30, 2011 that the VAT will not be fully recoverable from Mexican authorities.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures there is sufficient capital to meet short term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of the assets, liabilities and cash flows. The Company prepares a cash flow and liquidity forecasts on a quarterly basis.

The Company's cash and cash equivalents are held as cash deposits which are available on demand to fund the Company's operating costs and other financial demands.

(d) Market risk:

The significant market risks to which the Company is exposed are currency, interest rate and marketable security price risk.

Currency risk:

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency transaction and translation risk.

The majority of the Company's exploration costs are incurred in Mexico and are denominated in Mexican Peso (MXN Peso) or US dollar (USD). The fluctuation of the USD and MXN Peso in relation to the Canadian dollar (CAD) will consequently impact the loss of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

Comparative foreign exchange rates as at June 30, 2011 are as follows:

	2011	2010
MXN Peso to CAD	0.082	0.083
USD to CAD	0.965	1.065

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

13. Financial risk exposure and risk management (continued):

(d) Market risk (continued):

The Company has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions for the Mexican operations is not significant and therefore does not hedge its foreign exchange risk.

Interest rate risk:

The Company's policy is to invest cash in guaranteed investment certificates at fixed or floating rates of interest and cash equivalents are to be maintained in floating rates of interest in order to maintain liquidity, while achieving a satisfactory return for shareholders. However, at June 30, 2011 and 2010, all of the Company's cash was in a non-interest bearing chequing account. Therefore, the Company is not currently exposed to fluctuations in interest rates.

Marketable security price risk:

Marketable security price risk is the risk of fluctuations in the trading share price of marketable securities held by the Company. The trading share price of a company is affected by: internal events that occur within that company that affect the company's fundamentals directly or indirectly; external events (i.e., major political, economic and social, that occur in the world that indirectly affect the company and the industry; and general market pressure from the major indexes). Most of these factors are beyond the Company's control. The Company invests in marketable securities where management teams are known and respected and in industries which it is knowledgeable in.

Sensitivity analysis:

Based on historic trends over the last twelve months, volatilities in the above-noted market risks, and management's knowledge and experience in the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period:

- Proportional foreign exchange movement of -10% (depreciation of CAD) and +10% (appreciation of CAD) against the USD, from the June 30, 2011 CAD to USD exchange rate of 1.04.
- Proportional foreign exchange movement of -10% (depreciation of CAD) and +10% (appreciation of CAD) against the Mexican peso, from the June 30, 2011 CAD to MXN Peso exchange rate of 12.15.

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

13. Financial risk exposure and risk management (continued):

(d) Market risk (continued):

If these movements were to occur, the impact on the consolidated net loss for each category of financial instrument held at the balance sheet date is presented below.

	Carrying amount	Currency rate risk	
		-10% income	+10% income
Financial assets:			
Cash and cash equivalents:			
USD	\$ 488	\$ 35	\$ (44)
MXN Pesos	2,024	225	(184)
Amounts receivable:			
MXN Pesos	129,306	14,367	(11,755)
Financial liabilities:			
Accounts payable and accrued liabilities:			
MXN Pesos	(19,164)	(2,129)	1,742
Total increase (decrease) in net loss	\$ 112,654	\$ 12,498	\$ (10,241)

14. Subsequent events:

(a) \$5 million private placement

Subsequent to June 30, 2011, the Company closed a \$5 million non-brokered private placement in two tranches. The Company issued a total of 10,000,000 units at \$0.50 per unit for gross proceeds of \$5,000,000.

On July 13, 2011, the Company closed the first tranche and issued 5,192,000 units at \$0.50 per unit for gross proceeds of \$2,596,000. Each unit comprises one common share and one-half of one non-transferable Series Q share purchase warrant. Each full Series Q share purchase warrant entitles the holder to acquire, upon exercise, one additional common share of the Company until July 13, 2012 at a price of \$0.75, provided, however, that should the closing price of the common shares on the TSX Venture Exchange be at least \$1.00 per share for 10 consecutive trading days (at any time at or following the expiry of the four month resale restriction period), the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the remaining exercise period applicable to the warrants to not less than 30 days from the date of such notice.

The Company paid cash finders' fees totaling \$24,053 and issued 37,400 finders' warrants. The finders' warrants have the same attributes as the warrants above described. All securities issued and issuable under the first tranche of this private placement are subject to a hold period expiring November 14, 2011.

CANGOLD LIMITED

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(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

14. Subsequent events (continued):

(a) \$5 million private placement (continued)

On August 25, 2011, the Company closed the second tranche and issued 4,808,000 units at \$0.50 per unit for gross proceeds of \$2,404,000. Each unit comprises one common share and one-half of one non-transferable Series R share purchase warrant. Each full Series R share purchase warrant entitles the holder to acquire, upon exercise, one additional common share of the Company until August 25, 2012 at a price of \$0.75, provided, however, that should the closing price of the common shares on the TSX Venture Exchange be at least \$1.00 per share for 10 consecutive trading days (at any time at or following the expiry of the four month resale restriction period), the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the remaining exercise period applicable to the warrants to not less than 30 days from the date of such notice.

The Company paid cash finders' fees totaling \$69,575 and issued 133,650 finders' warrants. The finders' warrants have the same attributes as the warrants above described. All securities issued and issuable under the second tranche of this private placement are subject to a hold period expiring December 26, 2011.

(b) Option to acquire Ixhuatan gold project in Mexico

The Company entered into an option agreement (the "Agreement") dated September 27, 2011, between the Company, the Company's subsidiary, Coboro Minerales de Mexico, S.A. de C.V., Brigus Gold ULC ("Brigus") and Linear Gold Mexico, S.A. de C.V. ("Linear"), pursuant to which the Company has the option to acquire 75% of the issued and outstanding shares of Linear from Brigus (the "Option"). Linear holds a 100% interest in the Ixhuatan Project in Chiapas, Mexico.

In order to maintain the Option in good standing, the Company's subsidiary shall:

- (i) pay to Brigus \$1,000,000 and cause the Company to issue to Brigus 6,000,000 fully paid and non-assessable common shares of the Company ("Cangold Shares") upon the execution of the Agreement (now paid and issued, respectively);
- (ii) pay to Brigus \$1,000,000 and cause the Company to issue to Brigus 6,000,000 Cangold Shares 12 months after the execution of the Agreement; and
- (iii) pay to Brigus \$3,000,000 and cause the Company to issue to Brigus 4,000,000 Cangold Shares 24 months after the execution of the Agreement.

If the above payments are completed, the Option can be exercised by the Company's subsidiary completing the following:

- (i) pay to Brigus \$5,000,000 and cause the Company to issue to Brigus 4,000,000 Cangold Shares;
- (ii) complete and deliver to Brigus an independent feasibility study ("Feasibility Study") within 36 months following the execution of the Agreement regarding the Ixhuatan Project; and

CANGOLD LIMITED

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2011 and 2010

14. Subsequent events (continued):

(b) Option to acquire Ixhuatan gold project in Mexico (continued)

- (iii) issue a promissory note to Brigus in an amount equal to \$5.00 per ounce of Proven and Probable Reserves of gold established in the Feasibility Study, payable upon commencement of commercial production. Brigus will also retain a 2% Net Smelter Return royalty on any future production.

All of the shares issued to Brigus are to be held in escrow subject to release over a 36 month period.

The Company will pay the following maximum finder's fees totaling \$588,750 and 1,070,455 common shares over the course of the option period should the option ultimately be exercised.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-102F1

For the year ended June 30, 2011

This Management's Discussion and Analysis ("MD&A") prepared as of October 19, 2011 reviews the activities of Cangold Limited ("Cangold" or "the Company") for the year ended June 30, 2011 and other material events up to the date of this report. The following information should be read in conjunction with the Company's June 30, 2011 annual audited consolidated financial statements and related notes.

The financial data included in the discussion provided in this report has been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are in Canadian dollars, unless otherwise noted.

RECENT DEVELOPMENTS

The Company entered into an option agreement (the "Agreement") dated September 27, 2011, between the Company, the Company's subsidiary, Coboro Minerales de Mexico, S.A. de C.V., Brigus Gold ULC ("Brigus") and Linear Gold Mexico, S.A. de C.V. ("Linear"), pursuant to which the Company has the option to acquire 75% of the issued and outstanding shares of Linear from Brigus (the "Option"). Linear holds a 100% interest in the Ixhuatan Project in Chiapas, Mexico.

More than 89,000 metres of drilling in 342 holes have been completed on the Ixhuatan Project. The property comprises 4,176 hectares and is host to the Campamento gold deposit and several gold and gold-silver mineralized zones and exploration targets. The Campamento deposit contains a Canadian National Instrument ("NI") 43-101 compliant (2006) resource estimate of 1,041,000 ounces of gold and 4,400,000 ounces of silver within 17.6 million tonnes at an average gold grade of 1.84g/t and average silver grade of 7.79g/t in the Measured and Indicated categories. In addition, there are Inferred Resources of 703,000 ounces of gold and 2,260,000 ounces of silver within 21.8 million tonnes at average grades of 1.01g/t gold and 3.23g/t silver, all using a 0.50g/t gold cut-off. An updated (P. Secombe, May 18, 2011) NI 43-101 report on the Ixhuatan Project, filed on SEDAR, recommends that Cangold proceed with a pre-feasibility study on the Campamento Zone and the Company will be outlining its plans to follow these recommendations in due course.

In order to maintain the Option in good standing, the Company's subsidiary shall:

- a) pay to Brigus \$1,000,000 and cause the Company to issue to Brigus 6,000,000 fully paid and non-assessable common shares of the Company ("Cangold Shares") upon the execution of the Agreement (now paid and issued, respectively);
- b) pay to Brigus \$1,000,000 and cause the Company to issue to Brigus 6,000,000 Cangold Shares 12 months after the execution of the Agreement; and
- c) pay to Brigus \$3,000,000 and cause the Company to issue to Brigus 4,000,000 Cangold Shares 24 months after the execution of the Agreement.

If the above payments are completed, the Option can be exercised by the Company's subsidiary completing the following:

- a) pay to Brigus \$5,000,000 and cause the Company to issue to Brigus 4,000,000 Cangold Shares;
- b) complete and deliver to Brigus an independent feasibility study ("Feasibility Study") within 36 months following the execution of the Agreement regarding the Ixhuatan Project; and
- c) issue a promissory to Brigus in an amount equal to \$5.00 per ounce of Proven and Probable Reserves of gold established in the Feasibility Study, payable upon commencement of commercial production. Brigus will also retain a 2% Net Smelter Return royalty on any future production.

All of the shares issued to Brigus are to be held in escrow subject to release over a 36 month period.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-102F1

For the year ended June 30, 2011

The Company will pay the following maximum finder's fees totaling \$588,750 and 1,070,455 common shares over the course of the option period should the option ultimately be exercised.

Effective May 27, 2011, the Company consolidated its share capital on a one for five basis. The number of outstanding shares of Cangold prior to the share consolidation was 87,975,745. The number of common shares outstanding following the consolidation was 17,595,144. There was no name change in conjunction with the consolidation.

Following the share consolidation, the Company closed, in two tranches, its \$5,000,000 non-brokered private placement financing. The financing consisted of 10,000,000 units with each unit comprising one common share at a price of \$0.50 and one half warrant. Each full warrant is exchangeable for a common share of the Company at a price of \$0.75 until July 13, 2012 and August 25, 2012, respectively, for Tranche #1 and Tranche #2. The warrants are subject to an accelerated exercise provision in the event the Company's shares trade at or above \$1.00 for ten consecutive trading days. The Company paid cash finders' fees totaling \$24,053 and issued 37,400 finders' warrants for Tranche #1 and paid cash finders' fees totaling \$69,575 and issued 133,650 finders' warrants for Tranche #2. The finders' warrants have the same attributes as the warrants above described. All securities issued and issuable under the private placement are subject to hold periods expiring November 14, 2011 and December 26, 2011, respectively, for Tranche #1 and Tranche #2. The proceeds will be available to make the initial payment to Brigus, to pay financing fees and costs, to initiate exploration on the Ixhuatan Project and for general working capital purposes.

The Company has also appointed Mr. Brian MacEachen to its Board of Directors. Brian is currently Executive Vice President of Brigus and a Director, President and Chief Executive Officer of Linear Metals Corporation. Mr. MacEachen is a Chartered Accountant and also serves as a Director of Avalon Rare Metals Inc.

DESCRIPTION AND OVERVIEW OF BUSINESS

Cangold Limited is an active resource exploration company listed on the TSX Venture Exchange, trading under the symbol "CLD".

The Company holds options to acquire a 100% interest in the Plomo property located in Sonora, Mexico and a 75% interest in Brigus' wholly-owned Mexican subsidiary, Linear Gold, which, in turn, holds a 100% interest in the Ixhuatan Project in Chiapas, Mexico. The Company also maintains a 100% interest in the past producing Argosy gold mine in northern Ontario, Canada.

Currently, there are no mineral reserves delineated on the properties in which the Company has an interest. Therefore there are no producing properties, and consequently no operating income or cash flow. In the past, Cangold has accessed, and in the future will continue to access, equity markets to raise the funds needed to continue exploration programs on its various property holdings and to meet its ongoing working capital requirements. Because of the magnitude of the expenditures needed to fund exploration programs, the Company has made use of joint ventures in the past to share the costs and risks associated with exploring some of its mineral properties.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-102F1

For the year ended June 30, 2011

SELECTED ANNUAL INFORMATION

	<i>2011</i>	<i>2010</i>	<i>2009</i>
Net sales or total revenue	Nil	Nil	Nil
General and administrative expenses (excluding stock-based compensation and mineral property exploration expenses)	\$ 534,349	\$ 471,614	\$ 390,556
Stock-based compensation	-	-	7,975
Mineral exploration expenses	30,448	73,894	163,084
Write-down of marketable securities	-	11,250	68,000
Loss for the year	500,461	572,174	647,649
Loss per share – basic and diluted	0.03	0.03	0.05
Comprehensive loss for the year	528,162	524,973	627,899
Cash and cash equivalents	950,460	103,163	35,089
Total assets	1,202,277	421,780	347,952
Total liabilities	646,576	253,915	183,942
Working capital	\$ 465,701	\$ 77,865	\$ 55,848

RESULTS OF OPERATIONS

The Company reported a loss of \$500,461 and cash outflows from operations of \$420,641 for the year ended June 30, 2011 compared with a loss of \$572,174 and cash outflows from operations of \$615,269 for same twelve-month period in fiscal 2010. The decreased loss in the current fiscal year can be attributed to gains from the sale of marketable securities and decreased exploration expenditures due to the termination of the Los Venados option offset by higher overhead costs.

Consulting costs for the year ended June 30, 2011 were \$63,320 compared to \$42,794 for the same period in 2010. This increase is primarily due to higher overhead costs during the current year.

Investor relations costs increased to \$69,502 for the year ended June 30, 2011 from \$53,419 for the same period in 2010. During the year, the Company increased investor relations activities at conferences and engaged the services of investor relations consultants.

The Company incurred \$30,448 in mineral property exploration expenditures during the year ended June 30, 2011 compared to \$73,894 in the same period in 2010. The decrease is primarily due to the termination of the Los Venados option. The remaining expenditures primarily relate to mining claims taxes. The table in note 5 to the audited consolidated financial statements for the year summarizes the costs by property and type of expenditure.

The Company incurred general exploration expenses of \$178,069 for the twelve months ended June 30, 2011, compared to \$161,292 during the same period in 2010. This increase is due to evaluation costs associated with the acquisition of the Ixhuatan Project in Chiapas, Mexico.

Professional fees increased from \$66,117 to \$77,830 for the years ended June 30, 2010 and 2011, respectively. This increase is due to additional legal fees incurred as a result of amending warrant terms, re-filing the Company's option plan and other business activities.

The Company incurred a foreign exchange loss of \$2,033 and \$13,553, respectively for the year ended June 30, 2011 compared to the same period in 2010. The Canadian dollar was fairly stable relative to the Mexican peso during the fiscal year. As such, the foreign exchange loss incurred on the revaluation of the Mexican subsidiary's monetary assets and liabilities at the current exchange rate at year end was lower in the current fiscal year.

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The Company recognized a \$71,970 gain on the sale of marketable securities for the year ended June 30, 2011 as compared to a gain of \$5,044 for the year ended June 30, 2010. The Company sold most of its investments during fiscal 2011.

The Company is in the exploration stage and has not yet determined whether its properties contain ore reserves that are economically recoverable. The Company has no producing properties, and consequently no sales and nominal interest revenues from interest-bearing cash accounts.

The above explanations of annual year over year changes are largely the same for the fourth quarter.

Exploration Activities and Property Expenditures

The Company did not conduct any exploration activities on its Mexican project, Plomo, during the twelve month period of fiscal 2011 in order to preserve cash. Cangold has no expenditure obligations on any of its projects beyond payments on its Ixhuatan and Plomo options which Cangold intends to continue to maintain in good standing.

As noted in the "Recent Developments" section, Cangold entered into an option agreement with Brigus Gold Corp. on September 27, 2011 whereby Cangold can acquire a 75% interest in Brigus' wholly-owned Mexican subsidiary, Linear Gold Mexico, S.A. de C.V., which, in turn, holds a 100% interest in the Ixhuatan advanced stage gold project ("Ixhuatan Project") in Chiapas, Mexico.

a) Casummit Lake Property:

The Casummit Lake Property/Argosy Mine consists of 101 claim units and is located in the Red Lake Mining Division, Northwestern Ontario.

On June 19, 2009, Premier Gold Mines Limited ("Premier") sold its 49% interest in the Argosy property to the Company. Under the terms of the acquisition, the Company issued Premier a total of 400,000 shares of Cangold with a fair value of \$80,000 and made a cash payment of \$10,000. Premier retained a 0.5% net smelter return ("NSR"), which can be purchased for \$500,000. A further underlying 2% NSR remains in force and Cangold can purchase 1% for \$500,000.

Cangold is reviewing the possibility of a renewed exploration effort at its 100% owned Argosy Gold Mine in the Red Lake Mining Division of Ontario. The Argosy Gold Mine closed in 1952 after producing 101,875 ounces of gold from 276,573 tons of ore at an average grade of 0.37oz/t (12.7g/t) gold and was only mined to a depth of 270 metres. Cangold previously drilled 4,200 metres in 17 holes on this high grade system and demonstrated the continuity of the gold zones to depth as well as on several of the near-surface veins. Furthermore, a new gold zone was discovered on the property in the Casummit Creek area.

Historically, the Argosy Mine was the largest gold mine in the Birch Lake Greenstone Belt but in recent months, exploration success by Gold Canyon Resources Inc. at its Springpole Project, just 7 kilometres from the south boundary of the Argosy property, is demonstrating the existence of a much larger gold deposit. This discovery has shed a new light on the potential of the belt. Based upon its past exploration efforts in the Birch Lake area, Cangold is also considering the acquisition of more ground in the belt.

No field work was conducted on the Property during the twelve months ended June 30, 2011. However, management believes that the Casummit Lake Property justifies further expenditures which will be required to fully test its potential.

b) Los Venados Property:

On July 13, 2007, the Company signed an Option Agreement to acquire a 100% interest in the Los Venados property contiguous with, and along strike from, the Mulatos Gold Mine in the prolific Sierra Madre gold belt of Sonora, Northern Mexico.

The Company could acquire a 100% interest in the Los Venados property by making staged cash

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payments totalling \$250,000 (\$90,000 paid) and issuing 100,000 shares (60,000 share issued) over 5 years. The acquisition was subject to a 2% net smelter return, half of which could be purchased for \$500,000.

No field work was conducted on the Los Venados property after the first quarter of fiscal 2009.

The Company spent \$580,488 in option and exploration costs, and additional expenditures would be required to adequately test the property's full potential. Given the relatively low grades observed, management felt that the additional imminent payments required to keep the option current, as well as further exploration costs, were not justified. Accordingly, the Company decided to terminate its option on the Los Venados property on July 16, 2010.

c) *Plomo Property:*

On November 9, 2007, the Company signed an Option Agreement, through its Mexican subsidiary, to acquire a 100% interest in the Plomo property located within the Sonoran "Golden Triangle", a prolific gold belt extending through northern Sonora and into southern California and Arizona. Examples of gold deposits within this belt include La Herradura, La Choya, and El Chanate in the Caborca region of northwestern Sonora, and Mesquite and Picacho in the Yuma area of southwestern Arizona and southeastern California.

The 4,279 hectare Plomo project lies within the Altar desert of northwestern Sonora, approximately 320 kilometres northwest of Hermosillo and 52 kilometres northwest of Caborca by paved highway. The eastern boundary of the Plomo claim is within 4 kilometres of the highway and access around the property is excellent via secondary all weather roads. Historical dry placer workings have been noted on the property and, to date, three zones of alteration and mineralization have been located in outcrop. Two have past gold mining activity along low angle shears. The third area has extensive and strongly micro-fractured and brecciated quartz float and outcrop with hematite and rare copper staining that has been traced for approximately 1.5 kilometres by approximately 300 metres wide.

Mapping and sampling on the Plomo property conducted during the second and third quarters of fiscal 2008 identified seven zones of gold mineralization within a northeast trending structural zone that is at least five kilometres long by three kilometres wide. Gold mineralization is related to quartz veining, with sericite and hematite alteration, in subsidiary north-south to northwest striking structures with modest to shallow southwest or northeast dips. The northeast structure is reflected by a distinct linear valley which in the past was the focus of dry placer gold exploitation.

From southwest to northeast six zones of gold mineralization have been named Banco de Oro, San Perfecto, Pavorreal (2 zones), San Crecencio, and Bonancita. The most recently discovered zone, called Culebra, is associated with the south bounding, NE trending, moderately NW dipping shear which presently defines the southeast side of the prospective area.

The Company completed the Phase I core drilling program on the Plomo project in September 2008. The objective of the first-pass drilling was to gain a better understanding of the structural control of the gold mineralization within the 5 by 3 kilometre structural corridor identified by surface mapping and sampling, and to look for areas where the flat-lying gold-bearing structures coalesce into a larger zone with resource potential.

The Phase 1 drilling program comprised 1,498.5 metres in 10 widely spaced holes. Targets tested in this program included the gold-bearing, altered, low angle structures of Banco de Oro (1 hole), Pavorreal (6 holes), San Perfecto (2 holes), and Bonancita (1 hole) zones. In most holes, the targeted structures were intersected as planned and, to some degree, were gold-bearing.

Hole SP08-001, drilled immediately below the Banco de Oro workings (up to 298.0g/t gold), did not intersect the structure, likely due to a fault offset. Drill holes SP08-002 and SP08-003 were drilled at San Perfecto. The low angle structural zones noted on surface were intersected and show variable intensity of fracturing, brecciation, chloritization, quartz veining, silicification and disseminated pyrite. SP08-002 intersected 4.0 metres grading 0.92g/t gold starting at 5.7 metres. SP08-003 was more intensely

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fractured and altered and intersected 11.65 metres grading 0.66g/t gold starting at 18.3 metres, including 2.28g/t over 2.0 metres. Drill intersections are believed to represent true widths.

Core holes SP08-004 to SP08-009 were drilled in the Pavorreal area and intersected wide sections of intense alteration. SP08-006 intersected 30 metres of well foliated rock with tourmaline and hematite-jarosite alteration but yielded no significant assays. Holes SP08-005 and SP08-008 intersected wide intervals of silicified, fractured, and pyritic diorite but contained only narrow intervals of gold mineralization with anomalous copper, lead and zinc (see table below). SP08-010 was drilled at Bonancita with the objective of hitting the very fractured/sheared pyritic zone observed on surface. It intersected 130 metres of sheared and crackle-brecciated andesite, with disseminated pyrite and sporadic brecciated quartz veins but returned no significant assays.

The Phase I widely spaced drilling at Plomo has demonstrated that the flat lying structures observed on surface play an important role in localizing gold mineralization. It would appear that another set of controls, such as cross-cutting structures, is required in order to upgrade the gold. As such, detailed geological mapping and rock sampling continued in the San Perfecto area after the drilling was completed, with a particular effort towards identifying major structures, alteration types and geological units in order to better discern the spatial relationships and controls of the gold mineralization. This work continues to outline significant gold mineralization, over an area approximately 400 metres across, associated with tourmaline-sericite alteration, gossan, and low angle structures in diorite and granodiorite east of SP08-003. Of 21 new chip channel samples collected across veins, structures, and more intensely altered areas, 13 assayed greater than 0.3g/t gold, and of those 5 were greater than 1.0g/t gold.

At Pavorreal, where widespread gold was encountered in surface sampling yet no significant values encountered in the subsequent drilling, a similar program of detailed geological, alteration and structural mapping is proposed. A new compilation of all this data will then be used to generate new targets for future drilling.

In a regional context, gold mineralization at the Plomo project is believed to be related to the Mojave-Sonora Megashear (MSM). The MSM is a northwest-trending left-lateral, strike slip fault zone up to 5 kilometres wide and extending for hundreds of kilometres through northern Sonora, southern California and Arizona, and is interpreted to transect the southwest corner of the Plomo Project area. Many of the gold mines and prospects in Sonora occur within or are adjacent to the boundary of this regionally extensive structure, including the Peñoles / Newmont La Herradura deposit, which lies 25 kilometres to the west of Plomo and contains a global resource of 104,063,824 tonnes averaging 0.84 g/t gold (Peñoles 2006 Annual Report). Other gold mines along the MSM include La Choya, and El Chanate in the Caborca region of north-western Sonora, and Mesquite and Picacho in the Yuma area of south-western Arizona and south-eastern California. The target at Plomo is a low grade, high-tonnage fault-related gold deposit amenable to open pit mining and heap leaching, similar to the aforementioned mines. The relationship of gold mineralization to flat-lying structures is typical of deposits within the MSM and the Company is encouraged by the confirmation of this relationship on the Plomo property.

The Company can acquire a 100% interest in the Plomo property by making staged cash payments totaling \$100,000 (\$45,000 paid as of June 30, 2011) and issuing 140,000 shares (100,000 shares issued as of June 30, 2011) over 5 years, subject to a 2% NSR, half of which can be purchased for \$500,000.

No field work has been conducted on the Plomo property since the first quarter of fiscal 2009. Management believes however, that the property justifies further expenditures which will be required to fully test its potential.

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SUMMARY OF QUARTERLY RESULTS

The following table summarizes information derived from the Company's financial statements for each of the eight most recently completed quarters:

Quarter Ended	Revenue	Net loss	Net loss per share ⁽¹⁾⁽²⁾
June 30, 2011	\$Nil	\$(258,054)	\$(0.01)
March 31, 2011	\$Nil	\$(102,903)	\$(0.01)
December 31, 2010	\$Nil	\$(36,932)	\$(0.00)
September 30, 2010	\$Nil	\$(102,572)	\$(0.01)
June 30, 2010	\$Nil	\$(107,442)	\$(0.00)
March 31, 2010	\$Nil	\$(162,536)	\$(0.01)
December 31, 2009	\$Nil	\$(120,222)	\$(0.01)
September 30, 2009	\$Nil	\$(181,994)	\$(0.01)

(1) Fully diluted loss per share amounts are not shown as they would be anti-dilutive.

(2) On May 27, 2011, the Company consolidated its outstanding common shares on a basis of one post-consolidation share for every five pre-consolidation shares as approved by the shareholders of the Company. All comparative figures have been retrospectively adjusted as if the share consolidation occurred on June 30, 2009.

It is the nature of junior exploration companies that there are no sales or revenue. There can be significant variances in the Company's reported loss from quarter to quarter arising from factors that are difficult to anticipate in advance or to predict from past results. For example, the granting of incentive stock options, which results in the recording of amounts for stock-based compensation, can be quite large in any given quarter.

There will not be variations due to seasonality as the climate in Mexico is amenable to year round exploration. However, mineral property expenditures can vary from quarter to quarter depending on when option payments are due and the stage of the exploration program (e.g. drilling may slow down for a period of time while results are analyzed, resulting in lower costs during that period).

LIQUIDITY AND CAPITAL RESOURCES

Cangold does not have any operations that generate cash flow. The Company's financial success relies on management's ability to find economically viable mineral deposits. This process can take many years and is largely based on factors that are beyond the control of Cangold.

In order to finance its exploration activities and corporate overhead, the Company is dependent on investor sentiment remaining positive towards the gold and silver exploration business generally, and towards Cangold in particular, so that funds can be raised through the sale of the Company's securities. Many factors have an influence on investor sentiment, including a positive climate for mineral exploration, a company's track record and the experience and calibre of a company's management. There is no certainty that equity funding will be available at the times and in the amounts required to fund the Company's activities. The "Risks and Uncertainties" section of this document further discusses the going concern issue. The financial statements do not include any adjustments that might result from these uncertainties.

Cangold has financed its activities through brokered and non-brokered private placements and a short form offering. Debt financing has not been used to fund property acquisitions and exploration and the Company has no current plans to use debt financing.

Cash and Financial Conditions

The Company's cash and cash equivalents balance was \$950,460 at June 30, 2011 as compared to \$103,163 at June 30, 2010. The Company's cash equivalents are all fully cashable at any time so there are no restrictions on availability of funds.

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The Company had working capital of \$465,701 as at June 30, 2011 compared with working capital of \$77,865 as at June 30, 2010. Subsequent to year end, the Company closed a \$5 million private placement (see "Financing Activities" below).

The Company has no debt, does not have any unused lines of credit or other arrangements in place to borrow funds and has no off-balance sheet arrangements. Cangold does not use hedges or other financial derivatives.

Investing Activities

During the year ended June 30, 2011, the Company had \$131,709 cash inflows from investing activities compared with \$23,045 as at June 20, 2010. The cash inflows are due to the sale of marketable securities.

Financing Activities

On May 27, 2011, the Company completed a consolidation of its share capital on a one for five basis as approved by the shareholders of the Company. All comparative figures have been adjusted retrospectively.

During the twelve months ended June 30, 2011, the Company received proceeds from advances on share subscriptions of \$915,877. On August 25, 2011, the Company closed the second and final tranche of a \$5 million non-brokered private placement. The Company issued 10,000,000 units at \$0.50 per unit. Each unit comprises one common share and one-half of one non-transferable share purchase warrant. The Company paid cash finders' fees totaling \$93,628 and issued 171,050 finders' warrants. Proceeds from the private placement will be used to make the initial payment for the Ixhuatan Project, fund the phase 1 exploration program and for working capital.

On December 2, 2010, the Company amended the terms of the 2,180,000 non-transferable share purchase warrants (Series P) issued on December 21, 2009 to extend the expiry date from December 20, 2010 to December 20, 2011.

SECURITIES OUTSTANDING

At the date of this MD&A, the Company had 33,869,917 common shares issued and has 7,351,050 warrants and 505,000 options outstanding.

If the Company were to issue all 7,351,050 shares issuable upon the exercise of all warrants outstanding and all 505,000 shares issuable upon the exercise of all incentive stock options outstanding, it would raise approximately \$5,347,000.

OUTLOOK

Now that the transaction with Brigus Gold has been completed, the Company intends to open discussions with local stakeholders in the Ixhuatan Project area and to negotiate agreements with local ejidos (farming cooperatives) as to access to the property. The first year on the project will entail baseline environmental and social studies, minor drilling for metallurgical samples and geotechnical analysis, metallurgical test work, and preliminary engineering studies at the scoping study level. If successful, these will be advanced to a pre-feasibility level.

The Company will also be reviewing the Plomo project as to any follow-up exploration and will consider whether to initiate a new program at the Argosy Project or to option the project to another company.

It is anticipated that in the foreseeable future, Cangold will rely on the equity markets to meet its financing needs. The level of exploration during the upcoming year will depend on the Company's ability to raise financing.

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Management and the Board of Directors review the approved work plans and budgets for the various exploration projects at regular intervals throughout the year, and make revisions to the budgets for individual projects in response to exploration success (or the lack thereof) on such projects.

Management and the Board of Directors continuously review and examine proposals and projects for the Company and conduct their due diligence in respect of same.

TRANSACTIONS WITH RELATED PARTIES

Included in expenses are the following transactions with related parties totalling \$219,816:

- a) Paid or accrued geological consulting and corporate administration fees totalling \$62,237 to a company with directors in common.
- b) Paid or accrued finance and accounting fees totalling \$18,000 to an officer of the Company.
- c) Paid or accrued management and director fees totalling \$107,493 to companies controlled by directors of the Company.
- d) Paid or accrued business development fees totalling \$3,825 to a company controlled by an officer of the Company.
- e) Paid or accrued office rent and administration costs totalling \$28,261 to a company with a director in common.

None of the transactions above are subject to contracts.

As at June 30, 2011, \$397,478 was due to officers, to companies controlled by directors of the Company and to a company with common directors. The amounts owing are due on demand and unsecured. Of the total balance owing at June 30, 2011, \$126,531 is interest bearing.

RISKS AND UNCERTAINTIES

Exploration and development stage of the properties

The Company is in the exploration stage with all of its projects and substantial additional work will be required in order to determine if any economic deposits occur on these properties. Even in the event commercial quantities of minerals are discovered, these properties might not be brought into a state of commercial production. The search for valuable minerals as a business is extremely risky. Finding mineral deposits is dependent on a number of factors, not the least of which is the technical skill of exploration personnel involved.

The commercial viability of a mineral deposit, once discovered, is also dependent on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices. Most of these factors are beyond the control of the entity conducting such mineral exploration. There can be no assurance that operations will be profitable in the future.

Ability to continue as a going concern

The audited consolidated financial statements of the Company for the year ended June 30, 2011 were prepared in accordance with Generally Accepted Accounting Principles ("GAAP") on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. During the years ended June 30, 2011 and 2010, the Company recorded losses of approximately \$500,000 and \$572,000, respectively, and used cash for operations of approximately \$421,000 and \$615,000, respectively. As at June 30, 2011, the Company had an accumulated deficit of approximately \$12,101,000 compared with \$11,600,000 at June 30, 2010. As at June 30, 2011, the Company had a working capital balance of \$466,000 compared with \$78,000 as of June 30, 2010. The Company has sufficient cash on hand to sustain operations for the year ending June 30, 2012. However, these conditions raise substantial doubt about the Company's ability to continue as a going concern in the longer term.

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The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities is dependent upon the existence of economically recoverable mineral reserves and the ability to raise adequate financing from lenders, shareholders and other investors to support such business activities. It is anticipated that the Company will rely on the equity markets in the upcoming fiscal year to meet its financing needs, including funding future exploration activity.

Given the current economic environment, there can be no assurance that such financing will be available to the Company on acceptable terms, or at all. Failure to continue as a going concern would require the Company's assets and liabilities to be presented on a liquidation basis, which would differ materially from the going concern basis.

As discussed in the "Financing Activities" section, subsequent to June 30, 2011, the Company closed a \$5 million non-brokered private placement financing.

CRITICAL ACCOUNTING ESTIMATES

Critical Accounting Estimates

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles and requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the assumptions used in determining the fair value of non-cash stock-based compensation and assessing mineral properties for impairment. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years could differ from these estimates. A summary of the Company's significant accounting policies is set out in Note 2 of the consolidated financial statements for the year ended June 30, 2011.

The accounting estimates believed to require the most difficult, subjective or complex judgments, and which are the most critical to our reporting of results of operations and financial position, are as follows:

Impairment of mineral properties

The Company reviews and evaluates its mineral properties for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. Measurement of an impairment loss is based on the excess of carrying value over the estimated fair value of the asset.

At each reporting period and whenever events or circumstances indicate that an asset's fair value may not be at least equal to its carrying value, management of the Company reviews the net carrying value. These reviews involve consideration of the fair value of each property to determine whether a permanent impairment in value has occurred and whether any asset write-down is necessary. The Company considers metal prices, cost of production, resources, proven and probable reserves and salvage value of the property in its valuation.

Management's estimates are subject to risks and uncertainties of changes affecting the recoverability of the Company's investment in its mineral properties. Management's estimates of these factors are based on current conditions. Nonetheless, it is reasonably possible that in the near term, changes that could adversely affect management's estimate of net cash flows expected to be generated from its properties could occur which may necessitate a write-down for asset impairment.

The Company has determined that no events or changes in circumstances occurred in fiscal 2011 that would indicate that the carrying amounts of its mineral properties may not be recoverable.

Stock-based Compensation Expense

From time to time, the Company may grant share purchase options to directors, employees and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise and discount rates. Although not requiring any cash outlay by the Company, changes to any of these inputs could cause a significant change in the stock-based compensation expense charged in a period.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies for the year ended June 30, 2011.

FUTURE ACCOUNTING PRONOUNCEMENTS

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced the changeover from Canadian GAAP to International Financial Reporting Standards ("IFRSs") for publicly accountable enterprises and listed entities, for the annual periods beginning on or after January 1, 2011.

The Company will prepare its first consolidated financial statements in accordance with IFRS for the year ending June 30, 2012 ("adoption date"). In accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the Company will retrospectively apply IFRS effective at the adoption date, except for mandatory and elected optional exemptions from full retrospective application of IFRS as provided by IFRS 1.

Preparation of first consolidated financial statements in accordance with IFRS will require presentation of comparative information in accordance with IFRS. In order to present comparative information in accordance with IFRS in its IFRS financial statements, the Company will be required to restate its balance sheet as at July 1, 2010 to comply with IFRS ("transition date").

Our planned transition to IFRS and the conversion project consists of three phases: (i) Planning and Scoping, (ii) Detailed Assessment, Conversion Planning and Development, and (iii) Implementation, Parallel Reporting and Review.

Phase One: Planning and Scoping, which involves project planning and identification of differences between current Canadian GAAP and IFRS, has been completed. The identified areas of accounting differences of highest potential impact to the Company are impairment of assets, property plant and equipment, exploration and evaluation expenditures, functional currency and initial adoption of IFRS under the provisions of IFRS 1.

Phase Two: Detailed Assessment, Conversion Planning and Development involves detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies available under IFRS; identification and design of operational and financial business processes; initial staff training; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retrospective application upon transition to IFRS; summarization of IFRS disclosure requirements; and development of required solutions to address identified issues.

Phase Three: Implementation, Parallel Reporting and Review, involves the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programs across the Company's finance and other affected areas, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant consolidated interim and annual financial statements and reconciliations; embedding of IFRS in business processes; and, audit committee approval of IFRS-compliant financial statements.

The following table summarizes the Company key activities and current status of its changeover plan:

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Key Activities	Current status
<p>(1) Financial Reporting</p> <ul style="list-style-type: none"> - Analyze and select accounting policies where choices are permitted, including IFRS 1 elections - Quantify differences for opening balance sheet and key differences for quarterly comparatives 	<ul style="list-style-type: none"> - The Company is completing the selection of accounting policies and IFRS 1 elections. - Quantification of key differences for opening balance sheet and quarterly comparatives are in the process of being finalized.
<p>(2) Financial Information Systems</p> <ul style="list-style-type: none"> - Determine and implement solution for capturing IFRS information for comparative periods - Identify and evaluate impact on financial systems and the changes required 	<ul style="list-style-type: none"> - IFRS information for the opening balance sheet and comparative periods will be maintained in spreadsheets. - The Company's information systems have been configured to record transactions under IFRS.
<p>(3) Internal Control Over Financial Reporting ("ICFR")</p> <ul style="list-style-type: none"> - Maintain effective controls throughout the IFRS conversion process - Identify and revise, as necessary, control environment for changes in processes and controls as a result of conversion to IFRS 	<ul style="list-style-type: none"> - Control environment surrounding ICFR has been maintained through the conversion process. - The Company's assessment of changes in controls is underway and being documented.
<p>(4) Disclosure Controls and Procedures</p> <ul style="list-style-type: none"> - Identify and revise, as necessary, disclosure controls as a result of conversion to IFRS 	<ul style="list-style-type: none"> - IFRS updates, formal and informal, were provided to the Company's staff, including individuals directly involved with investor relations and corporate communication.
<p>(5) Training and Financial Reporting Expertise</p> <ul style="list-style-type: none"> - Provide technical training to key finance and accounting personnel at all sites 	<ul style="list-style-type: none"> - The Company engages financial consultants with IFRS experience to prepare and review financial statements
<p>(6) Business Activities</p> <ul style="list-style-type: none"> - Identify and assess impact of transition to IFRS on key business activities such as budgeting and human resources (i.e. compensation arrangements) 	<ul style="list-style-type: none"> - The Company is currently reviewing the impact on its key business activities and will conclude in 2012 once all differences are finalized

The Company also anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as additional systems changes that may be necessary to gather and process the required information.

The Company has identified key areas where changes in accounting policy are required on its transition from Canadian GAAP to IFRS listed below. This list is intended to highlight the areas the Company determined to be the most significant that will result from the transition to IFRS. The Company has not yet finalized the impact of these changes on its consolidated financial statements and will only be reporting quantified

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differences once approved by the Audit Committee. The IASB has significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and these changes may have a material effect on the Company's consolidated financial statements.

The key areas where changes in accounting policy are required for the adoption of IFRS are listed below:

First Time Adoption of IFRS:

The Company has decided to use the following optional IFRS 1 exemptions from full retrospective application of IFRS:

- The Company has elected not to apply IFRS 2, Share-based Payments to equity instruments vested before the transition date. This election exempts the Company from retrospective restatement of share-based payments vested before the transition date.
- The Company has elected to apply the transitional provisions in IFRIC 4, Determining whether an Arrangement contains a Lease (IFRIC 4). Accordingly, for the arrangements existing as at the transition date, the Company determined whether an arrangement contains a lease on the basis of facts and circumstances existing at that date. The Company completed an analysis and has concluded as of the date of this MD&A that there were no arrangements within the scope of IFRIC 4.
- As at transition date, the Company will not make any additional optional designations of financial instruments as available for sale, or financial asset or financial liability at fair value through profit or loss, unless such designation has been made on initial recognition of such instruments in accordance with IAS 39, Financial Instruments: Recognition and Measurement.
- The Company has elected to apply optional exemption from full retrospective application of IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1). In accordance with this IFRS 1 optional exemption, decommissioning and restoration liabilities of the Company are measured as at the date of transition to IFRS in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. To the extent that the liability is within the scope of IFRIC 1, the amount that would have been included in the cost of the related asset when the liability first arose is determined by discounting the liability to that date using the best estimate of the historical risk-adjusted discount rates(s) that would have applied for that liability of the intervening period. The carrying amount of related asset as at the transition date is determined by calculating accumulated depreciation on the basis of the current estimate of the useful life of such asset, using the depreciation policy adopted by the Company in accordance with IFRS.

Exploration and Evaluation Expenditures:

IFRS 6 allows for either the expensing or capitalization of exploration and evaluation expenditures that the Company had previously expensed under Canadian GAAP. The Company will maintain its existing policy of expensing mineral property expenditures upon adoption of IFRS. As such there will not be any adjustment upon adoption of IFRS.

Property, Plant, and Equipment:

Key differences between Canadian GAAP and IFRS with respect to property, plant, and equipment include component accounting which must be applied to physical and non-physical components which are significant and have a useful life which differs to that of the overall asset, the mandatory capitalization of interest costs and requirements for the annual review of estimates of useful life, residual value and the depreciation method. The Company will continue to account for its property, plant and equipment using the cost model. The Company does not expect to record a material adjustment relating to this difference.

Impairment of Assets:

Both Canadian GAAP and IFRS require an entity to test for impairment of assets when there is an indication of impairment. Under Canadian GAAP, a two-step approach to impairment testing is performed. The asset carrying value is compared with its undiscounted future cash flow to determine whether impairment exists. The impairment is then measured by comparing the asset's carrying value with its fair value. IFRS requires the application of a one-step approach for both testing for and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use and includes the use of discounted cash flows when a cash flow model is used. IFRS also allows the reversal of impairments for long-lived assets if conditions that gave rise to these impairments no longer exist. It is expected that there may be increased volatility in impairment recognition due to the possibility of more frequent impairments and the reversal of impairments under IFRS. We have assessed impairment indicators under IFRS as at the date of transition for all of our projects and concluded that there were no such indicators, which was consistent with Canadian GAAP.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable and accounts payable and accrued liabilities, and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these instruments. Due to their short-term nature, the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

OFF-BALANCE SHEET ARRANGEMENTS

At the date of this report, the Company had no material off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document includes forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including but not limited to: risks and uncertainties relating to the interpretation and assumptions used in calculating resource estimates; the execution and outcome of current or future exploration activities; information included or implied in the various independently produced and published technical reports; anticipated drilling and resource estimation plans; differences in actual recovery rates, grades, and tonnage from those expected; the inherent uncertainty of production and cost estimates, risks and uncertainties relating to timing and amount of estimated future production, capital expenditures and cash flows; risks relating to our ability to obtain adequate financing for our planned activities and to complete further exploration programs; foreign currency fluctuations; commodity price fluctuations; risks related to governmental regulations, including environmental regulations and other general market and industry conditions as well as those factors discussed in each management discussion and analysis, available on SEDAR at www.sedar.com.

Although Cangold has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Cangold's actual results, programs and financial position could differ materially from those expressed in or implied by these forward-looking statements and accordingly, no assurance can be given that the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Cangold will derive from them. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statements, even if new information becomes available, as a result of future events or for any other reason.

CANGOLD LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-102F1

For the year ended June 30, 2011

ADDITIONAL SOURCES OF INFORMATION

Additional information relating to Cangold can be found on the SEDAR website at www.sedar.com or on the Company's website at www.cangold.ca.