

Unaudited Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)

**CANGOLD LIMITED**

For the three months ended September 30, 2011 and 2010

## **MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM FINANCIAL STATEMENTS**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# CANGOLD LIMITED

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (Expressed in Canadian dollars)

September 30, 2011, June 30, 2011 and July 1, 2010 (Unaudited)

	September 30, 2011	June 30, 2011 (note 11)	July 1, 2010 (note 11)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 3,938,000	\$ 950,460	\$ 103,163
Marketable securities	1,875	3,000	82,190
Amounts receivable (note 5)	175,802	146,294	126,569
Prepaid expenses and advances	57,004	12,523	19,858
	4,172,681	1,112,277	331,780
Mineral properties (note 7)	90,000	90,000	90,000
	\$ 4,262,681	\$ 1,202,277	\$ 421,780
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 173,218	\$ 249,098	\$ 79,668
Due to related parties (note 9)	59,346	397,478	174,247
	232,564	646,576	253,915
Shareholders' equity:			
Share capital (note 8)	15,305,689	10,563,544	10,563,423
Contributed surplus	1,232,853	1,182,264	1,182,264
Advances on share subscriptions	-	915,877	-
Accumulated other comprehensive income (loss)	(6,375)	(5,250)	22,451
Deficit	(12,502,050)	(12,100,734)	(11,600,273)
	4,030,117	555,701	167,865
Continuing operations (note 1)			
Subsequent events (note 10)			
	\$ 4,262,681	\$ 1,202,277	\$ 421,780

See accompanying notes to unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Kaare G. Foy" Director

"Martin B. Carsky" Director

# CANGOLD LIMITED

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

	2011	2010
		(note 11)
Expenses:		
Consulting	\$ 45,492	\$ 12,885
Director fees	18,750	18,750
Filing fees	4,526	4,868
Investor relations	32,123	12,799
Mineral property exploration expenditures (note 6)	6,608	14,449
Business development and general exploration expenses	246,985	5,924
Office and miscellaneous	10,748	3,607
Professional fees	16,896	22,449
Rent	7,225	6,890
Transfer agent fees	1,939	875
Loss before finance and other items	(391,292)	(103,496)
Finance and other items:		
Interest expense	-	(2,023)
Foreign exchange loss	(10,024)	(2,183)
Gain on sale of marketable securities	-	5,130
	(10,024)	924
Loss for the period	(401,316)	(102,572)
Other comprehensive income (loss), net of tax:		
Net change in fair value of available-for-sale financial assets	(1,125)	12,320
	(1,125)	12,320
Comprehensive loss for the period	\$ (402,441)	\$ (90,252)
Loss per share, basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average number of outstanding common shares	23,934,883	17,575,144

See accompanying notes to unaudited condensed consolidated interim financial statements.

# CANGOLD LIMITED

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010

	Number of Shares	Share Capital	Advances on share subscriptions	Contributed surplus	Accumulated Other Comprehensive Income	Deficit	Total shareholders' equity
Balance at July 1, 2010	17,575,144	\$ 10,563,423	\$ -	\$ 1,182,264	\$ 22,451	\$ (11,600,273)	\$ 167,865
Unrealized gain on marketable securities	-	-	-	-	12,320	-	12,320
Loss for the period	-	-	-	-	-	(102,572)	(102,572)
<b>Balance at September 30, 2010</b>	<b>17,575,144</b>	<b>\$ 10,563,423</b>	<b>\$ -</b>	<b>\$ 1,182,264</b>	<b>\$ 34,771</b>	<b>\$ (11,702,845)</b>	<b>\$ 77,613</b>
Balance at July 1, 2011	17,595,144	\$ 10,563,544	\$ 915,877	\$ 1,182,264	\$ (5,250)	\$ (12,100,734)	\$ 555,701
Private placement financing, net of share issuance costs	10,000,000	4,793,373	(915,877)	50,589	-	-	3,928,085
Transaction costs, share consolidation	-	(51,228)	-	-	-	-	(51,228)
Unrealized loss on marketable securities	-	-	-	-	(1,125)	-	(1,125)
Loss for the period	-	-	-	-	-	(401,316)	(401,316)
<b>Balance at September 30, 2011</b>	<b>27,595,144</b>	<b>\$ 15,305,689</b>	<b>\$ -</b>	<b>\$ 1,232,853</b>	<b>\$ (6,375)</b>	<b>\$ (12,502,050)</b>	<b>\$ 4,030,117</b>

See accompanying notes to unaudited condensed consolidated interim financial statements.

# CANGOLD LIMITED

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

	2011	2010 (note 11)
Cash flows used in operating activities:		
Loss for the period	\$ (401,316)	\$ (102,572)
Items not involving cash:		
Gain on sale of marketable securities	-	(5,130)
Changes in non-cash operating working capital:		
Amounts receivable	(29,508)	(835)
Prepaid expenses and advances	(44,481)	4,673
Accounts payable and accrued liabilities	(75,880)	34,697
Net cash used in operating activities	(551,185)	(69,167)
Cash flows provided by investing activities:		
Proceeds from sale of marketable securities	-	12,630
Net cash provided by investing activities	-	12,630
Cash flows provided by financing activities:		
Issuance of shares for cash, net of issue costs	3,928,085	-
Transaction costs, share consolidation	(51,228)	-
Due to related parties	(338,132)	31,339
Net cash provided by financing activities	3,538,725	31,339
Increase (decrease) in cash and cash equivalents	2,987,540	(25,198)
Cash and cash equivalents, beginning of period	950,460	103,163
Cash and cash equivalents, end of period	\$ 3,938,000	\$ 77,965

See accompanying notes to unaudited condensed consolidated interim financial statements.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 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 three months ended September 30, 2011 and 2010, the Company recorded losses of \$401,316 and \$102,572, respectively, and used cash for operations of \$551,185 and \$69,167, respectively. As at September 30, 2011, the Company had an accumulated deficit of \$12,502,050 compared with \$12,100,734 at June 30, 2011. As at September 30, 2011, the Company had a working capital balance of \$3,940,117 compared with \$465,701 as of June 30, 2011. 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 International Financial Reporting Standards. 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.

### 2. Basis of presentation:

#### (a) Statement of compliance:

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). As these IFRS condensed consolidated interim financial statements are for part of the period covered by the first IFRS annual financial statements, IFRS 1 First-time Adoption of International Financial Reporting Standards has been

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 2. Basis of presentation (continued):

(a) Statement of compliance (continued):

applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

Reconciliations between the Company's previously reported statement of financial position, statement of comprehensive income (loss), and statement of cash flows under previous Canadian generally accepted accounting principles ("GAAP") and those reported under IFRS are presented in note 11.

These condensed consolidated interim financial statements were approved by the Board of directors on December 15, 2011.

(b) Basis of consolidation:

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.

(c) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in note 3(h).

(d) Functional and presentation currency:

The presentation and functional currency of the Company and its subsidiary is the Canadian dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date and non-monetary assets and liabilities are translated at historical rates. Foreign currency gains and losses arising from translation are included in profit or loss.

(e) Use of estimates and judgments:

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates and judgments 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. These estimates and judgments are based on management's knowledge of the relevant facts and circumstances having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Significant areas requiring the use of management estimates relate to 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 periods could differ from these estimates.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently by the Company's entities to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at July 1, 2010 for the purposes of the transition to IFRS.

#### (a) 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.

#### (b) Exploration and evaluation expenditures:

Exploration and evaluation expenditures are expensed as incurred as mineral property exploration expenditures in the statement of comprehensive loss. Such expenditures will continue to be expensed until the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable and management has made a decision to proceed with development of the property. At that point, further costs incurred are capitalized as mineral properties. Examples of exploration and evaluation expenditures that are expensed under this policy include: acquisition rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

The fair value at acquisition date of mineral property or exploration rights acquired either through a business combination or asset acquisition are capitalized. These exploration and evaluation expenditures are classified as tangible assets within Mineral properties.

#### (c) Mineral properties:

Mineral property exploration and development expenditures incurred subsequent to the determination of the technical feasibility and commercial viability 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.

#### (d) Equipment:

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

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 3. Significant accounting policies (continued):

#### (e) Impairment of long-lived assets:

The Company's long-lived assets are reviewed for an indication of impairment at each financial reporting date or at any time if an indicator of impairment is considered to exist. If any such indication exists an estimate of the recoverable amount is undertaken, being the higher of an asset's fair value less costs to sell and value in use. If the asset's carrying amount exceeds its recoverable amount then an impairment loss is recognized in profit or loss for the period.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value of mineral assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and from its ultimate disposal.

Impairment is normally assessed at the level of cash-generating units, which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. When a reversal of a previous impairment is recorded, the reversal amount is adjusted for depreciation that would have been recorded had the impairment not taken place.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

#### (f) Share-based payments:

The Company grants stock options in accordance with the TSX Venture Exchange (TSX-V) policies (note 8(e)).

Equity-settled share-based payment arrangements such as the Company's stock option plan are measured at fair value at the date of grant and recorded within equity. The fair value at grant date of all share-based payments is recognized as compensation expense over the vesting period, with a corresponding credit to shareholders' equity. The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is reversed in the period the forfeiture occurs.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 3. Significant accounting policies (continued):

(g) Reclamation and remediation provision:

The Company recognizes the cost of future reclamation and remediation as a liability in the period in which it incurs a legal or constructive obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the asset, if a reasonable estimate of the obligation can be made. The liability is measured initially by discounting such costs to the net present value using pre-tax rates and risk assumptions specific to the liability and the resulting cost capitalized to the carrying value of the related assets. In subsequent periods, the liability is adjusted for accretion of the discount with the offsetting amount charged to profit or loss as a finance cost. Any change in the amount or timing of the underlying cash flows is recorded in the period during which the change occurs with the offsetting amount recorded as an adjustment to the reclamation and remediation provision cost included in mineral properties. The reclamation and remediation provision cost is depreciated over the remaining life of the assets.

It is reasonably possible that the ultimate cost of remediation and reclamation could change in the future due to uncertainties associated with defining the nature and extent of environmental contamination, the application of laws and regulations by regulatory authorities, changes in remediation technology and changes in discount rates. The Company reviews its reclamation and remediation provision at least annually and as evidence becomes available indicating that its remediation and reclamation liabilities may have changed. Any such changes in costs could materially impact the future amounts charged to operations for reclamation and remediation obligations.

Changes in the reclamation and remediation provision subsequent to the related asset reaching the end of its useful life and any excess of actual reclamation and remediation costs over the amount of initially estimated reclamation and remediation provision are recognized in the statement of comprehensive income.

The Company had no material reclamation and remediation provisions as at September 30, 2011 and June 30, 2011.

(h) 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. These financial instruments are classified as either financial assets at fair value through profit or loss, available-for-sale, loans and receivables, or financial liabilities at amortized cost. Management determines their classification at initial recognition.

Transaction costs are expensed as incurred for financial instruments designated as financial assets at fair value through profit or loss. 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 at amortized cost.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 3. Significant accounting policies (continued):

#### (h) Financial instruments (continued):

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or designated at fair value through profit and loss upon initial recognition. The Company's cash and cash equivalents are classified as fair value through profit or loss. They were initially and are subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. The Company's marketable securities are classified as available-for-sale and are initially and subsequently recorded at fair value. Changes in fair value, other than impairment losses, are recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income in shareholders' equity. When the financial assets are sold or an impairment write-down is required, losses accumulated in accumulated other comprehensive income recognized in shareholders' equity are included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's amounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently measured at amortized cost less any impairment.

Financial liabilities at amortized cost are non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss. The Company's account payables and accrued liabilities and amounts due to related parties are classified as financial liabilities at amortized cost and are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

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

- For available-for-sale financial assets, an impairment loss is established when there is a significant or prolonged decline in fair value of the investment or when there is objective evidence that the carrying amount of the investment may not be recovered. The amount of the impairment loss is 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. Any amounts related to that asset are removed from losses accumulated in the accumulated other comprehensive income in shareholders' equity and are included in profit or loss. Reversals in impairments in respect of available-for-sale financial assets are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in shareholders' equity.
- 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

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 3. Significant accounting policies (continued):

(h) Financial instruments (continued):

estimated future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of provision account and the amount of the loss is recognized in the statement of comprehensive income within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against office and miscellaneous expenses in the statement of comprehensive income.

(i) Income taxes:

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized directly in equity.

Deferred tax is provided using the statement of financial position method. Under this method, deferred 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. Deferred tax assets and liabilities are measured using 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 deferred 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 deferred tax assets recognized is limited to the amount that is, in management's estimation, probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) 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.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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#### 4. Recent accounting pronouncements:

(a) Presentation of items of other comprehensive income (“OCI”):

IAS 1 is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This amendment is effective for annual periods beginning on or after July 1, 2012. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

(b) Financial instruments:

The IASB intends to replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”) in its entirety with IFRS 9 Financial Instruments (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The IASB has issued exposure drafts addressing impairment of financial instruments, hedge accounting and the offsetting of financial assets and liabilities. The comment period closed in March and April 2011 and deliberations are ongoing. The Company has not yet evaluated the impact the final standard is expected to have on its consolidated financial statements.

(c) Consolidation:

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supercedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted. IAS 27 and IAS 28 – Investments in Associates were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 4. Recent accounting pronouncements (continued):

#### (d) Joint Arrangements:

IFRS 11 Joint Arrangements establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

#### (e) Disclosure of Involvement with Other Entities:

IFRS 12 Disclosure of Involvement with Other Entities requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

#### (f) Fair Value Measurement:

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

#### (g) Stripping Costs in the Production Phase of a Mine:

In October of 2011, the IASB issued IFRIC 20 – Stripping Costs in the Production Phase of a Mine, which clarifies the requirements for accounting for costs of stripping activities in the production phase when two benefits accrue: (1) usable ore that can be used to produce concentrate inventory and (2) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual reporting periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping costs. The Company is currently evaluating the impact IFRIC 20 is expected to have on its consolidated financial statements.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 5. Amounts receivable:

	September 30, 2011	June 30, 2011	July 1, 2010
Value added tax recoverable	\$ 122,415	\$ 129,299	\$ 124,716
Other	53,387	16,995	1,853
	<u>\$ 175,802</u>	<u>\$ 146,294</u>	<u>\$ 126,569</u>

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.

### 6. Mineral property exploration expenditures:

The continuity of expenditures on mineral properties for the three months ended September 30, 2011 is as follows:

	Casummit (a)	Thorn (b)	Los Venados (c)	Plomo (d)	2011
Exploration expenditures:					
Option payments	\$ -	\$ -	\$ -	\$ -	\$ -
Project administration	-	-	1,255	5,353	6,608
	-	-	1,255	5,353	6,608
Cumulative expenditures, beginning of period	1,193,594	1,959,191	580,523	792,132	4,525,440
Cumulative expenditures, end of period	<u>\$1,193,594</u>	<u>\$ 1,959,191</u>	<u>\$ 581,778</u>	<u>\$ 797,485</u>	<u>\$ 4,532,048</u>

The continuity of expenditures on mineral properties for the three months ended September 30, 2010 is as follows:

	Casummit (a)	Thorn (b)	Los Venados (c)	Plomo (d)	2010
Exploration expenditures:					
Option payments	\$ -	\$ -	\$ -	\$ -	\$ -
Legal	-	-	-	-	-
Project administration	1,040	-	5,352	8,057	14,449
	1,040	-	5,352	8,057	14,449
Cumulative expenditures, beginning of period	1,189,229	1,973,691	576,404	755,668	4,494,992
Cumulative expenditures, end of period	<u>\$1,190,269</u>	<u>\$ 1,973,691</u>	<u>\$ 581,756</u>	<u>\$ 763,725</u>	<u>\$ 4,509,441</u>

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 6. Mineral property exploration expenditures (continued):

#### (a) Casummit Lake property:

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). 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.

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.

#### (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. 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.

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 June 3, 2010, Rimfire (now Kiska Metals Corporation ("Kiska")) 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 three months ended September 30, 2011, and 2010, it did not receive any payments.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 6. Mineral property exploration expenditures (continued):

#### (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 and issuing 100,000 shares 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. As of the termination date, the Company had made \$90,000 in cash payments and issued 60,000 shares.

#### (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 September 30, 2011) and issuing 140,000 shares (100,000 shares issued as of September 30, 2011) over five years. The Plomo Property is subject to a 2% NSR, half of which can be purchased for \$500,000.

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

### 7. Mineral properties:

	September 30, 2011	June 30, 2011	July 1, 2010
Canada:			
Argosy property (note 6(a))	\$ 90,000	\$ 90,000	\$ 90,000
	\$ 90,000	\$ 90,000	\$ 90,000

### 8. Share capital:

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

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 8. Share capital (continued):

(b) Issued:

Common shares: 27,595,144 (June 30, 2011 – 17,595,144)

Preferred shares: Nil (June 30, 2011 – Nil)

(c) Financing:

During the three months ended September 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 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.

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 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.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 8. Share capital (continued):

#### (d) Warrants:

The continuity of share purchase warrants for the three months ended September 30, 2011 is as follows:

Series	Exercise price	Expiry date	Balance June 30, 2011	Issued	Exercised	Expired	Balance September 30, 2011
Series "P"	\$0.50	Dec 20, 2011	2,180,000	-	-	-	2,180,000
Series "Q"	\$0.75	July 13, 2012	-	2,596,000	-	-	2,596,000
Finder warrants <sup>(i)</sup>	\$0.75	July 13, 2012	-	37,400	-	-	37,400
Series "R"	\$0.75	August 25, 2012	-	2,404,000	-	-	2,404,000
Finder warrants <sup>(ii)</sup>	\$0.75	August 25, 2012	-	133,650	-	-	133,650
			2,180,000	5,171,050	-	-	7,351,050

(i) The finders' warrants (note 8(c)) were valued at \$10,869 using the Black-Scholes model. The assumptions used for the valuation of the finders' warrants were a risk-free interest rate of 1.03%, volatility of 215%, dividends paid of 0.0%, grant price of \$0.75 per share, and an expected life of the warrant of one year.

(ii) The finders' warrants (note 8(c)) were valued at \$39,721 using the Black-Scholes model. The assumptions used for the valuation of the finders' warrants were a risk-free interest rate of 1.44%, volatility of 216%, dividends paid of 0.0%, grant price of \$0.75 per share, and an expected life of the warrant of one year.

The continuity of share purchase warrants for the three months ended September 30, 2010 is as follows:

Series	Exercise price	Expiry date	Balance June 30, 2010	Issued	Exercised	Expired	Balance September 30, 2010
Series "P" <sup>(iii)</sup>	\$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	-	-	-	2,220,200

(iii) 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. There was no change in the exercise price, which remains at \$0.50 per share.

On December 2, 2011, the Company amended the terms of the warrants to extend the expiry date from December 20, 2011 to December 20, 2012 (note 10 (b)).

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 8. Share capital (continued):

#### (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.

The continuity of common share stock options for the three months ended September 30, 2011 is as follows:

Exercise price	Expiry date	Balance June 30, 2011	Granted	Cancelled/ expired	Exercised	Balance September 30, 2011
\$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	-	(10,000)	-	375,000
		515,000	-	(10,000)	-	505,000
Weighted average exercise price		\$0.75	-	\$0.75	-	\$0.75

As at September 30, 2011, all stock options are fully vested. The weighted average remaining contractual life of the options is 1.5 years.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 8. Share capital (continued):

#### (e) Stock options (continued):

The continuity of common share stock options for the three months ended September 30, 2010 is as follows:

Exercise price	Expiry date	Balance June 30, 2010	Granted	Cancelled/ expired	Exercised	Balance September 30, 2010
\$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	-	-	-	520,000
Weighted average exercise price		\$0.75	-	-	-	\$0.75

As at September 30, 2010, all stock options are fully vested. The weighted average remaining contractual life of the options was 2.44 years.

### 9. Related party transactions:

For the three months ended September 30, 2011, expenses totaling \$97,970 (September 30, 2010 - \$44,911) 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 September 30, 2011, \$59,346 (June 30, 2011 - \$397,478) was due to officers, directors or companies controlled by the directors of the Company. The amounts owing are due on demand, unsecured, and non-interest bearing.

### 10. Subsequent events:

#### (a) 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. The transaction was accepted for filing by the TSX Venture Exchange ("TSX-V") on October 14, 2011.

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

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 10. Subsequent events (continued):

(a) Option to acquire Ixhuatan gold project in Mexico (continued):

- (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
- (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 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. Upon acceptance of the transaction by the TSX-V, finder's fees of \$110,000 were paid and 274,773 shares were issued.

(b) Amendment to the terms of the Series "P" share purchase warrants:

On December 2, 2011, the Company announced it is amending the terms of the 2,180,000 non-transferable Series "P" share purchase warrants. The Warrants were originally issued on December 21, 2009 for a one year period and were then extended until December 20, 2011. Subject to TSX Venture Exchange approval, the expiry date of the warrants will be extended from December 20, 2011 to December 20, 2012; 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 tenth Premium Trading Day. There is no change in the exercise price, which remains \$0.50.

### 11. Transition to IFRS:

Effective for fiscal years beginning on or after January 1, 2011, the Canadian generally accepted accounting principles ("GAAP") were replaced by International Financial Reporting Standards ("IFRS"). An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany the tables.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

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### 11. Transition to IFRS (continued):

The accounting policies in note 3 have been applied in preparing the consolidated interim financial statements for the three months ended September 30, 2011, the comparative information for the three months ended September 30, 2010, the financial statements for the year ended June 30, 2011 and the preparation of an opening IFRS statement of financial position on the transition date, being July 1, 2010.

In preparing the consolidated interim financial statements for the three months ended September 30, 2011, comparative information for the three months ended September 30, 2010 and financial statements for the year ended June 30, 2011, have been adjusted from amounts reported previously in the financial statements prepared in accordance with previous GAAP.

There are no material differences between the statement of financial position, statement of comprehensive income (loss) and statement of cash flows presented under IFRSs and the statement of cash flows presented under previous GAAP.

The guidance for the first time adoption of IFRS is set out in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to apply the following optional exemptions:

- IFRS 2, *Share-Based Payments*, has not been applied to equity instruments granted after November 7, 2002 which had vested as of the transition date.
- The Company has applied the transitional provision in IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, and has assessed all arrangements as at the date of transition.

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 11. Transition to IFRS (continued):

#### Reconciliation of assets, liabilities and shareholders' equity

	Note	As at July 1, 2010			As at September 30, 2010			As at June 30, 2011		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>										
Current assets:										
Cash and cash equivalents		\$ 103,163	\$ -	\$ 103,163	\$ 77,965	\$ -	\$ 77,965	\$ 950,460	\$ -	\$ 950,460
Marketable securities		82,190	-	82,190	87,010	-	87,010	3,000	-	3,000
Amounts receivable		126,569	-	126,569	127,404	-	127,404	146,294	-	146,294
Prepaid expenses and advances		19,858	-	19,858	15,185	-	15,185	12,523	-	12,523
		<u>331,780</u>	<u>-</u>	<u>331,780</u>	<u>307,564</u>	<u>-</u>	<u>307,564</u>	<u>1,112,277</u>	<u>-</u>	<u>1,112,277</u>
Non-current assets:										
Mineral properties		90,000	-	90,000	90,000	-	90,000	90,000	-	90,000
		<u>\$ 421,780</u>	<u>\$ -</u>	<u>\$ 421,780</u>	<u>\$ 397,564</u>	<u>\$ -</u>	<u>\$ 397,564</u>	<u>\$ 1,202,277</u>	<u>\$ -</u>	<u>\$ 1,202,277</u>
<b>Liabilities and Shareholders' Equity</b>										
Current liabilities:										
Accounts payable and accrued liabilities		\$ 79,668	\$ -	\$ 79,668	\$ 114,365	\$ -	\$ 114,365	\$ 249,098	\$ -	\$ 249,098
Due to related parties		174,247	-	174,247	205,586	-	205,586	397,478	-	397,478
		<u>253,915</u>	<u>-</u>	<u>253,915</u>	<u>319,951</u>	<u>-</u>	<u>319,951</u>	<u>646,576</u>	<u>-</u>	<u>646,576</u>
Shareholders' equity:										
Share capital		10,563,423	-	10,563,423	10,563,423	-	10,563,423	10,563,544	-	10,563,544
Contributed surplus		1,182,264	-	1,182,264	1,182,264	-	1,182,264	1,182,264	-	1,182,264
Advances on share subscriptions		-	-	-	-	-	-	915,877	-	915,877
Accumulated other comprehensive income		22,451	-	22,451	34,771	-	34,771	(5,250)	-	(5,250)
Deficit		(11,600,273)	-	(11,600,273)	(11,702,845)	-	(11,702,845)	(12,100,734)	-	(12,100,734)
		<u>167,865</u>	<u>-</u>	<u>167,865</u>	<u>77,613</u>	<u>-</u>	<u>77,613</u>	<u>555,701</u>	<u>-</u>	<u>555,701</u>
		<u>\$ 421,780</u>	<u>\$ -</u>	<u>\$ 421,780</u>	<u>\$ 397,564</u>	<u>\$ -</u>	<u>\$ 397,564</u>	<u>\$ 1,202,277</u>	<u>\$ -</u>	<u>\$ 1,202,277</u>

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 11. Transition to IFRS (continued):

The reconciliations between previous GAAP and IFRS comprehensive income (loss) for the three months ended September 30, 2010 and the year ended June 30, 2011 are provided below:

	Three months ended September 30, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Expenses:			
Consulting	\$ 12,885	-	12,885
Director fees	18,750	-	18,750
Filing fees	4,868	-	4,868
Investor relations	12,799	-	12,799
Mineral property exploration expenditures	14,449	-	14,449
General exploration expenses	5,924	-	5,924
Office and miscellaneous	3,607	-	3,607
Professional fees	22,449	-	22,449
Rent	6,890	-	6,890
Transfer agent fees	875	-	875
Loss before finance and other items	(103,496)	-	(103,496)
Finance and other items:			
Interest expense	(2,023)	-	(2,023)
Foreign exchange loss	(2,183)	-	(2,183)
Gain on sale of marketable securities	5,130	-	5,130
	924	-	924
Loss for the period	(102,572)	-	(102,572)
Other comprehensive income (loss), net of tax:			
Net change in fair value of available for sale financial assets	12,320	-	12,320
Comprehensive loss for the period	\$ (90,252)	\$ -	\$ (90,252)

# CANGOLD LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2011 and 2010 (Unaudited)

### 11. Transition to IFRS (continued):

	For the year ended June 30, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Expenses:			
Consulting	\$ 63,320	-	63,320
Director fees	75,000	-	75,000
Filing fees	14,018	-	14,018
Investor relations	69,502	-	69,502
Mineral property exploration expenditures	30,448	-	30,448
General exploration expenses	178,069	-	178,069
Office and miscellaneous	22,605	-	22,605
Professional fees	77,830	-	77,830
Rent	28,026	-	28,026
Transfer agent fees	5,979	-	5,979
Loss before finance and other items	(564,797)	-	(564,797)
Finance and other items:			
Interest expense	(5,601)	-	(5,601)
Foreign exchange loss	(2,033)	-	(2,033)
Gain on sale of marketable securities	71,970	-	71,970
	64,336	-	64,336
Loss for the year	(500,461)	-	(500,461)
Other comprehensive income (loss), net of tax:			
Net change in fair value of available for sale financial assets	44,269	-	44,269
Net change in fair value of available-for-sale financial assets transferred to income	(71,970)	-	(71,970)
Comprehensive loss for the period	\$ (528,162)	\$ -	\$(528,162)

#### Notes to the reconciliations:

There are no material differences between the statement of financial position, statement of comprehensive income (loss) and statement of cash flows presented under IFRS and the statement of cash flows presented under previous GAAP.

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

For the three months ended September 30, 2011

This Management's Discussion and Analysis ("MD&A") prepared as of December 14, 2011, reviews the financial condition and results of operations of Cangold Limited ("Cangold" or "the Company") for the three month financial period ended September 30, 2011, and other material events up to the date of this report. The following discussion should be read in conjunction with the June 30, 2011 annual audited consolidated financial statements and related notes with reference to the reconciliation referred to below together with the MD&A and the unaudited condensed consolidated interim financial statements and related notes for the period ended September 30, 2011.

The financial data included in the discussion provided in this report has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on July 1, 2011 and has restated its balance sheet as at July 1, 2010 ("transition date") to comply with IFRS presentation of comparative information. The three month period ended September 30, 2011 is the Company's first reporting period under IFRS and the effects of the transition from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS on previously reported comparative periods financial statements is explained and set out in note 11 to these unaudited condensed consolidated interim financial statements. All dollar amounts are in thousands of 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. The transaction was accepted for filing by the TSX Venture Exchange on October 14, 2011.

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

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

For the three months ended September 30, 2011

- c) 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 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 maximum finder's fees totaling \$588,750 and will issue 1,070,455 common shares over the course of the option period should the option ultimately be exercised. \$151,125 has been paid and 274,773 common shares have been issued to date.

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, a \$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 were used to make the initial payment to Brigus and to pay financing fees and costs and will be available 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 a junior mining exploration company listed on the TSX Venture Exchange, trading under the symbol "CLD".

The Company has been most recently engaged in the exploration for gold projects in Mexico and Canada. Cangold holds an option to acquire a 100% interest in the Plomo Property located in Sonora, Mexico, and also maintains a 100% interest in the past-producing Argosy gold mine in northern Ontario, Canada. The Company has recently obtained an option to acquire a 75% interest in the Ixhuatan Project in Chiapas, Mexico.

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 three months ended September 30, 2011

**RESULTS OF OPERATIONS**

The Company reported a loss of \$401,316 and cash outflows from operations of \$551,185 for the three months ended September 30, 2011 compared with a loss of \$102,572 and cash outflows from operations of \$69,167 for same period in fiscal 2011. The increased loss in the current period can be attributed to increased business development activities and higher overhead costs.

Consulting costs for the three months ended September 30, 2011 were \$45,492 compared to \$12,885 for the same period in fiscal 2011. Costs rose primarily due to increased activity in the Company including arranging for and closing the private placement.

Investor relations costs increased to \$32,123 for the three months ended September 30, 2011 from \$12,799 for the same period in fiscal 2011. During the current period, the Company increased advertising, incurred branding costs and engaged the services of an investor relations consultant.

The Company incurred \$6,608 in mineral property exploration expenditures during the three months ended September 30, 2011 compared to \$14,449 in the same period in fiscal 2011. The decrease is primarily due to the termination of the Los Venados option. The remaining expenditures primarily relate to mining claims taxes. Mineral property exploration expenditures by property and type are summarized in note 6 of the unaudited interim consolidated financial statements for the quarter.

The Company incurred business development and general exploration expenses of \$246,985 for the three months ended September 30, 2011, compared to \$5,924 during the same period in 2011. This increase is due to transaction costs associated with the acquisition of the option on the Ixhuatan Project in Chiapas, Mexico.

Professional fees decreased from \$22,449 to \$16,896 for the three months ended September 30, 2011 and 2010, respectively. Legal fees decreased in the period as a result of reduced activity relating to general corporate matters.

Office and miscellaneous expenses increased from \$3,607 to \$10,748 for the three months ended September 30, 2011 and 2010, respectively, as a result of increased business activity during the quarter.

The Company incurred a foreign exchange loss of \$10,024 and \$2,183 for the three months ended September 30, 2011 and 2010, respectively. Compared to the previous quarter, the Canadian dollar appreciated more against Mexican peso in the current quarter. 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 the period end was higher in the current quarter.

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.

**Exploration Activities and Property Expenditures**

The Company did not conduct any exploration activities on its Mexican project, Plomo, during the three months ended September 30, 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 (accepted for filing by the TSX Venture Exchange on October 14, 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.

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

For the three months ended September 30, 2011

**a) *Casummit Lake Property:***

The Casummit Lake Property/Argosy Mine Property 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 Cangold. (The Company already owned a 51% interest). Under the terms of the acquisition, Cangold issued Premier a total of two million 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 three months ended September 30, 2011. Management believes however, 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 in Sonora, Mexico. The Company could acquire a 100% interest in the property by making staged cash payments totalling \$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. No field work was conducted on the Los Venados Property after the first quarter of fiscal 2009. The Company terminated its option on July 16, 2010.

**c) *Plomo Property:***

On November 9, 2007, Cangold signed an Option Agreement, through its Mexican subsidiary, to acquire a 100% interest in the Plomo property located within the Sonora "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 (Mexico's largest gold mine), 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.

Cangold completed the Phase 1 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.

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

For the three months ended September 30, 2011

Cangold can acquire a 100% interest in the Plomo property by making staged cash payments totalling \$100,000 (\$45,000 paid as of September 30, 2011) and issuing 140,000 shares (100,000 shares issued as of September 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.

**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 <sup>(1)(2)</sup>
September 30, 2011	\$Nil	\$(401,316)	\$(0.02)
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 <sup>(3)</sup>	\$Nil	\$(107,442)	\$(0.00)
March 31, 2010 <sup>(3)</sup>	\$Nil	\$(162,536)	\$(0.01)
December 31, 2009 <sup>(3)</sup>	\$Nil	\$(120,222)	\$(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.

(3) Information for the year ended 2009 is presented in accordance with Canadian GAAP and is not required to be restated in IFRS.

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.

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

For the three months ended September 30, 2011

The unaudited consolidated financial statements of the Company for the three months ended September 30, 2011 were prepared in accordance with IFRS applicable to a going concern which assumes that the Company will realize its assets, discharge its liabilities and meet its future obligations in the normal course of business. Accordingly, the financial statements do not include any adjustments to the recoverability and reclassification of recorded assets, or the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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 \$3,938,000 at September 30, 2011 compared to \$950,460 at June 30, 2011. The Company's cash equivalents are all fully cashable at any time so there are no restrictions on availability of funds.

The Company had working capital of \$3,940,117 as at September 30, 2011 compared with working capital of \$465,701 as at June 30, 2011.

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 three months ended September 30, 2011, the Company had \$nil cash inflows from investing activities compared with \$12,630 during the same period in fiscal 2011. The cash inflows in the prior period were due to the sale of marketable securities. There were no sales of marketable securities during the three months ended September 30, 2011.

**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.

On July 13, 2011, the Company closed the first tranche of a \$5 million non-brokered private placement 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. 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 described above.

On August 25, 2011, the Company closed the second tranche and final 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. 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 described above.

**SECURITIES OUTSTANDING**

At the date of this MD&A, the Company had 33,889,917 common shares issued and has 7,351,050 warrants and 425,000 options outstanding.

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

For the three months ended September 30, 2011

If the Company were to issue all 7,351,050 shares issuable upon the exercise of all warrants outstanding and all 425,000 shares issuable upon the exercise of all incentive stock options outstanding, it would raise approximately \$5,287,000.

**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.

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 \$97,970:

- a) Paid or accrued geological consulting and corporate administration fees totalling \$25,897 to a company with directors in common.
- b) Paid or accrued finance and accounting fees totalling \$6,389 to an officer of the Company.
- c) Paid or accrued management and director fees totalling \$55,850 to companies controlled by directors of the Company.
- d) Paid or accrued business development fees totalling \$2,797 to a company controlled by an officer of the Company.
- e) Paid or accrued office rent and administration costs totalling \$7,037 to a company with a director in common.

None of the transactions above are subject to contracts.

As at September 30, 2011, \$59,346 was due to officers, to companies controlled by directors of the Company and to a company with common directors. The amounts owing are unsecured, due on demand and non-interest bearing.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In preparing financial statements in accordance with International Financial Reporting Standards ("IFRS"), we are required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These critical accounting estimates represent management estimates that are uncertain and any changes in these estimates could materially impact the Company's financial statements. We continuously review our estimates and assumptions using the most current information available.

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

For the three months ended September 30, 2011

As these are our first financial statements using IFRS, readers should refer to Notes 2 and 3 of the condensed consolidated interim financial statements for the first quarter ending September 30, 2011, for our critical accounting policies and estimates.

**FUTURE ACCOUNTING PRONOUNCEMENTS**

**Presentation of items of other comprehensive income ("OCI")**

IAS 1 is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This amendment is effective for annual periods beginning on or after July 1, 2012. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

**Financial instruments**

The IASB intends to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The IASB has issued exposure drafts addressing impairment of financial instruments, hedge accounting and the offsetting of financial assets and liabilities. The comment period closed in March and April 2011 and deliberations are ongoing. The Company has not yet evaluated the impact the final standard is expected to have on its consolidated financial statements.

**Consolidation**

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supercedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted. IAS 27 and IAS 28 – Investments in Associates were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

**Joint Arrangements**

IFRS 11 Joint Arrangements establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

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

For the three months ended September 30, 2011

**Disclosure of Involvement with Other Entities**

IFRS 12 Disclosure of Involvement with Other Entities requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

**Fair Value Measurement**

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

**Stripping Costs in the Production Phase of a Mine**

In October of 2011, the IASB issued IFRIC 20 – Stripping Costs in the Production Phase of a Mine, which clarifies the requirements for accounting for costs of stripping activities in the production phase when two benefits accrue: (1) usable ore that can be used to produce concentrate inventory and (2) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual reporting periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping costs. The Company is currently evaluating the impact IFRIC 20 is expected to have on its consolidated financial statements.

**CHANGES IN ACCOUNTING POLICIES**

**First Time Adoption of International Financial Reporting Standards**

Following the February 13, 2008 Canadian Accounting Standards Board ("AcSB") requirement for publicly listed entities to prepare interim and annual financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011, the Company prepared its first condensed consolidated interim unaudited financial statements for the three months ended September 30, 2011 using IFRS. Due to the requirement to present comparative financial information, the Company restated its statement of financial position as at July 1, 2010 ("transition date").

Notes 2, 3 and 11 to the accompanying condensed consolidated interim unaudited financial statements provide a complete analysis of the impact of the transition from Canadian GAAP to IFRS on the Company's financial position, and detail the Company's elected optional exemptions applied under IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1").

**Transitional Financial Impact**

As a result of the accounting policy choices selected and the changes required to be made under IFRS, the Company recorded no change to shareholder's equity as at July 1, 2010.

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

For the three months ended September 30, 2011

The following table is a summary of the adjustments made to shareholders' equity as at June 30, 2010, September 30, 2010 and July 1, 2010 on adoption of IFRS as outlined in the notes to the condensed consolidated interim unaudited financial statements, expressed in thousands of Canadian dollars.

	<i>June 30,</i> <i>2011</i>	<i>September 30,</i> <i>2010</i>	<i>July 1,</i> <i>2010</i>
<i>Total shareholders' equity reported under Canadian GAAP</i>	\$ 555,701	\$ 77,613	\$ 167,865
<i>Total IFRS adjustments to shareholders' equity</i>	-	-	-
<i>Shareholders' equity under IFRS</i>	<u>\$ 555,701</u>	<u>\$ 77,613</u>	<u>\$ 167,865</u>

**Comprehensive Income Impact**

As a result of the accounting policy choices selected and the changes required to be made under IFRS, the Company recorded no change in total comprehensive income for the three months ended September 30, 2010 and the year ended June 30, 2011.

The following table is a summary of the adjustments made to comprehensive income for the three months ended September 30, 2010 and the year ended June 30, 2011 on adoption of IFRS (outlined in the notes to the condensed consolidated interim unaudited financial statements), expressed in thousands of Canadian dollars.

	<i>Year ended</i> <i>June 30,</i> <i>2011</i>	<i>3 months ended</i> <i>September 30,</i> <i>2010</i>
<i>Total comprehensive loss as reported under Canadian GAAP</i>	\$ (528,162)	\$ (90,252)
<i>Total IFRS adjustments to comprehensive income</i>	-	-
<i>Total comprehensive income (loss) as reported under IFRS</i>	<u>\$ (528,162)</u>	<u>\$ (90,252)</u>

**Cash Flow Impact**

The transition from Canadian GAAP to IFRS had no material impact on cash flows.

**Financial Information Systems**

The IFRS transition project did not have a significant impact on the financial information systems for the convergence periods, nor is it expected that significant changes are required in the post-convergence periods.

**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

CANGOLD LIMITED

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

For the three months ended September 30, 2011

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](http://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.

**ADDITIONAL SOURCES OF INFORMATION**

Additional information relating to Cangold can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.cangold.ca](http://www.cangold.ca).