

Financial Statements
(Expressed in Canadian dollars)

CANGOLD LIMITED

Years ended June 30, 2004, 2003 and 2002

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of Cangold Limited is responsible for the preparation of the accompanying financial statements and the preparation and presentation of all information in the Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is composed of three directors who are appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the financial statements.

The Company's independent auditors, KPMG LLP, have audited the financial statements and their report follows.

Robert Archer
President

"Kaare G. Foy"

Kaare Foy
Chief Financial Officer

September 24, 2004



KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Cangold Limited

We have audited the balance sheets of Cangold Limited as at June 30, 2004 and 2003 and the statements of operations and deficit and cash flows for each of the years in the three-year period ended June 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2004 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

September 17, 2004, except as to note 3(c)
which is as of September 24, 2004

COMMENTS BY AUDITOR FOR US READERS ON CANADA - US REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 1 to the financial statements. Our report to the shareholders dated September 17, 2004, except as to note 3(c) which is as of September 24, 2004, is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Chartered Accountants

Vancouver, Canada

September 17, 2004, except as to note 3(c)
which is as of September 24, 2004



CANGOLD LIMITED

Balance Sheets
(Expressed in Canadian dollars)

June 30, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 552,336	\$ 350,648
Amounts receivable, net of allowance for doubtful accounts of nil (2003 - nil)	231,459	76,590
Prepaid expenses and advances	212,645	89,363
	996,440	516,601
Mineral properties (note 3)	2,638,812	1,146,820
Equipment (note 4)	5,529	16,069
	\$ 3,640,781	\$ 1,679,490

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 92,086	\$ 216,343
Due to related parties (note 6)	29,375	31,141
	121,461	247,484
Shareholders' equity:		
Capital stock (note 5)	6,338,723	3,575,676
Contributed surplus (note 5)	225,114	190,881
Deficit	(3,044,517)	(2,334,551)
	3,519,320	1,432,006
	\$ 3,640,781	\$ 1,679,490

Going concern (note 1)
Subsequent events (notes 3(c) and (d) and 9)

See accompanying notes to financial statements.

Approved on behalf of the Board:

"Robert A. Archer" Director

"Kaare G. Foy" Director

CANGOLD LIMITED

Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

	2004	2003	2002
Expenses:			
Amortization	\$ 2,778	\$ 3,646	\$ 2,643
Consulting	232,896	269,947	78,688
Directors fees	32,000	32,000	30,000
Exploration	950	500	6,454
Filing fees	27,568	22,382	19,236
Foreign exchange loss	9	3,642	3,201
Investor relations	87,647	52,324	32,500
Management fees	72,000	63,000	33,000
Office and miscellaneous	27,667	42,230	31,097
Printing	10,194	14,440	10,488
Professional fees	108,964	66,177	99,649
Rent	27,868	28,383	51,316
Telephone	212	388	8,948
Transfer agent fees	15,575	10,983	4,964
Travel	55,598	25,947	41,837
	<u>701,926</u>	<u>635,989</u>	<u>454,021</u>
Loss before undernoted	(701,926)	(635,989)	(454,021)
Loss on disposal of equipment	(5,040)	-	-
Write-off of mineral properties	(3,000)	(109,131)	-
	<u>(8,040)</u>	<u>(109,131)</u>	<u>-</u>
Net loss for the year	(709,966)	(745,120)	(454,021)
Deficit, beginning of year	<u>(2,334,551)</u>	<u>(1,589,431)</u>	<u>(1,135,410)</u>
Deficit, end of year	\$ (3,044,517)	\$ (2,334,551)	\$ (1,589,431)
Loss per share (note 2(h)):			
Basic	\$ (0.02)	\$ (0.06)	\$ (0.08)
Diluted	(0.02)	(0.06)	(0.08)
Weighted average number of common shares, basic and diluted	37,276,216	13,333,695	5,623,834

See accompanying notes to financial statements.

CANGOLD LIMITED

Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

	2004	2003	2002
Cash flows used in operating activities:			
Net loss for the year	\$ (709,966)	\$ (745,120)	\$ (454,021)
Adjustment to reconcile net loss to cash provided by operating activities:			
Amortization	2,778	3,646	2,643
Recovery of consulting fees	-	-	(5,349)
Non-employee stock-based compensation	70,669	-	-
Loss on disposal of equipment	5,040	-	-
Write-off of mineral properties	3,000	109,131	-
Changes in non-cash operating working capital:			
Accounts receivable	(154,869)	(69,170)	(4,241)
Prepaid expenses	(123,282)	(44,648)	(35,719)
Accounts payable and accrued liabilities	(124,257)	118,202	76,452
Net cash used in operating activities	(1,030,887)	(627,959)	(420,235)
Cash flows used in investing activities:			
Mineral properties	(1,466,742)	(1,020,355)	(156,796)
Proceeds on disposal of equipment	2,722	-	-
Equipment	-	(9,291)	-
Net cash used in investing activities	(1,464,020)	(1,029,646)	(156,796)
Cash flows from financing activities:			
Issuance of shares for cash, net of costs	2,698,361	2,018,441	331,100
Shareholder advances	-	-	40,000
Due to related parties	(1,766)	(44,899)	46,676
Net cash from financing activities	2,696,595	1,973,542	417,776
Increase (decrease) in cash and cash equivalents	201,688	315,937	(159,255)
Cash and cash equivalents, beginning of year	350,648	34,711	193,966
Cash and cash equivalents, end of year	\$ 552,336	\$ 350,648	\$ 34,711
Supplementary information:			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	-	-	-
Non-cash financing activities:			
Shares issued on settlement of amounts due to related parties	-	45,000	-
Shares issued on acquisition of mineral property interests	28,250	27,550	51,250
Cancellation of common shares in escrow	-	-	(1,875)

See accompanying notes to financial statements.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

1. Going concern:

Cangold Limited (formerly First Au Strategies Corp.) (the "Company") was continued under the Business Corporation Act (Yukon) on March 17, 1997. On June 4, 2003 the Company changed its name to Cangold Limited.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development, confirmation of the Company's interest in the underlying mineral claims and leases and upon future profitable production from, or the proceeds from the disposition of, its mineral properties.

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. There is substantial doubt about the appropriateness of using the going concern assumption by the Company because during the year ended June 30, 2004 the Company incurred a loss of approximately \$710,000 (2003 - \$745,000; 2002 - \$454,000), used cash for operations of approximately \$1,031,000 (2003 - \$628,000; 2002 - \$420,000), and does not have a revenue generating property. In addition, the Company has a deficit of approximately \$3,045,000 at June 30, 2004. The Company's continuing operations and its ability to discharge its liabilities and fulfill its commitments as they come due is dependent upon continued access to equity financing, either in private or public markets. There can be no assurances that such financing will be available on a timely or cost effective basis. Subsequent to year end, the Company closed a private placement, raising gross cash proceeds of \$1,240,000 (note 9). Failure to continue as a going concern could require adjustments to the carrying values of assets and liabilities, which would differ materially from the going concern basis.

2. Significant accounting policies:

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada, the measurement principles of which materially conform with those established in the United States, except as explained in note 10.

(a) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the recoverability of mineral property deferred costs and valuation allowance of future tax assets. Actual results could differ from those estimates.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

2. Significant accounting policies (continued):

(b) 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.

(c) Mineral properties:

The Company capitalizes the acquisition cost of mineral properties and defers exploration and development expenditures directly related to specific mineral properties until such time as the extent of mineralization has been determined and the mineral properties are developed, the Company's mineral rights are allowed to lapse, exploration is discontinued or the Company determines that the deferred costs are in excess of the estimated net recoverable amount. At that time, the deferred costs are either amortized on a unit-of-production basis, written off or written down, as appropriate.

Mineral property acquisition costs include the cash consideration paid and the fair value of common shares issued, based on the trading price of the shares on the date of the agreement to issue the shares, if their issuance is irrevocable, or otherwise the trading price of the shares on the date of issuance.

Refundable mineral exploration tax credits are recorded on receipt as a reduction in mineral property and deferred exploration costs as the amounts are accepted by taxation authorities. In addition, amounts received from third parties to earn an interest in the Company's mineral properties are applied as a reduction of the mineral property and deferred exploration costs.

Amounts shown for mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

(d) Equipment:

Equipment is recorded at cost. Amortization on computer equipment is provided at 30% per annum on a declining balance basis. Amortization on furniture and fixtures is provided at 20% per annum on a declining balance basis. Amortization on drilling equipment is provided at 30% per annum on a declining balance basis.

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

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

2. Significant accounting policies (continued):

(e) Stock-based compensation:

The Company grants incentive stock options to directors and officers in accordance with TSX Venture Exchange ("TSX") policies. Effective for options granted on or after July 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*", which requires that stock-based payments made to non-employees be accounted for using the fair value based method and charged to operations over the service period which normally is the period during which the options vest.

As permitted by CICA Handbook Section 3870, the Company has elected to use the intrinsic value method for stock options issued to directors and employees. Under the intrinsic value method, stock-based compensation is recognized to the extent that the market price of the underlying common shares exceeds the exercise price on the date of grant. No compensation expense has been recorded related to stock options granted to employees and directors. The Company discloses the pro-forma effect of accounting for stock options granted to employees and directors under the fair value method in note 5(e).

For options granted prior to July 1, 2002, no stock-based compensation expense was recorded or required to be considered for pro forma disclosure purposes for any stock options granted to employees, directors, or non-employees.

(f) Foreign currency translation:

The reporting and functional currency of the Company is the Canadian dollar.

Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(g) Income taxes:

Income taxes are accounted for using the asset and liability method.

Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and tax loss carry forwards. Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is, in management's estimation, more likely than not to be realized.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

2. Significant accounting policies (continued):

(h) Loss per share:

Basic loss per share is computed by dividing the loss by the weighted average number of common shares outstanding during the period. Contingently issuable or returnable shares are excluded from the calculation of the weighted average number of shares outstanding until all conditions necessary for their issuance or release from escrow have been satisfied.

Diluted loss per share is computed using the treasury stock method under which the weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that all dilutive options and warrants were exercised at the later of the beginning of the period or the date of grant and the proceeds to be received on the exercise of stock options or warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

As the Company has a loss in each of the periods presented, basic and diluted loss per share are the same as the exercise of all options and warrants would be anti-dilutive.

(i) Segmented information:

The Company's operations and assets, including mineral properties, are all located in Canada. The Company conducts its business in a single operating segment, being the investment in and exploration of mineral properties.

(j) Comparative figures:

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

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

3. Mineral properties:

	Leg	Casummit	Birch	Thorn (c)	WALP (e)	Total		
	Lake (a)	Lake (b)	Lake (d)			2004	2003	2002
Option payments:								
Cash consideration	\$ 3,000	\$ 20,000	\$ -	\$ 50,000	\$ 5,000	\$ 78,000	\$ 39,000	\$ 37,500
Common shares	-	7,750	-	20,500	-	28,250	27,550	51,250
Drilling	-	200,139	-	93,475	95,618	389,232	395,833	-
Staking	-	-	-	-	-	-	-	44,770
Analysis	-	12,224	3,363	25,466	24,811	65,864	13,317	870
Field costs	-	146,899	33,075	234,301	2,698	416,973	272,564	15,560
Project administration	-	21,692	4,734	94,505	59,965	180,896	125,780	34,820
Geology	-	57,125	19,674	125,536	-	202,335	112,485	7,378
Geophysics	-	20,790	82,340	-	-	103,130	71,371	8,397
Linecutting	-	-	-	38,864	-	38,864	22,837	7,501
Total exploration and development expenditures during the year	3,000	486,619	143,186	682,647	188,092	1,503,544	1,080,737	208,046
Balance, beginning of year	-	701,844	37,689	407,287	-	1,146,820	208,046	-
Cost recoveries	-	(8,552)	-	-	-	(8,552)	(32,832)	-
Amounts written off during the year	(3,000)	-	-	-	-	(3,000)	(109,131)	-
Balance, end of year	\$ -	\$ 1,179,911	\$ 180,875	\$ 1,089,934	\$ 188,092	\$ 2,638,812	\$ 1,146,820	\$ 208,046

(a) Leg Lake property:

Effective November 22, 2001, the Company entered into an option agreement which granted the Company the exclusive working right and option, for a period of four years, to purchase the mining claims comprising the Leg Lake property situated in the Red Lake Mining Division, Northwestern Ontario. In consideration for the working right and purchase option the Company paid \$5,000 cash and issued 25,000 common shares. In order to maintain in force the working right and purchase option, the Company was to make payments and issue shares as follows:

- (i) On or before November 22, 2002, the Company was to pay \$8,000 cash and issue 25,000 common shares;
- (ii) On or before November 22, 2003, the Company was to pay \$12,000 cash and issue 25,000 common shares;
- (iii) On or before November 22, 2004, the Company was to pay \$15,000 cash and issue 25,000 common shares; and
- (iv) On or before November 22, 2005, the Company may exercise the purchase option. Should the Company elect to proceed it must pay an additional \$45,000 cash.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

3. Mineral properties (continued):

(a) Leg Lake property (continued):

On December 16, 2002, it was announced that the original terms of the Leg Lake agreement were amended to reduce the first anniversary cash payment from \$8,000 to \$4,000 and to correspondingly increase the required issuance of common shares from 25,000 to 40,000. During the year ended June 30, 2003, the \$4,000 cash was paid and the 40,000 common shares were issued.

As at June 30, 2003, it was management's intention to terminate the option agreement and as such the costs incurred on the Leg Lake property to June 30, 2003 were written off at that time. The option agreement was officially terminated on September 5, 2003 and the Company paid \$3,000 as consideration for this termination.

(b) Casummit Lake property:

Effective October 31, 2001, the Company entered into an option agreement which granted the Company the exclusive working rights and the option, for a period of two years, to purchase a 51% interest in the Casummit Lake mining claims located in the Red Lake Mining Division, Northwestern Ontario. In consideration for the working right and purchase option, the Company paid \$10,000 cash and issued 100,000 common shares. In order to maintain in force the working right and purchase option, the Company was to make payments and issue shares as follows:

- (i) Before October 31, 2002, the Company was to pay \$10,000 cash and issue 50,000 common shares and incur expenditures of at least \$250,000 on mining operations in respect of the mining claim; and
- (ii) Before October 31, 2003, the Company was to pay \$20,000 cash and issue 50,000 common shares and incur cumulative expenditures of at least \$650,000 in respect of the mining claim.

The Company may terminate the option agreement at any time or let it lapse by failing to pay any or all of the payments and share issuances referred to above. Provided that the Company has paid in respect of the option agreement the total of \$40,000 cash, has issued a total of 200,000 common shares and has incurred cumulative expenditures in respect of the mining claims of at least \$650,000 before October 31, 2003, the Company may exercise its purchase option resulting in it being deemed to have purchased a 51% interest in the mining claims. If the Company exercises the purchase option, it will participate in a joint venture for the further development of the mining claims.

During the year ended June 30, 2003, the Company made a cash payment of \$10,000, issued 50,000 common shares, and incurred in excess of \$250,000 in respect of mining claims, in accordance with (i) above.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

3. Mineral properties (continued):

(b) Casummit Lake property (continued):

During the year ended June 30, 2004, the Company exercised its purchase option for a 51% interest in the Casummit Lake property by exceeding the required expenditures of \$650,000, making the final payment of \$20,000 cash and issuing 50,000 common shares in accordance with the option agreement signed October 1, 2001. In doing so, the Company exercised its option to acquire the majority interest in the property. The Company is the operator of the newly formed Joint Venture.

Under the terms of the Joint Venture, the operator proposes the exploration programs. If a party fails to contribute its proportionate share of funding for the exploration program, its interest is diluted by 1% for each \$50,000 shortfall in funding until it reaches 10%. The joint venture will terminate upon a party's interest falling to 10%, and 100% of the participating interest will vest in the contributory party and the defaulting party's interest will be converted automatically to a 1% net smelter return royalty, which may be purchased by the continuing party at any time for \$250,000. As at June 30, 2004, the Company continues to hold a 51% interest in the Casummit Lake property. The expenditures disclosed in the table above reflect only the Company's proportionate 51% interest in the Casummit Lake property. To date, the Company has initially incurred all 100% of costs under exploration programs and recovered 49% of such costs from the 49% owner. Exploration program funding recoverable from the 49% owner totalling \$159,733 as at June 30, 2004 is included in amounts receivable on the balance sheet and was collected subsequent to June 30, 2004.

(c) Thorn property:

Effective March 1, 2002, the Company entered into an option agreement which granted the Company the exclusive working right and option, for a period of three years, to purchase an undivided 51% interest, in the Check-Mate, Stuart and Thorn Claims which are situated in the Atlin Mining Division, Northwestern British Columbia. In consideration for the working right and purchase option the Company paid \$15,000 cash and issued 100,000 common shares. In order to maintain in force the working right and purchase option, the Company was to make payments and issue shares as follows:

- (i) On or before March 1, 2003, the Company was to pay \$25,000 cash and issue 50,000 common shares and incur expenditures in respect of the mining claims of at least \$300,000;
- (ii) On or before March 1, 2004, the Company was to pay \$50,000 cash and issue 50,000 common shares and incur cumulative expenditures in respect of the mining claims of at least \$700,000; and

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

3. Mineral properties (continued):

(c) Thorn property (continued):

(iii) On or before March 1, 2005, the Company may give notice in writing of its intent to exercise the option. In order to make such an election, the Company must have incurred an additional \$500,000 in mining expenditures in respect of the mining claims for total expenditures of \$1,200,000 and make an additional payment of \$100,000 cash and issue an additional 50,000 common shares for a total consideration of \$190,000 and 250,000 shares.

The Company may terminate the option agreement at any time or let it lapse by failing to pay any or all of the payments and share issuances referred to above. The interests in the Check-Mate claim are subject to a royalty charge in the amount of 2.0% of Net Smelter Returns and the interests in the Stuart claims are subject to a royalty of 3.5% of Net Smelter Returns from commercial operations. The Company has the right to acquire at any time, within one year of the commencement of commercial production, a 21.43% interest in the Stuart royalty (being 0.75% of the total 3.5% royalty) for consideration of \$1,000,000. The Company has the right at any time and at its option to purchase a 62.5% interest in the Check-Mate royalty (being 1.25% of the 2.0% royalty) and a 45.45% interest in the Stuart royalty (being 1.25% of the remaining 2.75% royalty) for consideration of \$2,000,000.

During the year ended June 30, 2003, the Company made a cash payment of \$25,000, issued 50,000 common shares, and incurred over \$300,000 in respect of mining claims, in accordance with (i) above. During the year ended June 30, 2004, the Company made a cash payment of \$50,000, issued 50,000 common shares, and, at June 30, 2004 had cumulatively incurred over \$948,000 in respect of mining claims, in accordance with (ii) above and issued 50,000 common shares in accordance with (iii) above.

On September 24, 2004, the Company complied with the remaining terms of the agreement and exercised its option to acquire the majority interest in the property.

(d) Birch Lake property:

During the year ended June 30, 2002, the Company acquired by staking 240 claim units comprising the Birch Lake property situated in the Red Lake Mining Division, Northwestern Ontario. During the year ended June 30, 2004, the Company incurred in excess of \$143,000 on exploration and development of the property.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

3. Mineral properties (continued):

(d) Birch Lake property (continued):

Subsequent to June 30, 2004, the Company entered into an option agreement which grants Trade Winds Ventures Inc. ("Trade Winds") the exclusive working right and option, for a period of three years, to purchase up to an undivided 70% interest, in the Birch Lake mining claims. In consideration for the working right and purchase option the Company received from Trade Winds \$10,000 and 50,000 common shares upon acceptance of the agreement by the TSX Venture Exchange. In order to maintain in force the working right and purchase option to earn a 60% interest, Trade Winds must issue to the Company a further 25,000 shares on each of the first and second anniversary dates and incur expenditures in respect of the mining claims of \$1 million over four years. The Company will retain a 1% Net Smelter Return. Trade Winds may then elect to acquire a further 10% interest by incurring an additional \$600,000 in expenditures in respect of the mining claims.

(e) West Abitibi Lake property ("WALP"):

Effective January 30, 2004, the Company entered into an option agreement which grants the Company the exclusive working right and option, for a period of three years, to purchase an undivided 50% interest in the West Abitibi Lake mining claims which are situated in the Larder Lake Mining Division, Northeastern Ontario. In consideration for the working right and purchase option the Company will pay \$5,000 and issue 25,000 common shares. In order to maintain in force the working right and purchase option, the Company must make payments and issue shares as follows:

- (i) On or before January 30, 2005, the Company must pay \$10,000 and issue 75,000 common shares and incur expenditures in respect of the mining claims of at least \$150,000;
- (ii) On or before January 30, 2006, the Company must pay \$10,000 and issue 50,000 common shares and incur additional expenditures in respect of the mining claims of at least \$100,000; and
- (iii) On or before January 30, 2007, the Company must issue 50,000 common shares and incur additional expenditures in respect of the mining claims of at least \$150,000 for total expenditures of \$400,000 and total consideration of \$25,000 and 200,000 shares.

The Company may terminate the option agreement at any time or let it lapse by failing to pay any or all of the payments and make any or all of the share issuances referred to above. Upon exercising the option, the Company will then participate in a joint venture for the further exploration and development of the mining claims, with its initial participating interest being 50%.

As at June 30, 2004, the Company has accrued \$5,000 for its working right and purchase option. The Company is continuing to assess the viability of the West Abitibi Lake mining claims with the current owner and will issue 25,000 common shares if such assessments are favourable.

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Years ended June 30, 2004, 2003 and 2002

4. Equipment:

2004	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 7,803	\$ 5,860	\$ 1,943
Furniture and fixtures	-	-	-
Drilling equipment	6,026	2,440	3,586
	\$ 13,829	\$ 8,300	\$ 5,529

2003	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 7,803	\$ 5,027	\$ 2,776
Furniture and fixtures	31,720	23,549	8,171
Drilling equipment	6,026	904	5,122
	\$ 45,549	\$ 29,480	\$ 16,069

5. Capital stock:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued:

	Number of shares	Stated value
Balance, June 30, 2001	5,171,674	\$ 1,293,216
Shares issued for mineral property interests, net of costs (i)	250,000	51,250
Exercise of stock options at \$0.13 per share	420,000	54,600
Private placement at \$0.25 per share, net of costs (ii)	1,150,000	276,500
Cancellation of common shares in escrow (iii)	(5,208)	(1,875)
Balance, June 30, 2002	6,986,466	1,673,691
Exercise of stock options at \$0.13 per share	40,000	5,200
Short form offering at \$0.20 per share, net of costs (iv)	2,828,500	429,925
Private placement at \$0.13 per share (v)	520,000	67,600
Private placement at \$0.10 per share (vi)	500,000	50,000
Private placement at \$0.10 per share, net of costs (vii)	13,848,600	1,286,688
Private placement at \$0.15 per share, net of costs (viii)	1,638,000	224,028
Shares issued for mineral property interests, net of costs (ix)	165,000	27,550
Issue of warrants for financing services	-	(189,006)
Balance carried forward, June 30, 2003	26,526,566	3,575,676

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(b) Issued (continued):

	Number of shares	Stated value
Balance brought forward, June 30, 2003	26,526,566	3,575,676
Exercise of stock options at \$0.13 per share	100,000	13,000
Exercise of "F" warrants at \$0.25 per share	500,000	125,000
Exercise of "G" warrants at \$0.15 per share	6,887,000	1,033,050
Exercise of finders' warrants at \$0.15 per share	547,000	82,050
Exercise of "I" warrants at \$0.15 per share	1,850,000	277,500
Private placement at \$0.10 per share, net of costs (x)	7,650,000	715,626
Private placement at \$0.28/\$0.32 per share, net of costs (xi)	1,653,750	452,135
Shares issued for mineral property interests, net of costs (xii)	150,000	28,250
Issue of warrants for financing services	-	(59,501)
Reclass from contributed surplus on exercise of warrants	-	95,937
Balance, June 30, 2004 (xiii)	45,864,316	\$ 6,338,723

- (i) During the year ended June 30, 2002, the Company issued, as consideration for the acquisition of working rights and options to purchase four mineral properties (note 3), 250,000 common shares having a fair value of \$0.17 to \$0.25 per share for a total assigned value of \$51,250.
- (ii) During the year ended June 30, 2002, the Company completed a private placement of 1,150,000 common shares at \$0.25 per share for net cash proceeds of \$276,500. Costs associated with this issuance were \$11,000. Attached to the common shares are 1,150,000 non-transferable Series "D" share purchase warrants which entitled the holder to purchase 1,150,000 common shares of the Company for \$0.30 per share until March 29, 2004. A senior officer and a company with directors in common participated by acquiring 20,000 and 800,000 common shares, respectively.
- (iii) During the year ended June 30, 2002, the holders of 5,208 escrow shares surrendered those shares for cancellation. The stated value of the escrow shares cancelled has been credited to contributed surplus.
- (iv) During the year ended June 30, 2003, the Company completed a \$515,700 financing under its Short Form Offering Document dated September 30, 2003. 1,602,500 Flow-Through Units and 976,000 Non Flow-Through Units were issued at \$0.20 per unit. Each Flow-Through Unit consists of one common share and one transferable Series "E" share purchase warrant. Each Non Flow-Through Unit consists of one common share and two transferable Series "E" share purchase warrants. Two share purchase warrants entitle the holder to purchase one common share for \$0.25 per share until October 28, 2003 and thereafter for \$0.30 per share until October 28, 2004. Officers and directors participated by acquiring 150,000 Flow-Through Units. A company with directors in common participated by acquiring 250,000 Non Flow-Through Units.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(b) Issued (continued):

(iv) Continued:

The Company paid financing fees of \$51,290 and commissions of \$34,485. The Company also issued 250,000 common shares as a corporate finance fee and agent's options to purchase up to 304,275 common shares. The agent's options have the same terms and prices as the Series "E" share purchase warrants. The fair value of common shares of \$52,500 and the estimated fair value of the warrants, using an option pricing model, of \$37,613 is included as a non-cash financing cost as a credit to share capital and contributed surplus, respectively.

(v) During the year ended June 30, 2003, the Company completed a private placement of 520,000 common shares with a company with directors in common at \$0.13 per share for net cash proceeds of \$67,600.

(vi) During the year ended June 30, 2003, the Company completed a private placement of 500,000 common shares at \$0.10 per share for net cash proceeds of \$50,000. Attached to the common shares are 500,000 non-transferable Series "F" share purchase warrants which entitle the holder to purchase 500,000 common shares of the Company for \$0.25 per share on or before February 2, 2004 and thereafter for \$0.30 per share until February 2, 2005.

(vii) During the year ended June 30, 2003, the Company completed a private placement of 4,160,000 Flow-Through Units and 9,547,000 Non Flow-Through Units at \$0.10 per unit for net proceeds of \$1,286,688. Each Flow-Through Unit consists of one Flow-Through common share and one-half of one non-transferable Series "G" share purchase warrant. Each Non Flow-Through Unit consists of one Non Flow-Through common share and one non-transferable Series "G" share purchase warrant. Each share purchase warrant will entitle the holder to purchase one Non Flow-Through common share for \$0.15 per share until March 19, 2004, and thereafter at \$0.20 per share until March 19, 2005. Senior officers and directors participated by acquiring 360,000 Flow-Through Units and 182,000 Non Flow-Through Units. Companies with related directors or owned by senior officers acquired 3,789,000 Non Flow-Through Units.

The Company paid financing fees of \$36,012 and cash finders' fees of \$48,000. The Company also issued 141,600 common shares as finders' fees and finders' warrants to purchase up to 777,000 common shares. The finders' warrants have the same terms and prices as the Series "G" share purchase warrants. The fair value of common shares of \$35,400 and the estimated fair value of warrants, using an option pricing model, of \$136,276 is included as a non-cash financing cost as a credit to share capital and contributed surplus, respectively.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(b) Issued (continued):

- (viii) During the year ended June 30, 2003, the Company completed a private placement of 1,638,000 common shares at \$0.15 per share for net cash proceeds of \$224,028. Attached to the common shares are 819,000 non-transferable Series "H" share purchase warrants which entitle the holders to purchase 819,000 common shares of the Company for \$0.20 per share until December 13, 2004. The Company paid financing fees of \$2,016, a cash finder's fee of \$19,656 and issued finders' warrants to purchase up to 163,800 common shares. The finders' warrants have the same terms and prices as the Series "H" share purchase warrants. The estimated fair value of warrants, using an option pricing model, of \$15,117 is included as a non-cash financing cost as a credit to contributed surplus.
- (ix) During the year ended June 30, 2003, the Company issued, pursuant to the terms of the option agreements for four of the mineral properties (note 3), 165,000 common shares having fair values of \$0.12 to \$0.21 per share for a total assigned value of \$27,550.
- (x) During the year ended June 30, 2004, the Company completed a private placement of 7,650,000 units, at \$0.10 per unit for net cash proceeds of \$715,626. Each unit consists of one common share and one non-transferable Series "I" share purchase warrant which entitles the holder to purchase one common share of the Company for \$0.15 per share until April 5, 2005. The Company paid financing fees of \$11,374, a cash finder's fee of \$38,000 and issued finders' warrants to purchase up to 475,000 common shares. The finders' warrants have the same terms and prices as the Series "I" share purchase warrants. The estimated fair value of warrants, using an option pricing model, of \$40,903 is included as a non-cash financing cost as a credit to contributed surplus. A senior officer participated by acquiring 150,000 units.
- (xi) During the year ended June 30, 2004, the Company completed a private placement of 853,750 Flow-Through Units at \$0.32 per unit and 800,000 Non Flow-Through Units at \$0.28 per unit for net cash proceeds of \$452,135. Each Flow-Through Unit consists of one Flow-Through common share and one-half of one non-transferable Series "J" share purchase warrant. Each Non Flow-Through Unit consists of one Non Flow-Through common share and one-half of one non-transferable Series "J" share purchase warrant. Each share purchase warrant will entitle the holder to purchase one Non Flow-Through common share for \$0.38 per share until December 23, 2004.

The Company paid financing fees of \$5,289, a cash finder's fee of \$39,776 and issued finders' warrants to purchase up to 165,375 common shares. The finders' warrants have the same terms and prices as the Series "J" share purchase warrants. The estimated fair value of warrants, using an option pricing model, of \$18,598 is included as a non-cash financing cost as a credit to contributed surplus.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(b) Issued (continued):

(xii) During the year ended June 30, 2004, the Company issued, pursuant to the terms of the option agreements for two of the mineral properties (note 3), 150,000 common shares with fair values of \$0.155 to \$0.235 per share for a total assigned value of \$28,250.

(xiii) Included in issued capital stock are 317,344 (2003 - 357,010) common shares held in escrow. The Company filed an Amendment to the Escrow Agreement dated December 21, 2001 whereby the escrow shares will be released over a 72 month time period. During the year ended June 30, 2004 39,366 (2003 - 39,666) escrow shares were released pursuant to the amendment to the escrow agreement.

(c) Contributed surplus:

Balance, June 30, 2001	\$ -
Value of escrow shares on cancellation	1,875
<hr/>	
Balance, June 30, 2002	1,875
Issue of warrants for financing services	189,006
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Balance, June 30, 2003	190,881
Issue of warrants for financing services	59,501
Reclassification to common shares on exercise of warrants	(95,937)
Stock compensation for non-employee awards	70,669
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Balance, June 30, 2004	\$ 225,114

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(d) Warrants:

The continuity of share purchase warrants for 2004 is as follows:

Type	June 30, 2003	Granted	Exercised	Cancelled/ Expired	June 30, 2004	Price	Expiry date
Series "D"	330,000	-	-	(330,000)	-	\$0.30	March 29, 2004
Series "E"	3,554,500	-	-	-	3,554,500	\$0.25	October 28, 2003
Agents' Options	304,275	-	-	-	304,275	to \$0.30	to October 28, 2004
Series "F"	500,000	-	(500,000)	-	-	\$0.25	October 28, 2003
Series "G"	11,627,000	-	(6,887,000)	-	4,740,000	to \$0.30	to October 28, 2004
Finder's Warrants	777,000	-	(547,000)	-	230,000	\$0.25	February 2, 2004
Series "H"	819,000	-	-	-	819,000	to \$0.30	to February 2, 2005
Finders' Warrants	163,800	-	-	-	163,800	\$0.15	March 19, 2004
Series "I"	-	7,650,000	(1,850,000)	-	5,800,000	to \$0.20	to March 19, 2005
Finders' Warrants	-	475,000	-	-	475,000	\$0.15	March 19, 2004
Series "J"	-	826,875	-	-	826,875	\$0.15	March 19, 2004
Finders' Warrants	-	165,375	-	-	165,375	\$0.38	to March 19, 2005
	18,075,575	9,117,250	(9,784,000)	(330,000)	17,078,825		

The continuity of share purchase warrants for 2003 is as follows:

Type	June 30, 2002	Granted	Exercised	Cancelled/ Expired	June 30, 2003	Price	Expiry date
Series "C"	2,280,147	-	-	(2,280,147)	-	\$0.20	April 9, 2003
Series "D"	1,150,000	-	-	(820,000)	330,000	\$0.30	March 29, 2004
Series "E"	-	3,554,500	-	-	3,554,500	\$0.25	October 28, 2003
Agents' Options	-	304,275	-	-	304,275	to \$0.30	to October 28, 2004
Series "F"	-	500,000	-	-	500,000	\$0.25	October 28, 2003
Series "G"	-	11,627,000	-	-	11,627,000	to \$0.30	to October 28, 2004
Finder's Warrants	-	777,000	-	-	777,000	\$0.25	February 2, 2004
Series "H"	-	819,000	-	-	819,000	to \$0.30	to February 2, 2005
Finders' Warrants	-	163,800	-	-	163,800	\$0.15	March 19, 2004
	3,430,147	17,745,575	-	(3,100,147)	18,075,575	to \$0.20	to March 19, 2005

The continuity of share purchase warrants for 2002 is as follows:

Type	June 30, 2001	Granted	Exercised	Expired	June 30, 2002	Price	Expiry date
Series "C"	2,280,147	-	-	-	2,280,147	\$ 0.20	April 9, 2003
Series "D"	-	1,150,000	-	-	1,150,000	\$ 0.30	March 29, 2004
	2,280,147	1,150,000	-	-	3,430,147		

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(e) Stock options:

Subject to regulatory approval, the Company has reserved for issuance up to 10% of the issued common shares for incentive options to be granted to directors, officers, employees and other qualified persons.

Stock options are granted at exercise prices determined by reference to the market value of the shares at the date of grant and have expiry dates of no longer than five years.

The continuity of share purchase options for 2004 is as follows:

June 30, 2003	Granted	Expired	Exercised	June 30, 2004	Exercise price	Expiry date
50,000	-	-	-	50,000	\$0.13	November 3, 2006
440,000	-	-	(100,000)	340,000	\$0.13	December 1, 2006
70,000	-	(70,000)	-	-	\$0.31	July 4, 2003
430,000	-	-	-	430,000	\$0.16	October 29, 2007
1,330,000	-	-	-	1,330,000	\$0.15	April 22, 2008
-	200,000	-	-	200,000	\$0.11	August 24, 2005
-	100,000	-	-	100,000	\$0.11	September 21, 2008
-	200,000	-	-	200,000	\$0.28	December 31, 2005
-	1,125,000	-	-	1,125,000	\$0.30	January 14, 2009
2,320,000	1,625,000	(70,000)	(100,000)	3,775,000		

Weighted average exercise price:

\$ 0.15	\$ 0.26	\$ 0.31	\$ 0.13	\$ 0.20
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Options exercisable at June 30, 2004 totalled 3,675,000 and have a weighted average exercise price of \$0.20.

The continuity of share purchase options for 2003 is as follows:

June 30, 2002	Granted	Cancelled	Exercised	June 30, 2003	Exercise price	Expiry date
50,000	-	-	-	50,000	\$0.13	November 3, 2006
40,000	-	-	(40,000)	-	\$0.13	November 4, 2002
440,000	-	-	-	440,000	\$0.13	December 1, 2006
70,000	-	-	-	70,000	\$0.31	July 4, 2003
-	430,000	-	-	430,000	\$0.16	October 29, 2007
-	1,330,000	-	-	1,300,000	\$0.15	April 22, 2008
600,000	1,760,000	-	(40,000)	2,320,000		

Weighted average exercise price:

\$ 0.15	\$ 0.15	\$ -	\$ 0.13	\$ 0.15
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CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

5. Capital stock (continued):

(e) Stock options (continued):

The continuity of share purchase options for 2002 is as follows:

June 30, 2001	Granted	Cancelled	Exercised	June 30, 2002	Exercise price	Expiry date
37,208	-	(37,208)	-	-	\$ 1.80	December 23, 2001
5,150	-	(5,150)	-	-	\$ 1.80	March 11, 2002
-	410,000	-	(360,000)	50,000	\$ 0.13	November 3, 2006
-	100,000	-	(60,000)	40,000	\$ 0.13	November 4, 2002
-	440,000	-	-	440,000	\$ 0.13	December 1, 2006
-	70,000	-	-	70,000	\$ 0.31	July 4, 2003
42,358	1,020,000	(42,358)	(420,000)	600,000		

Weighted average exercise price:

\$ 1.80	\$ 0.14	\$ 1.80	\$ 0.13	\$ 0.15
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Had compensation expense for the stock options granted to employees in the years ended June 30, 2004 and 2003 been determined based on their fair value at the grant dates, calculated using the Black-Scholes option pricing model, the Company's net loss and loss per share for the years ended June 30, 2004 and 2003 would have been adjusted to the pro forma amounts indicated below:

	2004	2003
Net loss:		
As reported	\$ (709,966)	\$ (745,120)
Pro forma	(883,934)	(889,994)
Basic and fully diluted loss per common share:		
As reported	\$ (0.02)	\$ (0.06)
Pro forma	(0.02)	(0.07)
Employee stock-based compensation:		
As reported	\$ -	\$ -
Pro forma	173,968	144,874

The pro forma amounts exclude the effects of options granted prior to January 1, 2002. The fair value of the options was determined using the Black-Scholes option pricing model using the following weighted average assumptions; expected dividend yield - nil% (2003 - nil%); expected stock price volatility - 149% (2003 - 120%), risk free interest rate 2.87% (2003 - 3.83%); expected life of options - 2 years (2003 - 2 years). The weighted average grant date fair value was \$0.16 (2003 - \$0.10) for options granted during the year ended June 30, 2004.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

6. Related party transactions:

- (a) Amounts due to related parties consist of \$29,375 (2003 - \$31,141; 2002 - \$76,040) due to directors or companies with directors in common. The balance is payable on demand, unsecured and without interest.
- (b) Included in mineral properties (note 3) are amounts totalling \$17,420 (2003 - \$34,750; 2002 - \$23,935) for geological consulting costs provided to the Company by a company controlled by a director of the Company. The amounts are recorded at the exchange amount agreed to by the parties.
- (c) Included in expenses are amounts totalling \$233,441 (2003 - \$298,226; 2002 - \$170,259) for consulting, directors fees, management fees, accounting, rent and office provided to the Company from companies controlled by the directors of the Company. The amounts are recorded at the exchange amount agreed to by the parties.

7. Income taxes:

The Company has incurred non-capital losses of approximately \$2,176,000 for Canadian income tax purposes which can be carried forward to reduce net income for income tax purposes in future years. This amount comprises losses expiring in the fiscal years ending June 30:

2005	\$ 683,000
2006	475,000
2007	163,000
2008	-
2009	197,000
2010	294,000
2011	364,000

The Company has also incurred net capital losses of approximately \$1,827,000 for Canadian tax purposes which can be carried forward indefinitely to reduce future taxable capital gains.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

7. Income taxes (continued):

As at June 30, 2004 and 2003, the tax effect of the significant components within the Company's future tax asset are as follows:

	2004	2003
Future tax assets:		
Non-capital losses carried forward	\$ 775,092	\$ 656,389
Net capital losses carried forward	650,615	650,615
Foreign resource pools	223,119	223,119
Financing costs	146,834	59,509
Other	15,231	12,445
	<u>1,810,891</u>	<u>1,602,077</u>
Valuation allowance	<u>(1,762,156)</u>	<u>(1,533,381)</u>
	48,735	68,696
Future tax liabilities:		
Mineral properties	<u>(48,735)</u>	<u>(68,696)</u>
Net future asset (liability)	\$ -	\$ -

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

8. Financial instruments:

The carrying amounts of cash and cash equivalents and accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term nature. The fair value of amounts due to related parties cannot be reasonably estimated due to uncertainty as to timing and method of repayment and the lack of a ready market for such related party amounts.

9. Subsequent event:

(a) Subsequent to June 30, 2004, the Company completed a private placement of 5,000,000 Flow-Through Common Shares at \$0.20 per common share and 1,500,000 Non Flow-Through Units at \$0.16 per unit for gross cash proceeds of \$1,240,000. Each Non Flow-Through Unit consists of one Non Flow-Through common share and one-half of one non-transferable Series "K" share purchase warrant. Each share purchase warrant will entitle the holder to purchase one Non Flow-Through common share for \$0.22 per share until August 27, 2005. A cash finder's fee of \$99,200 was paid and broker warrants to purchase up to 520,000 common shares were issued. Each broker warrant will entitle the holder to purchase one common share for \$0.20 per share until August 27, 2005. Financing proceeds will be used for continued exploration of the Company's properties and for general corporate purposes. One senior officer participated in this offering by acquiring 105,000 units.

CANGOLD LIMITED

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Years ended June 30, 2004, 2003 and 2002

9. Subsequent event (continued):

- (b) Subsequent to year end, the Company granted options to acquire 200,000 common shares with an exercise price of \$0.16 per share and expire September 7, 2009.

10. Reconciliation between Canadian and United States generally accepted accounting principles:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A description of United States generally accepted accounting principles ("U.S. GAAP") and rules prescribed by the United States Securities and Exchange Commission ("SEC") that result in material measurement differences from Canadian GAAP follows:

(a) Mineral property and deferred exploration cost:

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is required to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. SEC staff have indicated that their interpretation of U.S. GAAP requires mineral property acquisition, exploration and land use costs to be expensed as incurred until commercially minable deposits are determined to exist within a particular property as cash flows cannot be reasonably estimated prior to such determination. Accordingly, for all periods presented, the Company has expensed all mineral property acquisition, exploration and land use costs as incurred for U.S. GAAP purposes.

For Canadian GAAP, cash flows relating to mineral property acquisition and exploration costs are reported as investing activities in the statements of cash flows. For U.S. GAAP, these costs would be characterized as operating activities in the statements of cash flows.

During the year ended June 30, 2003, the Company wrote down mineral property and deferred exploration costs in its financial statements prepared in accordance with Canadian GAAP (note 3), including \$78,547 that would previously have been expensed for U.S. GAAP and, as such, have been added back to loss from operations under U.S. GAAP for the year ended June 30, 2002.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(b) Income taxes:

As described in note 2(g), the Company follows the asset and liability method of accounting for income taxes. Under Canadian GAAP, future tax assets and liabilities are recorded at substantially enacted tax rates. Under U.S. GAAP, deferred tax assets and liabilities are recorded at enacted tax rates. For each of the years ended June 30, 2004, 2003 and 2002, future tax assets are fully offset by a valuation allowance as it is not more likely than not that the future tax assets would be realized. As a result, the application of U.S. GAAP in accounting for income taxes does not result in any material measurement differences from Canadian GAAP for future tax assets.

(c) Stock-based compensation:

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation on July 1, 2002 as described in note 2(e). Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") became effective for US GAAP purposes for fiscal years beginning after December 15, 1995. The statement encourages entities to adopt a fair value methodology of accounting for all stock-based compensation.

As allowed by SFAS 123, the Company follows the intrinsic value principles of APB Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations, in measuring compensation expense for employee options. Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market value of the stock at the measurement date, which is generally the grant date, over the amount an employee must pay to acquire the stock. The application of APB 25 resulted in compensation expense of nil being recognized for employees in the year ended June 30, 2004 (2003 - nil; 2002 - \$32,000). As a result, compensation expense of \$32,000 was recognized during the year ended June 30, 2002 under U.S. GAAP and no similar expense was required under Canadian GAAP.

SFAS 123 requires the fair value of the stock options granted to non-employees to be expensed. This expense was estimated using the Black-Scholes option-pricing model and the following weighted average assumptions:

	2004	2002
Expected dividend yield	-	-
Expected stock price volatility	112.4%	148.7%
Risk-free interest rate	3.4%	3.5%
Expected life of options	2.3 years	2.0 years

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(c) Stock-based compensation (continued):

The cumulative effect of stock options granted to non-employees for the period from implementation of SFAS 123 to June 30, 2002 would have been a \$941,257 increase in the deficit and contributed surplus and an expense for each of the years ended June 30, 2004, 2003 and 2002 of \$70,669 (consistent to Canadian GAAP), nil and \$40,199, respectively.

(d) Flow-through shares:

SEC staff have indicated that their interpretation of U.S. GAAP requires that funds raised through the issuance of flow-through shares be shown as restricted cash and not be considered to be a component of cash and cash equivalents. In addition, the restricted cash would be excluded from cash and cash equivalents in the statement of cash flows and shown as a financing activity. During 2003, a total of \$736,500 was raised through the issuance of flow-through shares, of which \$152,010 was held and had not been applied to qualifying exploration by the Company at June 30, 2003 and therefore would be excluded from cash and cash equivalents under U.S. GAAP. All such amounts were expended in 2004. During 2004, a total of \$273,200 was raised through the issuance of flow-through shares, of which all had been applied to qualifying exploration by the Company at June 30, 2004.

For U.S. GAAP, the premium received by the Company on the issuance of flow-through shares which is in excess of the fair value of common shares is required to be credited to liabilities and included in operations over the period in which the Company incurs the qualified expenditures. During 2004, total flow-through share premiums received were \$42,688, all of which related to qualified expenditures made in fiscal year 2004.

(e) Development stage:

Pursuant to U.S. GAAP, the Company would be considered a development stage company as the Company is devoting efforts to establishing commercially viable mineral properties. However, the identification of the Company as such for accounting purposes does not impact the measurement principles applied in these financial statements.

(f) Elimination of deficit:

During the year ended June 30, 1999, the Company reduced its paid-up capital by \$6,661,964 to eliminate the deficit at March 31, 1999.

In order to effect these reductions, it was not necessary to revalue the assets of the Company. As a consequence, all conditions under the U.S. GAAP quasi-reorganization rules were not met and the recapitalization of the deficit would not be recorded.

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(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(g) Performance-based escrow shares:

The Company entered into various performance-based common share escrow agreements during the fiscal year ended 1997. The release of these common shares from escrow were contingent on qualifying exploration expenditures being incurred by the Company. Under U.S. GAAP, the common shares are required to be valued at the date the contingency was resolved and the common shares were eligible for release. The value recognized of nil (2003 - nil; 2002 - \$99,169 and prior years of \$26,977) has been recorded as an additional cost of the mineral properties and written off as the properties had been abandoned or did not have economically recoverable reserves.

(h) Reconciliation:

The effect of the measurement differences between Canadian GAAP and U.S. GAAP on the consolidated balances sheets and statements of operations and cash flows is summarized as follows:

(i) Assets:

	2004	2003
Assets, under Canadian GAAP	\$ 3,640,781	\$ 1,679,490
Adjustment for mineral properties and deferred exploration (note 10(a))	(2,638,812)	(1,146,820)
Assets, under U.S. GAAP	\$ 1,001,969	\$ 532,670

(ii) Share capital and contributed surplus:

	2004	2003
Share capital and contributed surplus, under Canadian GAAP	\$ 6,563,837	\$ 3,766,557
Adjustment for premium on flow-through shares (note 10(d))	(42,688)	-
Adjustment for stock-based compensation for employees (note 10(c))	32,000	32,000
Adjustment for stock-based compensation for non-employees (note 10(c))	941,257	941,257
Adjustment for release of performance-based escrow shares (note 10(g))	126,146	126,146
Reversal of recapitalization of deficit (note 10(f))	6,661,964	6,661,964
Share capital and contributed surplus, under U.S. GAAP	\$ 14,282,516	\$ 11,527,924

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10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(h) Reconciliation (continued):

(iii) Deficit:

	2004	2003
Deficit, under Canadian GAAP	\$ (3,044,517)	\$ (2,334,551)
Adjustment for premium on flow-through shares (note 10(d))	42,688	-
Adjustment for stock-based compensation for employees (note 10(c))	(32,000)	(32,000)
Adjustment for stock-based compensation for non-employees (note 10(c))	(941,257)	(941,257)
Adjustment for mineral properties and mineral property evaluation costs, net of income taxes (notes 10(a) and (b))	(2,638,812)	(1,146,820)
Adjustment for release of performance-based escrow shares (note 10(g))	(126,146)	(126,146)
Reversal of recapitalization of deficit (note 10(f))	(6,661,964)	(6,661,964)
Deficit, under U.S. GAAP	\$ (13,402,008)	\$ (11,242,738)

(iv) Loss and loss per share:

	Years ended June 30,		
	2004	2003	2002
Loss for the year, under Canadian GAAP	\$ (709,966)	\$ (745,120)	\$ (454,021)
Adjustment for mineral properties and deferred exploration costs (note 10(a))	(1,491,992)	(938,774)	(208,046)
Adjustment for premium on flow-through shares (note 10(d))	42,688	-	-
Adjustment for stock-based compensation for employees (note 10(c))	-	-	(32,000)
Adjustment for stock-based compensation for non-employees (note 10(c))	-	-	(40,199)
Adjustment for release of performance-based escrow shares (note 10(g))	-	-	(99,169)
Adjustment for income taxes (note 10(b))	-	-	-
Loss for the year, under U.S. GAAP	\$ (2,159,270)	\$ (1,683,894)	\$ (833,435)
Basic and diluted loss per share, under U.S. GAAP	\$ (0.06)	\$ (0.13)	\$ (0.15)
Weighted average number of common shares, basic and diluted	37,276,216	13,333,695	5,623,834

CANGOLD LIMITED

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Years ended June 30, 2004, 2003 and 2002

10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(h) Reconciliation (continued):

(v) Cash flows:

	Years ended June 30,		
	2004	2003	2002
Cash used in operating activities, under Canadian GAAP	\$ (1,030,887)	\$ (627,959)	\$ (420,235)
Adjustment for mineral properties and deferred exploration (note 10(a))	(1,446,742)	(1,020,355)	(156,796)
Cash used in operating activities, under U.S. GAAP	\$ (2,477,629)	\$ (1,648,314)	\$ (577,031)
Cash used in investing activities, under Canadian GAAP	\$ (1,464,020)	\$ (1,029,646)	\$ (156,796)
Adjustment for mineral properties and deferred exploration (note 10(a))	1,446,742	1,020,355	156,796
Cash used in investing activities, under U.S. GAAP	\$ (17,278)	\$ (9,291)	\$ -
Cash provided by financing activities, under Canadian GAAP	\$ 2,696,595	\$ 1,973,542	\$ 417,776
Decrease (increase) in restricted cash	152,010	(152,010)	-
Cash provided by financing activities, under U.S. GAAP	\$ 2,848,605	\$ 1,821,532	\$ 417,776
Increase (decrease) in cash under U.S. GAAP	\$ 353,698	\$ 163,927	\$ (159,255)
Cash, beginning of year under U.S. GAAP	198,638	34,711	193,966
Cash, end of year under U.S. GAAP	\$ 552,336	\$ 198,638	\$ 34,711

(i) Recent and future pronouncements:

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which requires entities to record the fair value of a liability for an asset or an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002.

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Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2004, 2003 and 2002

10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(i) Recent and future pronouncements (continued):

In July 2002, the FASB released SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*" ("SFAS 146"), which addresses the financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 relates to the recognition of a liability for a cost associated with an exit or disposal activity and requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability under the FASB's conceptual framework. SFAS No. 146 also established fair value as the objective for initial measurement of liabilities related to exit or disposal activities. As a result, SFAS 146 significantly reduces an entity's ability to recognize a liability for future expenses related to a restructuring. SFAS 146 is effective for exit and disposal activities initiated after December 31, 2002.

(i) Recent and future pronouncements:

In December 2002, the FASB released SFAS No. 148, "*Accounting for Stock-Based Compensation - Transition and Disclosure*". This statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Statement is effective for fiscal years ending after December 15, 2002, with certain changes effective in interim periods beginning after December 15, 2002.

In May 2003, the FASB issued SFAS No. 150, "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*" ("SFAS No. 150"). SFAS 150 requires that certain financial instruments issued in the form of shares that are mandatorily redeemable as well as certain other financial instruments be classified as liabilities in the financial statements. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003.

The adoption of SFAS No. 143, SFAS No. 146, SFAS 148 or SFAS 150 did not or are not expected to have a material affect on the Company's financial statements.

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Years ended June 30, 2004, 2003 and 2002

10. Reconciliation between Canadian and United States generally accepted accounting principles (continued):

(i) Recent and future pronouncements (continued):

In addition, the FASB and Emerging Issues Task Force ("EITF") have issued a variety of interpretations including the following interpretations with wide applicability:

- Financial Interpretation No. 45 ("FIN 45"), "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*" which addresses disclosure and initial recognition and measurement provisions related to guarantees. The disclosure provisions became effective for periods ending after December 15, 2002. The initial recognition and measurement provisions apply to guarantees issued after December 15, 2002.
- Financial Interpretation No. 46 ("FIN 46"), "*Consolidation of Variable Interest Entities*", which addresses the consolidation of variable interest entities (formerly referred to as "Special-Purpose Entities"). The Interpretation is generally effect for interim or annual periods beginning after December 15, 2003.

To date, the adoption of FIN 45 and FIN 46 has not impacted the Company's financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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November 9, 2004

This Management's Discussion and Analysis ("MD&A") reviews the activities of Cangold Limited ("Cangold", or the "Company") and compares the financial results for the year ended June 30, 2004 with those of the corresponding year ended June 30, 2003. For a more complete understanding of the Company's financial condition and results of operations, this MD&A should be read together with the audited financial statements and the accompanying notes for all relevant periods, copies of which are filed on the SEDAR website.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles, and these statements are filed with the relevant regulatory authorities in Canada. All monetary amounts are in Canadian dollars unless otherwise stated.

Forward-Looking Information and Report Date

This MD&A contains certain forward-looking information. All information, other than historical facts included herein, including without limitation data regarding potential mineralization, exploration results and future plans and objectives of Cangold, is forward-looking information that involves various risks and uncertainties. There can be no assurance that such information will prove to be accurate and future events and actual results could differ materially from those anticipated in the forward-looking information.

The forward-looking information is only provided as of the date of this MD&A, November 9, 2004 (the "Report Date").

Description and Overview of Business

Cangold Limited is an active resource exploration company listed on the TSX Venture Exchange, trading under the symbol CLD. Cangold's activities at the present time are focused on the exploration and development of precious and base metals in Canada, principally in northern Ontario and northwestern British Columbia. The Company was continued under the Business Corporations Act (Yukon) on March 17, 1997 and on June 4, 2003, changed its name from First Au Strategies Corp. to Cangold Limited.

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, the equities markets to raise the funds needed to continue exploration programs on its various property holdings.

The Company capitalizes the acquisition cost of mineral properties and defers exploration and development expenditures directly related to specific mineral properties until such time as the extent of mineralization has been determined and the mineral properties are developed, the Company's mineral rights are allowed to lapse, exploration is discontinued or the Company determines that the deferred costs are in excess of the estimated net recoverable amount. At that time the deferred costs are amortized on a unit-of-production basis, written off or written down, as appropriate.

Mineral property acquisition costs include the cash consideration paid and the fair value of common shares issued, based on the trading price of the shares on the date of the agreement to issue the shares, if their issuance is irrevocable, or otherwise the trading price of the shares on the date of issuance.

Amounts shown for mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

During 2004, the Company completed two non-brokered private placements, in October, 2003 and December, 2003, respectively, issuing a total of 9,303,750 common shares for net cash proceeds of \$1,167,761. A total of 9,784,000 warrants were exercised and converted into shares at various times throughout the year, for an aggregate of \$1,517,600 and 100,000 stock options were exercised for \$13,000.

The proceeds from the financings will be used in the advancement of the Canadian property interests and for general working capital purposes.

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Primary Mineral Properties of the Company

a) Birch Lake Property:

During the year ended June 30, 2002, the Company acquired, by staking, 240 claim units comprising the Birch Lake Property situated in the Red Lake Mining Division, Northwestern Ontario. During the year ended June 30, 2004, the Company incurred in excess of \$143,000 on exploration and development of the property.

Subsequent to June 30, 2004, the Company entered into an option agreement which grants Trade Winds Ventures Inc. ("Trade Winds") the exclusive working right and option, for a period of three years, to purchase up to an undivided 70% interest, in the Birch Lake Property. In consideration for the working right and purchase option the Company received from Trade Winds \$10,000 cash and 50,000 common shares upon acceptance of the agreement by the TSX Venture Exchange. In order to maintain in force the working right and purchase option to earn a 60% interest, Trade Winds must issue to the Company a further 25,000 shares on each of the first and second anniversary dates and incur expenditures in respect of the mining claims of \$1 million over four years. The Company will retain a 1% Net Smelter Return. Trade Winds may then elect to acquire a further 10% interest by incurring an additional \$600,000 in expenditures in respect of the mining claims.

b) Casummit Lake Property:

Effective October 31, 2001, the Company entered into an option agreement with Wolfden Resources Inc. ("Wolfden") which granted the Company the exclusive working right and option, for a period of two years, to purchase a 51% undivided interest in the Casummit Lake mining claims situated in the Red Lake Mining Division, Northwestern Ontario. In consideration for the working right and purchase option the Company paid \$10,000 cash and issued 100,000 common shares. In order to maintain in force the working right and purchase option, the Company was to make payments and issue shares as follows:

- i) On or before October 31, 2002, the Company was to pay \$10,000 and issue 50,000 common shares and incur expenditures of at least \$250,000 in respect of the mining claims; and,
- ii) On or before October 31, 2003, the Company was to pay \$20,000 and issue 50,000 common shares and incur cumulative expenditures of at least \$650,000 in respect of the mining claims.

The option agreement provided for the Company to terminate the agreement at any time or let it lapse by failing to pay any or all of the payments and/or make any or all of the share issuances referred to above. Upon exercising the option, the Company will then participate in a joint venture for the further exploration and development of the mining claims, with its initial participating interest being 51%.

During the year ended June 30, 2003, the Company made a cash payment of \$10,000, issued 50,000 common shares, and incurred in excess of \$250,000 in respect of the mining claims, in accordance with i) above.

During the year ended June 30, 2004, the Company exercised its purchase option for a 51% interest in the Casummit Lake Property by exceeding the required expenditures of \$650,000, making the final payment of \$20,000 and issuing 50,000 common shares in accordance with ii) above. In doing so, the Company exercised its option to acquire the majority interest in the property. The Company is now the operator of the newly formed Joint Venture.

The Casummit Lake Property consists of 101 claim units.

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c) Thorn Property:

Effective March 1, 2002, the Company entered into an option agreement with Rimfire Minerals Corporation ("Rimfire") which granted the Company the exclusive working right and option, for a period of three years, to purchase a 51% undivided interest in the Check-Mate, Stuart and Thorn claims (the "Thorn Property") situated in the Atlin Mining Division, Northwestern British Columbia. In consideration for the working right and purchase option the Company paid \$15,000 cash and issued 100,000 common shares. In order to maintain in force the working right and purchase option, the Company was to make payments and issue shares as follows:

- i) On or before March 1, 2003, the Company was to pay \$25,000 and issue 50,000 common shares and incur expenditures of at least \$300,000 in respect of the mining claims;
- ii) On or before March 1, 2004, the Company was to pay \$50,000 and issue 50,000 common shares and incur cumulative expenditures of at least \$700,000 in respect of the mining claims;
- iii) On or before March 1, 2005, the Company was to give notice in writing of its intent to exercise the option. In order to make such an election, the Company must have incurred an additional \$500,000 in mining expenditures in respect of the mining claims for total expenditures of \$1,200,000 and pay an additional \$100,000 and issue an additional 50,000 common shares.

The option agreement provided for the Company to terminate the agreement at any time or let it lapse by failing to pay any or all of the payments and/or make any or all of the share issuances referred to above. The interest in the Check-Mate claim is subject to a 2% Net Smelter Return Royalty and the interest in the Stuart claims is subject to a 3.5% Net Smelter Return Royalty. For the Company to exercise the option, the optionor must first exercise its underlying option and the Company will then participate in a joint venture for the further exploration and development of the mining claims, with its initial participating interest being 51%.

During the year ended June 30, 2003, the Company made a cash payment of \$25,000, issued 50,000 common shares, and incurred in excess of \$300,000 in respect of the mining claims, in accordance with i) above. During the year ended June 30, 2004, the Company made a cash payment of \$50,000 and issued 50,000 common share, and at June 30, 2004 had cumulatively incurred over \$948,000 in respect of the mining claims, in accordance with ii) above and issued 50,000 common shares in accordance with iii) above.

On September 24, 2004, the Company complied with the remaining terms of the option agreement and exercised its option to acquire the majority interest in the property. The Company is now the operator of the newly formed Joint Venture.

The Thorn Property consists of 574 claim units.

d) West Abitibi Lake Property (WALP):

Effective January 30, 2004, the Company entered into an option agreement with Boulder Mining Corporation ("Boulder") which grants the Company the exclusive working right and option, for a period of three years, to purchase a 50% undivided interest in the mining claims comprising the West Abitibi Lake Property situated in the Larder Lake Mining Division, Northeastern Ontario. In consideration for the working right and purchase option the Company will pay \$5,000 and issue 25,000 common shares. In order to maintain in force the working right and purchase option, the Company must make payments and issue shares as follows:

- i) On or before January 30, 2005, the Company must pay \$10,000 and issue 75,000 common shares and incur expenditures of at least \$150,000 in respect of the mining claims;

- ii) On or before January 30, 2006, the Company must pay \$10,000 and issue 50,000 common shares and incur additional expenditures of at least \$100,000 in respect of the mining claims;

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- iii) On or before January 30, 2007, the Company must issue 50,000 common shares and incur additional expenditures of at least \$150,000 in respect of the mining claims for cumulative expenditures of \$400,000.

The Company may terminate the option agreement at any time or let it lapse by failing to pay any or all of the payments and/or make any or all of the share issuances referred to above. Upon exercising the option, the Company will then participate in a joint venture for the further exploration and development of the mining claims, with its initial participating interest being 50%.

As at June 30, 2004, the Company has accrued \$5,000 for its working right and purchase option. The Company is continuing to assess the viability of the West Abitibi Lake Property with the current owner and will issue 25,000 common shares if such assessments are favourable.

The West Abitibi Lake Property consists of 487 claim units.

Selected Annual Information

The following table sets forth selected financial information for Cangold Limited for the last three completed financial years ended June 30. This information has been derived from the Company's audited financial statements for each of those years, and should be read in conjunction with those financial statements and the notes thereto.

	As at and for the financial year ended June 30		
	2004	2003	2002
a) Net sales or total revenues	\$Nil	\$Nil	\$Nil
b) Income (loss) from continuing operations:			
in total	\$(709,966)	\$(745,120)	\$(454,021)
on a per share basis ⁽¹⁾	\$(0.02)	\$(0.06)	\$(0.08)
c) Net income (loss):			
in total	\$(709,966)	\$(745,120)	\$(454,021)
on a per share basis ⁽¹⁾	\$(0.02)	\$(0.06)	\$(0.08)
d) Total assets:	\$3,640,781	\$1,679,490	\$305,316
e) Total long-term financial liabilities	\$Nil	\$Nil	\$Nil
f) Cash dividends per common share	n/a	n/a	n/a

⁽¹⁾ Per share amounts are calculated using the weighted average number of shares outstanding. Fully diluted loss per share amounts have not been calculated, as they would be anti-dilutive.

Net sales or total revenues

As Cangold has no producing properties, it has had no sales or revenues in any of the last three financial years.

Loss from continuing operations and Net Loss

The \$65,937 increase, in the loss from continuing operations and net loss, from 2003 to 2004 is largely attributable to the adoption in 2004 of the accounting recommendation of the Canadian Institute of Chartered

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Accountants whereby stock-based compensation expense is recorded. (See "Changes in Accounting Policies including Initial Adoption" for a full explanation).

Stock-based compensation expense will arise whenever stock options are granted in the future. The magnitude of the annual compensation expense is dependent upon the number of options granted, the term and exercise price of the options and other factors that cannot be predicted in advance of the date when the options are granted.

The increase or decrease in a given year's loss is also attributable to the write-off of mineral property acquisition costs and associated deferred exploration costs as the result of the abandonment of certain mineral properties. The write-offs in 2004, 2003 and 2002 were approximately \$3,000, \$109,131 and nil, respectively.

The Company's accounting policy is to capitalize all costs to acquire and explore mineral properties until the property to which they relate is placed into production, sold or abandoned. As abandonment decisions are largely driven by exploration results, the amounts written-off from year to year can be highly variable, and unpredictable in advance of the receipt of those results and other information relating to the underlying value of the properties in question.

Total assets

The increase in total assets over the three year period 2002-2004 is largely the result of the capitalization of the exploration expenditures made on the Company's mineral properties.

Results of Operations

The Company reports a loss of \$709,966 and cash outflows from operations of \$1,030,887 for the year ended June 30, 2004 compared with losses of \$745,120 and \$627,959 and cash outflows from operations of \$454,021 and \$420,235 for the previous two years, respectively. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going-concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business.

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.

Expenses consist primarily of general and administrative expenses. General and administrative expenses for the year ended June 30, 2004 totalled \$701,926 as compared to \$635,989 and \$454,021 for 2003 and 2002, respectively. Expenses have increased in 2004 over 2003 largely as a result of the stock-based compensation expense recorded in 2004 and the increase in investor relations activities and related travel.

- \$70,669 in stock-based compensation expense incurred in 2004 is a non-cash charge that was allocated as to \$42,656 to consulting expense, representing the fair value of options granted to consultants, and as to \$28,013 to professional fees expense, representing the fair value of options granted to an officer.
- The \$35,323 increase in the investor relations expense in 2004 is the result of efforts to improve overall shareholder and investor communications, including the attendance at additional investment conferences.
- The \$5,186 increase in the filing fees expense in 2004 is largely attributable to the listing on the Deutsche Borse Group (Frankfurt Stock Exchange).

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- The \$4,592 increase in the transfer agent fees expense in 2004 is the result of costs associated with the significant increase in the exercise of warrants.
- The \$29,651 increase in the travel expense in 2004 is the result of travel costs associated with the attendance at additional investment conferences, the Company's European promotional efforts and additional travel by directors.

Write-off of mineral properties for the year ended June 30, 2004 totalled \$3,000 as compared to \$109,131 and nil for 2003 and 2002, respectively. During the year ended June 30, 2003, the Company wrote-off costs associated with its Jim Lake Property, Leg Lake Property and Nickelby Lake Property due primarily to unfavourable exploration results and lack of investor interest. During the year ended June 30, 2004, the Company expensed costs incurred to terminate the Leg Lake Property option agreement.

Exploration Activities and Property Expenditures

Cangold spent \$1,503,544 on its mineral properties during the year ended June 30, 2004, which included acquisition costs, options payments and exploration costs, compared to \$1,080,737 during the year ended June 30, 2003. The following schedule summarizes the total expenditures made on the properties.

	Birch Lake	Casummit Lake	Leg Lake	Thorn	W.A.L.P.	Total	
						Jun 30, 2004	Jun 30, 2003
Balance beginning of year	\$37,689	\$701,844	\$ -	\$407,287	\$ -	\$1,146,820	\$208,046
Option payments:							
Cash	-	20,000	3,000	50,000	5,000	78,000	39,000
Common shares	-	7,750	-	20,500	-	28,250	27,550
Staking	-	-	-	-	-	-	-
Analysis	3,363	12,224	-	25,466	24,811	65,864	13,317
Drilling	-	200,139	-	93,475	95,618	389,232	395,833
Field costs	33,075	146,899	-	234,301	2,698	416,973	272,564
Project admin	4,734	21,692	-	94,505	59,965	180,896	125,780
Geology	19,674	57,125	-	125,536	-	202,335	112,485
Geophysics	82,340	20,790	-	-	-	103,130	71,371
Linecutting	-	-	-	38,864	-	38,864	22,837
	143,186	486,619	3,000	682,647	188,092	1,503,544	1,080,737
Written-off during the year	-	-	(3,000)	-	-	(3,000)	(109,131)
Costs recovered	-	(8,552)	-	-	-	(8,552)	(32,832)
	143,186	478,067	-	682,647	188,092	1,491,992	938,774
Balance, end of year	\$180,875	\$1,179,911	\$ -	\$1,089,934	\$188,092	\$2,638,812	\$1,146,820

a) Birch Lake Property:

Property Summary

The Birch Lake Property comprises 240 contiguous claim units (3,840 hectares) staked by Cangold in the northern part of the Birch-Uchi Greenstone Belt in the Red Lake Mining Division, Northwestern Ontario. The Property covers 14 kilometres of strike length on a major, northwesterly-trending deformation zone that is known to be associated with gold mineralization and may extend onto Cangold's Casummit Lake Property 3 kilometres to the west.

The regional geophysical signature on the Birch Lake Property is similar to that of Placer Dome's Musselwhite Mine, also in Northwestern Ontario, where more than 3 million ounces of gold are hosted by

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intensely deformed iron formation. The Birch Lake claims also have potential to host high-grade shear-associated gold mineralization similar to that found throughout the Birch-Uchi and Red Lake Greenstone Belts. Only limited exploration has been previously conducted on the Birch Lake claims but scattered gold mineralization in iron formation has been intersected in several old drill holes.

Recent Exploration

In October, 2003 the Company conducted a limited mapping, prospecting and soil sampling program in the southeast portion of the Birch Lake Property. Only minor amounts of outcrop were found and no significant results were obtained from the soil survey.

In April, 2004 a detailed helicopter-borne magnetic and electromagnetic survey was conducted over the property by Fugro Airborne Surveys consisting of 868 line kilometres. The survey was flown with a 50 metre line spacing at 60 metres above ground level and collected high resolution data.

As mentioned above, the primary exploration target on the Birch Lake Property is iron formation-hosted gold similar to that at Placer Dome's 3.3 million ounce Musselwhite Mine, approximately 200 kilometres to the north. As iron formation is highly magnetic, the airborne survey will allow Cangold to trace the various units across the property and focus on areas of structural complexity that may be amenable to gold mineralization.

b) Casummit Lake Property:

Property Summary

The Casummit Lake Property is located in the Red Lake Mining Division, Northwestern Ontario. The property consists of a block of 21 contiguous patented claims totalling approximately 410 hectares (which encompasses the past producing Argosy Gold Mine, [i.e., no longer in production]), a second block of 23 contiguous patented claims and one unpatented (seven unit) claim totalling approximately 490 hectares and a third block of 50 contiguous claim units. The entire Property consists of 101 claim units totalling 1,616 hectares.

Gold was discovered on the Property in 1929. Mine site development and limited production began the same year. The early years of production were fraught with difficulties and ownership of the Property changed hands several times. New Jason Mines Ltd. eventually became owners of the Property in 1948 and the vast majority of production occurred between 1948 and 1952. The mine closed in 1952 after producing 101,875 ounces of gold and minor amounts of silver from 276,573 tons of ore. The developed ore reserves had been exhausted at the time of closure.

The Property lay dormant until 1974 when Casummit Lake Mines Ltd. took an option on the Property and, in turn, optioned it to Bonnacord Explorations Ltd. Bonnacord conducted a five-hole diamond drilling program totaling 1,606 feet on one vein. In 1975, Grand Bay Exploration took over ownership of the Property and completed a diamond drilling program in 1978. The drilling program was successful enough that in the early 1980's, Noranda Exploration Company Ltd. optioned the Property from Grand Bay Exploration and completed a 12-hole diamond drill program totalling 1188 metres. While the drilling programs by Noranda and Grand Bay Exploration did intersect gold values, the Property has not seen any exploration since 1986.

Within 5 kilometres of the Property (to the north, east, and southeast), several gold occurrences have been discovered, two of which have seen a very limited amount of production. In total, four styles of gold mineralization have been identified on the Property and adjacent properties.

Gold production from the Property came from both quartz veins hosted by metasediments, and quartz veins hosted by intermediate volcanics (quartz porphyry). The Property is also host to iron formation which presents potential exploration targets.

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The Property presents itself as a very good target for gold exploration, having hosted a past producing gold mine and being underlain by similar geological formations which hold gold mineralization on adjacent properties. While it is possible that there may be gold mineralization below the existing mine workings (~900 foot vertical), the strength of the Property lies not only in the fact that the quartz veins which were mined in the past extend beyond the lower working levels of the mine, but in the potential for this Property to host gold mineralization in areas which have seen very limited exploration in the past.

Recent Exploration Activities

During the winter of 2002 the Company completed a Phase 1 drilling program at the Argosy Gold Mine on the Casummit Lake Property which intersected gold in certain vein zones. This program consisted of nine holes to test the depth potential of two historically mined zones and also several unmined veins on the Property. The results of the drill program established that gold mineralization does extend below the old mine workings and that there is potential to develop a resource on veins that were not mined in the past.

In the summer of 2003 a diamond drill program at the Argosy Gold Mine comprising 2,379 meters in 8 holes was completed. This work has further proven the continuity of the gold mineralization and returned some significant intersections in different zones. The program was designed as a follow-up to the 2002 drilling in testing the up-dip and depth extension of previously mined zones as well as the continuity of parallel veins. Two holes intersecting below the old workings, have extended the mineralization in this zone by 100 meters down-dip, to a vertical depth of 340 meters. Similarly, two further holes have extended another zone 175 meters down-dip to a vertical depth of 385 meters. Intersections on a further zone in this program have increased the known extent of this vein zone to at least 165 meters of strike length and over 100 meters down-dip. All zones remain open to depth and along strike to the south. In addition, a new zone was discovered at the contact between porphyry and basalt and contained a 20 cm quartz vein with visible gold.

During a fall 2003 field program, a new zone of sulphide-related gold mineralization 2.5 kilometres southeast of the old mine workings of the Argosy Gold Mine was identified. Re-sampling of old drill core yielded several gold-bearing intervals. It appears that the mineralized zone correlates well with the results obtained from the induced polarization survey we conducted in the summer of 2003. The survey was conducted specifically to detect this style of sulphide-related gold mineralization, based upon descriptions from old drill logs.

The October, 2003 field program included four diamond drill holes, totalling 971 metres, which were drilled on portions of the known vein system at the Argosy Mine. They consisted of two shallow holes to test the continuity of high-grade gold mineralization intersected in the summer of 2003, one deep hole to test the down-dip continuity of certain of the veins, and one short hole to test the up-dip portion of one of the veins.

All vein zones were intersected as planned; however, grades were lower than in previous holes. While some of this can be attributed to the irregular distribution of gold in the veins, it also appears that two holes may have been drilled off the side of the "ore shoot" which typically contains the bulk of the mineralization in vein zones. As one hole was drilled about 90m down-dip of another hole, future holes in this area will be drilled closer to the latter in order to better determine the attitude of the mineralized structure.

The Company completed a drilling program during the winter of 2004 which consisted of 1,815 metres in 9 holes and tested both the new zone of sulphide-related gold mineralization identified in October, 2003 as well as some vein targets at the Argosy Mine. The four holes drilled at Argosy continued to extend zones of high grade gold mineralization and the five holes drilled on the new Casummit Creek Sulphide Zone encountered numerous intersections of quartz ankerite veins in silicified, sericitized intermediate

tuffs, argillite and mafic tuffs. Weak gold mineralization in the veining and altered host rock is associated with disseminated arsenopyrite, pyrrhotite, and pyrite with traces of chalcopyrite and sphalerite.

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During April 2004, a helicopter-borne aeromagnetic and electromagnetic survey was conducted over the property by Fugro Airborne Surveys and entailed 399 line kilometres. When combined with a detailed structural mapping program conducted in September-October, 2004, this airborne survey will assist in the interpretation of the structure of the underlying rocks and aid in the delineation of exploration targets.

c) Thorn Property:

Property Summary

The Thorn Property consists of 574 claim units covering approximately 14,350 hectares (143.5 km²) of mountainous terrain in Northwestern British Columbia, 130 kilometres southeast of Atlin. Access to the Property is currently by helicopter and float-plane, with the nearest road 50 kilometres to the southeast.

The Thorn Property has been sporadically explored since the early 1960's. Rimfire Minerals Corporation ("Rimfire") optioned the core of the Property in March 2000, recognizing strong similarities in alteration, vein mineralogy, structure and areal extent to the 6.3 million ounce El Indio high-sulphidation epithermal gold-copper deposit in Chile. Later that year, Rimfire flew a 384 line-kilometre airborne geophysical survey, staked 135 claim units and carried out geological and geochemical fieldwork.

The high-sulphidation epithermal mineralization is currently the most attractive exploration target on the Thorn Property. All known high-sulphidation mineralization on the Property is hosted within the Thorn Stock, an intrusive body that measures 1,500 x 3,500 metres and is elongated along a major northwesterly-trending structure marked by a 9 kilometre magnetic low. At least three types of high-sulphidation mineralization are present, all of which host significant gold, silver, copper and/or lead grades. Other styles of mineralization are found elsewhere on the Property and deserve further work.

Management believes that the Thorn Property justifies further expenditures which will be required to fully test its potential.

Recent Exploration Activities

In 2002 the Company financed an exploration program on the Thorn Property, which was operated by partner Rimfire. Dr. Peter Lewis, a structural geologist, was hired to conduct a structural analysis of the main area of mineralization on the Property. From a site visit carried out in June-July 2002, he determined that most of the known high-sulphidation veins in the Thorn Stock were contained along a 'structural corridor' with at least 1,500 metres of strike length and 100-200 metres in width. Limited prospecting at the same time, and within this structural zone, resulted in the discovery of a boulder of massive sulphide that returned promising assays. The boulder is located within a soil geochemical anomaly measuring some 300 metres in diameter and is believed to be of local origin.

Follow-up prospecting was conducted in October 2002 coincident with a seven-hole diamond drilling program totaling 498 metres. The primary objective of this program, conducted by Equity Engineering under contract to Rimfire, was to test the continuity of gold-silver-copper mineralization below several of the surface showings. The program tested three showings over a 1.2 kilometer trend, including the newly discovered Oban Breccia Zone. Three shallow holes totaling 234 meters were collared at the Oban Breccia to test surface mineralization. Four holes were drilled to test two vein zones, all of which intersected the target structures, confirming the continuity of vein mineralization.

The fall 2003 program consisted of eight diamond drill holes, totaling 874.5 m (2,869 feet), designed to test the core of a very strong, 100 metre x 300 metre multi-element soil geochemical anomaly adjacent to a few small mineralized outcrops. As seen in drill core, the mineralization occurs as a core of higher grade material, roughly 20-25 metres wide within a lower grade envelope, which appears to have an overall width of about 60 metres and dips 65-75° to the southwest. The wide silver-gold zone was confirmed and expanded along strike and down dip by four additional holes.

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In the summer of 2004, an extensive Induced Polarization (IP) geophysical survey over the Thorn Stock was conducted, with the result that an excellent correlation was found between the IP and known mineralization in the Oban Breccia. Furthermore, several large and significant IP anomalies were outlined elsewhere on the Property in areas where there is no outcrop. These zones have been targeted for diamond drill testing and we commenced a 13 hole diamond drilling program at the end of September, 2004.

d) West Abitibi Lake Property (WALP):

Property Summary

The WALP Property consists of 487 units (7,792 hectares) located in Galna, Moody, Bowyer and Marathon Townships in Northeastern Ontario, 70 kilometres northeast of Timmins. The Property was originally acquired by Boulder in 2001 and enlarged significantly in 2003 to straddle approximately 10 kilometres of the Lake Abitibi Deformation Zone (LADZ). The LADZ is located between the Destor Porcupine Break and the Casa Berardi Break; both productive gold related geologic structures. Numerous occurrences of gold in glacial sediments near Lake Abitibi strongly suggest that the glaciers scraped gold from a deposit(s) located to the north spatially related to the LADZ.

Gold mines related to the Destor Porcupine Break, 40 kilometres south of the LADZ, stretch from Timmins, Ontario to Val D'Or, Quebec and have produced over 90 million ounces of gold. Gold discoveries related to the Casa Berardi Break, 70 kilometres to the north, total approximately 6 million ounces of gold to date. The Abitibi Greenstone Belt which hosts these major structures is a prolific gold district, having yielded over 120 million ounces of gold.

Recent Exploration Activities

On February 23, 2004 the Company commenced a 23-hole drill program on the WALP Property. The program targeted a 4 kilometre long segment of a 300 metre wide, regional structural shear zone that was considered to be an excellent geological environment for a large-scale gold deposit. Results were negative however, such that the companies have turned their attention to other areas of the Property with similar potential. A similar overburden drilling program in the south portion of the Property is being considered for the winter of 2005.

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 income (loss)	Net income (loss) per share ⁽¹⁾
June 30, 2004	\$Nil	\$(709,966)	\$(0.02)
March 31, 2004	\$Nil	\$(476,093)	\$(0.01)
December 31, 2003	\$Nil	\$(291,506)	\$(0.01)
September 30, 2003	\$Nil	\$(114,655)	\$(0.01)
June 30, 2003	\$Nil	\$(745,120)	\$(0.06)
March 31, 2003	\$Nil	\$(496,820)	\$(0.06)
December 31, 2002	\$Nil	\$(235,160)	\$(0.03)
September 30, 2002	\$Nil	\$(107,972)	\$(0.02)

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

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Liquidity and Capital Resources

Cangold has no 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.

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 had a cash balance of \$552,336 at June 30, 2004 as compared to \$350,648 at June 30, 2003. The Company's financial instruments are all fully cashable at any time so there are no restrictions on availability of funds.

The Company had working capital of \$874,979 as at June 30, 2004 compared with a working capital of \$269,117 as at the June 30, 2003. Working capital, together with the August 30, 2004 financing described below and limited additional financing, should be adequate to fund the Company's activities and to cover corporate overhead for the next fiscal year.

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

Investing Activities

During 2004, the Company's cash outflows from investing activities was \$1,464,020 of which \$1,466,742 was for exploration costs that were deferred compared with cash outflows from investing activities of \$1,029,646 during 2003 of which \$1,202,355 was for exploration costs that were deferred

There were no material differences in the actual use of proceeds from the Company's previous disclosure in this regard.

Financing Activities

On October 6, 2003, the Company closed a private placement of 7,650,000 units at \$0.10 per unit for net cash proceeds of \$715,626. Each unit consists of one common share and one non-transferable Series "I" share purchase warrant which entitles the holder to purchase one common share of the Company for \$0.15 per share until April 5, 2005. The Company paid financing fees of \$11,374, a cash finder's fee of \$38,000 and issued finders' warrants to purchase up to 475,000 common shares. The finders' warrants have the same terms and prices as the Series "I" share purchase warrants. The estimated fair value of the finders' warrants, using an option pricing model, of \$40,903 is included as a non-cash financing cost as a credit to contributed surplus.

On December 24, 2003, the Company closed a private placement of 853,750 flow-through units at \$0.32 per unit and 800,000 non flow-through units at \$0.28 per unit for net cash proceeds of \$452,135. Each flow-through unit consists of one flow-through common share and one-half of one non-transferable Series "J"

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share purchase warrant. Each non flow-through unit consists of one non flow-through common share and one-half of one non-transferable Series "J" share purchase warrant. Each share purchase warrant entitles the holder to purchase one non flow-through common share of the Company for \$0.38 per share until December 23, 2004. The Company paid financing fees of \$5,289, a cash finder's fee of \$39,776 and issued finders' warrants to purchase up to 165,375 common shares. The finders' warrants have the same terms and prices as the Series "J" share purchase warrants. The estimated fair value of the finders' warrants, using an option pricing model, of \$18,598 is included as a non-cash financing cost as a credit to contributed surplus.

A total of 9,784,000 warrants were exercised and converted into shares at various times throughout the year, for an aggregate of \$1,517,600 and 100,000 stock options were exercised for \$13,000.

As at June 30, 2004, Cangold had 45,864,316 common shares issued and outstanding.

Outstanding Share Data as at November 9, 2004

Subsequent to the year end, on August 27, 2004, the Company closed a brokered private placement of 5,000,000 flow-through common shares at \$0.20 per common share and 1,500,000 non flow-through units at \$0.16 per unit for gross cash proceeds of \$1,240,000. Each non flow-through unit consists of one non flow-through common share and one-half of one non-transferable Series "K" share purchase warrant. Each share purchase warrant entitles the holder to purchase one non flow-through common share of the Company for \$0.22 per share until August 27, 2005. The Company paid a cash finder's fee of \$99,200 and issued broker warrants to purchase up to 520,000 common shares. Each broker warrant entitles the holder to purchase one common share for \$0.20 per share until August 27, 2005.

Subsequent to the year end, on September 8, 2004, the Company granted options, under its stock option plan, to acquire 200,000 common shares with an exercise price of \$0.16 per share expiring September 7, 2009.

The brokered private placement completed subsequent to the year end increased the issued and outstanding common shares to 52,364,316 as at November 9, 2004, or 70,829,366 on a fully diluted basis. If the Company were to issue all 18,465,050 shares issuable upon conversion of all warrants and exercise of all incentive stock options outstanding, it would raise approximately \$3,555,365.

Outlook

It is anticipated that in the foreseeable future, Cangold will rely on the equity markets to meet its financing needs.

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

The Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees totalling \$56,650.
- b) Paid or accrued directors' fees totalling \$32,000 to directors of the Company.
- c) Paid or accrued management fees totalling \$72,000 to a company controlled by a director.

- d) Paid or accrued office rental and administration totalling \$58,291 to a company controlled by a director and \$14,500 to an officer of the Company respectively.

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Included in mineral properties are paid or accrued geological consulting costs totalling \$17,420 to a director of the Company.

Included in due to directors and officers is \$28,987 due to directors of the Company and \$388 due to a company with directors in common.

Changes in Accounting Policies including Initial Adoption

Stock-based Compensation

The Company grants incentive stock options under its stock option plan in accordance with TSX Venture Exchange policies. Effective for options granted on or after July 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants which requires that stock-based payments made to non-employees be accounted for using the fair value based method and charged to operations over the service period which normally is the period during which the options vest.

The Company elected to use the intrinsic value method for stock options granted to directors and employees. Under the intrinsic value method, stock-based compensation is recognized to the extent that the market price of the underlying common shares exceeds the exercise price on the date of grant. No compensation expense has been recorded related to stock options granted to directors and employees. The Company discloses the pro-forma effect on accounting for stock options granted to directors and employees under the fair value method in note 5(e) of the audited financial statements for the year ended June 30, 2004.

Risk Factors Associated with Mining

Exploration and development stage of the properties

Despite exploration work on our mineral claims, no known bodies of commercial ore or economic deposits have been established on any of the mineral properties. In addition, we are in our early stages of exploration and substantial additional work will be required in order to determine if any economic deposits occur on our properties. Even in the event commercial quantities of minerals are discovered, the mining properties might not be brought into a state of commercial production. The search for valuable minerals as a business is extremely risky. Finding mineral deposits is dependent on a number of factors, not the least of which is the technical skill of exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent on a number of factors, some of which are particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices. Most of these factors are beyond the control of the entity conducting such mineral exploration. We are an exploration stage company with no history of revenues. There can be no assurance that our operations will be profitable in the future.

Market forces outside the control the Company

The marketability of minerals is affected by numerous factors beyond the control of the entity involved in their mining and processing. These factors include market fluctuations, government regulations relating to prices, taxes royalties, allowable production, import, exports and supply and demand. One or more of these risk elements could have an impact on costs of an operation and if significant enough, reduce the prospects of profitability of our operations and threaten our continuation.

Competition and agreements with other parties

The mineral industry is intensely competitive in all phases. We compete with many companies possessing greater financial resources and technical facilities than ourselves for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

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Limited operating history

Since we have only recently begun the acquisition and exploration of mineral resource properties in Canada, we have a limited operating history on which to base an evaluation of our prospects. Our operating activities since our inception have consisted primarily of locating and acquiring the interest in the properties that we currently hold. As a result, we have not earned any revenues to date. We have no way to evaluate the likelihood that we will be able to operate our business successfully or that our properties contain any recoverable reserves. We anticipate that we will incur increased operating costs without realizing any revenues during the period when we are exploring our properties. For the year ending June 30, 2005, we expect to spend \$1,000,000 (approximately) on the exploration of the properties in which we hold our interests and \$600,000 in the operation of our company (depending on the amounts spent on marketing and investor relations and communications). We therefore expect to incur significant losses into the foreseeable future. We recognize that if we are unable to generate significant revenues from mining operations and any dispositions of our properties, we will not be able to earn profits or continue operations. At this early stage of our operation, we also expect to face the risks, uncertainties, expenses and difficulties frequently encountered by companies at the start up stage of their business development. We cannot be sure that we will be successful in addressing these risks and uncertainties and our failure to do so could have a materially adverse effect on our financial condition. There is no history upon which to base any assumption as to the likelihood that we will prove successful and we can provide investors with no assurance that we will generate any operating revenues or ever achieve profitable operations.

Ability to continue as a going concern

We have not generated any significant revenues since our incorporation and we will, in all likelihood, continue to incur operating expenses without revenues until our mining properties are fully developed and in commercial production. As a result, we need to generate significant revenues from our operations or acquire financing. We cannot assure that we will be able to successfully explore and develop our mining properties or assure that viable reserves exist on the properties for extraction. It is unlikely that we will generate any funds internally until we discover commercially viable quantities of ore. If we are unable to generate cash inflow to support our business activities during the fiscal year ending June 30, 2005, we may be forced to delay, scale back, or eliminate our exploration activities.

Because we have not generated any revenue from our business and we cannot anticipate when we will be able to generate revenue from our business, we will need to raise additional funds for the further exploration and future development of our mining claims and to respond to unanticipated requirements or expenses. We anticipate that we will need to raise minimal further financing for the 12 month period ending June 30, 2005, but will need to raise further capital very soon thereafter in the approximate amount of \$1,000,000 to \$2,000,000. We do not currently have any arrangements for financing and we can provide no assurance to investors we will be able to find such financing if required. The most likely source of future funds presently available to us is through the sale of equity capital. All of these circumstances raise substantial doubt about our ability to continue as a going concern.

Environmental factors

There is no assurance that environmental regulations will not change in a manner that could have an adverse effect on the Company's financial condition, liquidity or results of operations. Environmental legislation is constantly expanding and evolving in ways that impose stricter standards and more rigorous enforcement, with higher fines and more severe penalties for non-compliance, and increased scrutiny of proposed projects. There is an increased level of responsibility for companies, and trend towards criminal liability for officers and directors for violations of environmental laws, whether inadvertent or not.

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Mineral prices subject to dramatic and unpredictable fluctuations

The market price of precious metals and other minerals is volatile and cannot be controlled. If the price of precious metals and other minerals should drop significantly, the economic prospects of the projects which we have an interest in could be significantly reduced or rendered uneconomic. There is no assurance that, even if commercial quantities of ore are discovered, a profitable market may exist for the sale of same. Factors beyond our control may affect the marketability of any minerals discovered. Mineral prices have fluctuated widely, particularly in recent years. The marketability of minerals is also affected by numerous other factors beyond our control, including government regulations relating to royalties, allowable production and importing and exporting of minerals, the effect of which cannot be accurately predicted.