

Financial Statements
(Expressed in Canadian dollars)

CANGOLD LIMITED

Years ended June 30, 2005 and 2004



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Cangold Limited as at June 30, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. 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. 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, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

September 2, 2005

CANGOLD LIMITED

Balance Sheets
(Expressed in Canadian dollars)

June 30, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 497,928	\$ 552,336
Short-term investments, market value \$29,500	29,500	-
Amounts receivable	19,012	231,459
Prepaid expenses and advances	245,572	212,645
	<u>792,012</u>	<u>996,440</u>
Reclamation deposit (note 3(b))	25,800	-
Mineral properties (note 3)	3,255,285	2,638,812
Equipment (note 4)	3,870	5,529
	<u>\$ 4,076,967</u>	<u>\$ 3,640,781</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 142,933	\$ 92,086
Due to related parties (note 6)	26,831	29,375
	<u>169,764</u>	<u>121,461</u>
Shareholders' equity:		
Capital stock (note 5)	7,051,248	6,338,723
Contributed surplus (note 5(c))	608,712	225,114
Deficit	(3,752,757)	(3,044,517)
	<u>3,907,203</u>	<u>3,519,320</u>
	<u>\$ 4,076,967</u>	<u>\$ 3,640,781</u>

Going concern (note 1)
Subsequent event (note 3(c))

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, 2005 and 2004

	2005	2004
Expenses:		
Amortization	\$ 1,659	\$ 2,778
Consulting:		
Incurred	70,900	190,240
Stock-based compensation	32,980	42,656
Directors fees	60,000	32,000
Exploration	-	950
Filing fees	17,513	27,568
Foreign exchange loss	1	9
Investor relations	67,620	87,647
Management fees	80,000	72,000
Office and miscellaneous	36,577	31,883
Printing	5,807	10,194
Professional fees:		
Incurred	114,244	80,951
Stock-based compensation	-	28,013
Rent	29,040	27,868
Telephone	129	212
Transfer agent fees	6,901	15,575
Travel	12,418	55,598
	<u>535,789</u>	<u>706,142</u>
Loss before undernoted	(535,789)	(706,142)
Interest income	5,784	4,216
Loss on disposal of equipment	-	(5,040)
Write-down of short-term investments	(32,500)	-
Write-off of mineral properties	(183,092)	(3,000)
	<u>(209,808)</u>	<u>(3,824)</u>
Loss before income taxes	(745,597)	(709,966)
Future income tax recovery	(356,200)	-
Net loss for the year	(389,397)	(709,966)
Deficit, beginning of year		
As previously stated	(3,044,517)	(2,334,551)
Adjustment for retroactive adoption of amended accounting standard (note 2(g))	(318,843)	-
As restated	<u>(3,363,360)</u>	<u>(2,334,551)</u>
Deficit, end of year	<u>\$ (3,752,757)</u>	<u>\$ (3,044,517)</u>
Loss per share (note 2(k)), basic and diluted	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding, basic and diluted	51,349,248	37,276,216

See accompanying notes to financial statements.

CANGOLD LIMITED

Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows used in operating activities:		
Net loss for the year	\$ (389,397)	\$ (709,966)
Adjustment to reconcile net loss to cash provided by operating activities:		
Amortization	1,659	2,778
Stock-based compensation	32,980	70,669
Loss on disposal of equipment	-	5,040
Write-down of short-term investments	32,500	-
Write-off of mineral properties	183,092	3,000
Future income tax recovery	(356,200)	-
Changes in non-cash operating working capital:		
Accounts receivable	212,447	(154,869)
Prepaid expenses	(32,927)	(123,282)
Accounts payable and accrued liabilities	50,847	(124,257)
Net cash used in operating activities	(264,999)	(1,030,887)
Cash flows used in investing activities:		
Mineral properties	(861,565)	(1,466,742)
Reclamation deposit	(25,800)	-
Proceeds on disposal of equipment	-	2,722
Net cash used in investing activities	(887,365)	(1,464,020)
Cash flows from financing activities:		
Issuance of shares for cash, net of costs	1,100,500	2,698,361
Decrease in due to related parties	(2,544)	(1,766)
Net cash from financing activities	1,097,956	2,696,595
Increase (decrease) in cash and cash equivalents	(54,408)	201,688
Cash and cash equivalents, beginning of year	552,336	350,648
Cash and cash equivalents, end of year	\$ 497,928	\$ 552,336
Supplementary information:		
Income taxes paid	\$ -	\$ -
Interest paid	-	-
Non-cash financing and investing activities:		
Shares received through option of mineral property interests	62,000	-
Shares issued on acquisition of mineral property interests		28,250

See accompanying notes to financial statements.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

1. Going concern:

Cangold Limited (the "Company") was continued under the Business Corporation Act (Yukon) on March 17, 1997 and continued under the Business Corporations Act (British Columbia) on December 22, 2004. On June 4, 2003, the Company changed its name from First Au Strategies Corp. to Cangold Limited.

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

During the year ended June 30, 2004 the Company incurred a loss of approximately \$389,000 (2004 - \$710,000) and used cash for operations of approximately \$265,000 (2004 - \$1,031,000). In addition, as at June 30, 2005 the Company has a deficit of approximately \$3,753,000.

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

The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities when due in the normal course of business is dependent upon the existence of economically recoverable mineral reserves and the ability to raise adequate financing from lenders, shareholders and other investors to support such business activities. These consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. Significant accounting policies:

(a) Use of estimates:

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

CANGOLD LIMITED

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Years ended June 30, 2005 and 2004

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) Short-term investments:

Short-term investments include investments in marketable securities which are recorded at the lower of cost and market.

(d) Reclamation deposit:

Reclamation deposits are recorded at cost.

(e) Mineral properties:

The amounts shown for mineral properties represent acquisition and exploration costs, less recoveries, incurred to date and do not necessarily reflect present or future values. The Company capitalizes all exploration and acquisition costs on a property-by-property basis. If the Company owns an interest in a mineral property, exploration costs recognize only the Company's proportionate interest in the property. Mineral property acquisition costs include the cash consideration paid and the fair value of common shares issued for mineral property interests, pursuant to the terms of the relevant agreement. Mineral properties are written off if the property is sold, abandoned, the exploration rights are allowed to lapse, or when impairment in value has been determined to have occurred. Mineral property sales proceeds or option payments received for exploration rights are treated as cost recoveries.

The accumulated costs of properties that are developed to the stage of commercial production will be amortized to operations by unit-of-production depletion.

Management periodically reviews the carrying value of its investments in mineral properties with internal and external mining related professionals. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, the anticipated future costs of exploring, developing and operating a producing mine, the expiration term and ongoing expenses of maintaining leases or options for mineral properties and the likelihood that the Company will continue exploration or exercise the option to acquire the property. The Company does not set a predetermined holding period for properties without proven reserves; however, properties which have not demonstrated suitable metal concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are appropriate. If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or in the year of determination of value.

CANGOLD LIMITED

Notes to Financial Statements
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Years ended June 30, 2005 and 2004

2. Significant accounting policies (continued):

(f) Equipment:

Equipment is recorded at cost. Amortization of computer equipment is provided at 30% 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 to its fair value with a charge to income.

(g) Stock-based compensation:

The Company grants stock options in accordance with the TSX Venture Exchange ("TSX-V") policies (note 5(e)).

Effective July 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants' (the "CICA") new handbook section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*" which requires that stock-based payments to non-employees are accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at the fair value as the awards are earned and services performed and charged to operations over the service period which normally is the period during which the options vest. The adoption of this new standard resulted in no changes to amounts previously reported. No compensation cost was recognized for stock-based employee compensation awards.

The CICA Accounting Standards Board amended Handbook Section 3870 to require companies to account for employee stock options using the fair value based method, beginning with fiscal years beginning after January 1, 2004. Previously, the Company provided note disclosure of the pro-forma effect of accounting for stock options granted to employees and directors under the fair value method. The amended standard has been applied retroactively, without restatement of prior periods. The restatement at June 30, 2004 resulted in an increase to contributed surplus and an increase in the deficit of \$318,843. The adjustments represent the compensation expense which would have been recorded had a fair value based method been used for stock options granted to employees and directors after July 1, 2002.

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.

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Notes to Financial Statements
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Years ended June 30, 2005 and 2004

2. Significant accounting policies (continued):

(h) 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. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(i) Income taxes:

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

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

(j) Asset retirement obligations:

During the period ended June 30, 2005, the Company adopted CICA Handbook Section 3110 "*Asset Retirement Obligations*". This new standard recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

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Years ended June 30, 2005 and 2004

2. Significant accounting policies (continued):

(k) Loss per share:

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

(l) Comparative figures:

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

3. Mineral properties:

	Casummit	Birch	Thorn (b)	WALP (d)	Total	
	Lake (a)	Lake (c)			2005	2004
Option payments:						
Cash consideration	\$ -	\$ -	\$ 100,000	\$ (5,000)	\$ 95,000	\$ 78,000
Common shares	-	-	-	-	-	28,250
Drilling	(2,075)	-	97,846	-	95,771	389,232
Staking	-	-	-	-	-	-
Analysis	2,004	-	17,219	-	19,223	65,864
Field costs	(13,349)	-	386,838	-	373,489	416,973
Project administration	6,578	1,605	105,319	-	113,502	180,896
Geology	6,263	90	153,113	-	159,466	202,335
Geophysics	236	-	51,357	-	51,593	103,130
Linecutting	-	-	21,350	-	21,350	38,864
Total exploration and development expenditures during the year	(343)	1,695	933,042	(5,000)	929,394	1,503,544
Balance, beginning of year	1,179,911	180,875	1,089,934	188,092	2,638,812	1,146,820
Cost recoveries	(2,911)	-	(54,918)	-	(57,829)	(8,552)
Option payments received	-	(72,000)	-	-	(72,000)	-
Amounts written off during the year	-	-	-	(183,092)	(183,092)	(3,000)
Balance, end of year	\$1,176,657	\$ 110,570	\$1,968,058	\$ -	\$ 3,255,285	\$ 2,638,812

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

3. Mineral properties (continued):

(a) 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) On or 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) On or 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 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 mining claims, in accordance with (i) above.

During the year ended June 30, 2004, the Company complied with the remaining terms of the option agreement and exercised its option to acquire the majority interest in the property by exceeding the required expenditures of \$650,000, making the final payment of \$20,000 cash and issuing 50,000 common shares. 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, 2005, 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.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

3. Mineral properties (continued):

(b) 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
- (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 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 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%.

The interest in the Check-Mate claim is subject to a 2.0% Net Smelter Return Royalty and the interest in the Stuart claim is subject to a 3.5% Net Smelter Return Royalty 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.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

3. Mineral properties (continued):

(b) Thorn property (continued):

During the year ended June 30, 2005, the Company complied with the remaining terms of the agreement and 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 \$1,500,000. As at June 30, 2005, the Company continues to hold a 51% interest in the Thorn property. The expenditures disclosed in the table above reflect only the Company's proportionate 51% interest in the Thorn 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.

The Company is contingently liable for the site restoration of the mineral property under the regulations of the Mines Act (the "Act") of the Province of British Columbia. The required deposit under the Act is supported by a term deposit held by the Company in the amount of \$25,800.

(c) 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.

During the year ended June 30, 2005, 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.

Subsequent to June 30, 2005, Trade Winds notified the Company that it has elected to terminate the option agreement.

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Years ended June 30, 2005 and 2004

3. Mineral properties (continued):

(d) 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/or make any or all of the share issuances referred to above. Upon exercising the option, the Company would then have participated in a joint venture for the further exploration and development of the mining claims, with its initial participating interest being 50%.

On February 11, 2005, the Company officially terminated the option agreement and as such the \$5,000 the Company had accrued for its working right and purchase option was reversed and the costs incurred on the property were written off.

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4. Equipment:

2005	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 7,803	\$ 6,443	\$ 1,360
Drilling equipment	6,026	3,516	2,510
	\$ 13,829	\$ 9,959	\$ 3,870

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

5. Capital stock:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued:

	Number of shares	Stated value
Balance, 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 (i)	7,650,000	715,626
Private placement at \$0.28/\$0.32 per share, net of costs (ii)	1,653,750	452,135
Shares issued for mineral property interests, net of costs (iii)	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	45,864,316	6,338,723
Private placement at \$0.16/\$0.20 per share, net of costs (iv)	6,500,000	1,100,500
Issue of warrants for financing services	-	(31,775)
Flow-through shares renounced to investors	-	(356,200)
Balance, June 30, 2005 (v)	52,364,316	\$ 7,051,248

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5. Capital stock (continued):

(b) Issued (continued):

(i) 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.

(ii) 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.

(iii) 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.

(iv) During the year ended June 30, 2005, 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 net cash proceeds of \$1,100,500. 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.

The Company paid financing fees of \$40,300, a cash finder's fee of \$99,200 and issued broker warrants to purchase up to 520,000 common shares. Each broker warrant will entitle the holder to purchase one common share for \$0.20 per share until August 27, 2005. The estimated fair value of warrants, using an option pricing model, of \$31,775 is included as a non-cash financing cost as a credit to contributed surplus. A senior officer participated in this offering by acquiring 105,000 units.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

5. Capital stock (continued):

(b) Issued (continued):

- (v) Included in issued capital stock are 238,008 (2004 - 317,344) 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, 2005 79,366 (2004 - 39,666) escrow shares were released pursuant to the amendment to the escrow agreement.

(c) Contributed surplus:

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-based compensation for non-employee awards	70,669
Balance, June 30, 2004	225,114
Issue of warrants for financing services	31,775
Stock-based compensation for employee awards, retroactive adjustment without restatement	318,843
Stock-based compensation for non-employee awards	32,980
Balance, June 30, 2005	\$ 608,712

(d) Warrants:

The continuity of share purchase warrants for 2005 is as follows:

Series	Exercise price	Expiry date	June 30, 2004	Issued	Exercised	Expired	June 30, 2005
Series "E"	\$0.25	Oct 28, 2003	3,554,500	-	-	(3,554,500)	-
	to 0.30	to Oct 28, 2004					
Agents' Options	0.25	Oct 28, 2003	304,275	-	-	(304,275)	-
	to 0.30	to Oct 28, 2004					
Series "G"	0.15	Mar 19, 2004	4,740,000	-	-	(4,740,000)	-
	to 0.20	to Mar 19, 2005					
Finders' Warrants	0.15	Mar 19, 2004	230,000	-	-	(230,000)	-
	to 0.20	to Mar 19, 2005					
Series "H"	0.20	Dec 13, 2004	819,000	-	-	(819,000)	-
Finders' Warrants	0.20	Dec 13, 2004	163,800	-	-	(163,800)	-
Series "I"	0.15	Apr 5, 2005	5,800,000	-	-	-	5,800,000
(extended to)		Oct 5, 2005					
Finders' Warrants	0.15	Apr 5, 2005	475,000	-	-	(475,000)	-
Series "J"	0.38	Dec 23, 2004	826,875	-	-	(826,875)	-
Finders' Warrants	0.38	Dec 23, 2004	165,375	-	-	(165,375)	-
Series "K"	0.22	Aug 27, 2005	-	750,000	-	-	750,000
Broker Warrants	0.20	Aug 27, 2005	-	520,000	-	-	520,000
			17,078,825	1,270,000	-	(11,278,825)	7,070,000

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

5. Capital stock (continued):

(d) Warrants (continued):

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

Series	Exercise price	Expiry date	June 30, 2003	Issued	Exercised	Expired	June 30, 2004
Series "D"	\$0.30	Mar 29, 2004	330,000	-	-	(330,000)	-
Series "E"	0.25	Oct 28, 2003	3,554,500	-	-	-	3,554,500
	to 0.30	to Oct 28, 2004					
Agents' Options	0.25	Oct 28, 2003	304,275	-	-	-	304,275
	to 0.30	to Oct 28, 2004					
Series "F"	0.25	Feb 2, 2004	500,000	-	(500,000)	-	-
	to 0.30	to Feb 2, 2005					
Series "G"	0.15	Mar 19, 2004	11,627,000	-	(6,887,000)	-	4,740,000
	to 0.20	to Mar 19, 2005					
Finders' Warrants	0.15	Mar 19, 2004	777,000	-	(547,000)	-	230,000
	to 0.20	to Mar 19, 2005					
Series "H"	0.20	Dec 13, 2004	819,000	-	-	-	819,000
Finders' Warrants	0.20	Dec 13, 2004	163,800	-	-	-	163,800
Series "I"	0.15	Apr 5, 2005	-	7,650,000	(1,850,000)	-	5,800,000
Finders' Warrants	0.15	Apr 5, 2005	-	475,000	-	-	475,000
Series "J"	0.38	Dec 23, 2004	-	826,875	-	-	826,875
Finders' Warrants	0.38	Dec 23, 2004	-	165,375	-	-	165,375
			18,075,575	9,117,250	(9,784,000)	(330,000)	17,078,825

(e) Stock options:

Pursuant to the policies of the TSX-V, the Company may grant incentive stock options to its officers, directors, employees and consultants. TSX-V policies permit the Company's directors to grant incentive stock options for the purchase of shares of the Company to qualified persons as incentive for their services. Pursuant to the Company's 2003 Incentive Stock Option Plan, stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the outstanding issue of the Company at the time of granting and may not exceed 5% of the outstanding issue to any individual (maximum of 2% to any consultant) in any 12-month period. The exercise price of stock options is determined by the board of directors of the Company by reference to the market value of the shares at the date of grant. Options have expiry dates of no longer than five years from the date of grant and terminate 30 days following the termination of the participant's employment. Vesting of options is made at the time of granting of the options at the discretion of the board of directors unless otherwise specified. Once approved and vested, the options are exercisable at any time.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

5. Capital stock (continued):

(e) Stock options (continued):

The continuity of common share stock options for 2005 is as follows:

Exercise price	Expiry date	June 30, 2004	Granted	Cancelled/ expired	Exercised	June 30, 2005
\$0.13	November 3, 2006	50,000	-	-	-	50,000
0.13	December 1, 2006	340,000	-	-	-	340,000
0.16	October 29, 2007	430,000	-	-	-	430,000
0.15	April 22, 2008	1,330,000	-	-	-	1,330,000
0.11	August 24, 2005	200,000	-	(200,000)	-	-
0.11	September 21, 2008	100,000	-	-	-	100,000
0.28	December 31, 2005	200,000	-	-	-	200,000
0.30	January 14, 2009	1,125,000	-	-	-	1,125,000
0.16	September 7, 2009	-	200,000	-	-	200,000
0.11	May 2, 2006	-	100,000	-	-	100,000
		3,775,000	300,000	(200,000)	-	3,875,000
Weighted average exercise price		\$0.20	\$0.14	\$0.11	\$ -	\$0.20

As at June 30, 2005, 3,875,000 options with a weighted average exercise price of \$0.20, were exercisable.

The continuity of common share stock options for 2004 is as follows:

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

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

5. Capital stock (continued):

(e) Stock options (continued):

Had compensation expense for the stock options granted to employees 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 year ended June 30, 2004 would have been adjusted to the pro forma amounts indicated below:

Net loss:		
As reported		\$ (709,966)
Pro forma		(883,935)
Basic and fully diluted loss per common share:		
As reported		\$ (0.02)
Pro forma		(0.02)
Employee stock-based compensation:		
As reported		\$ -
Pro forma		173,969

The pro forma amounts exclude the effects of options granted prior to July 1, 2002.

The weighted average fair value of options granted during 2005 was \$0.09 (2004 - \$0.16). The average fair value per option was determined using the following weighted average assumptions:

	2005	2004
Risk-free interest rate	3.42%	2.87%
Dividend yield	0%	0%
Expected life	3 years	2 years
Volatility	88%	149%

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

6. Related party transactions:

- (a) Amounts due to related parties consist of \$26,831 (2004 - \$29,375) to officers, directors, companies with directors in common or companies controlled by officers or directors of the Company. The balance is payable on demand, unsecured and without interest.
- (b) Included in mineral properties (note 3) are amounts totalling \$15,315 (2004 - \$17,240) for geological consulting costs charged to the Company by an officer or 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 \$254,940 (2004 - \$233,441) for consulting, directors fees, management fees, accounting, rent and office charged to the Company by officers, directors or companies controlled by the directors of the Company. The amounts are recorded at the exchange amount agreed to by the parties.

7. Income taxes:

Income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 35.6% to the loss before income taxes. The reasons for the differences are as follows:

	2005	2004
Computed tax recovery	\$ (265,582)	\$ (252,890)
Financing costs deductible for tax purposes	(58,619)	(46,418)
Non-deductible capital items and other	12,469	3,893
Benefit of current year losses not recognized	279,619	244,483
Resource adjustment	32,113	50,932
Tax benefit utilized for flow-through shares	(356,200)	-
Income tax recovery	\$ (356,200)	\$ -

The Company has incurred non-capital losses of approximately \$1,888,000 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:

2006	\$ 475,000
2007	163,000
2008	-
2009	197,000
2010	294,000
2011	364,000
2012	395,000

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2005 and 2004

7. Income taxes (continued):

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.

As at June 30, 2005 and 2004, the tax effect of the significant components within the Company's future tax asset is as follows:

	2005	2004
Future tax assets:		
Non-capital losses carried forward	\$ 672,441	\$ 775,092
Net capital losses carried forward	650,615	650,615
Foreign resource pools	223,119	223,119
Financing costs	149,223	146,834
Other	21,609	15,231
	1,717,007	1,810,891
Valuation allowance	(1,444,915)	(1,762,156)
	272,092	48,735
Future tax liabilities:		
Mineral properties	(272,092)	(48,735)
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, short-term investments, accounts receivable and 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.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORM 51-102F1

October 28, 2005

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, 2005 with those of the corresponding year ended June 30, 2004. 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, October 28, 2005 (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 continued under the Business Corporations Act (British Columbia) on December 22, 2004. On June 4, 2003, the Company 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 all exploration and acquisition costs on a property-by-property basis. Mineral property acquisition costs include the cash consideration paid and the fair value of common shares issued for mineral property interests, pursuant to the terms of the relevant agreement. Mineral properties are written off if the property is sold, allowed to lapse or abandoned, or when impairment in value has been determined to have occurred. Mineral property sales proceed or option payments received for exploration rights are treated as cost recoveries. The accumulated costs of properties that are developed to the stage of commercial production will be amortized to operations by unit-of-production depletion.

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

In August, 2004, the Company completed a brokered private placement, issuing a total of 6,500,000 common shares for net cash proceeds of \$1,100,500. The proceeds from the financing have been and will be used in the advancement of the Canadian property interests and for general working capital purposes.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORM 51-102F1
October 28, 2005

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		
	2005	2004	2003
a) Net sales or total revenues	\$Nil	\$Nil	\$Nil
b) Income (loss) from continuing operations:			
in total	\$(389,397)	\$(709,966)	\$(745,120)
on a per share basis ⁽¹⁾	\$(0.01)	\$(0.02)	\$(0.06)
c) Net income (loss):			
in total	\$(389,397)	\$(709,966)	\$(745,120)
on a per share basis ⁽¹⁾	\$(0.01)	\$(0.02)	\$(0.06)
d) Total assets:	\$4,076,967	\$3,640,781	\$1,679,490
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

There is a \$320,569 decrease in the loss from continuing operations and net loss from 2004 to 2005. \$356,200 of the decrease in loss is attributable to the future income tax recovery recorded in the statement of operations and deficit. Pursuant to the Emerging Issues Committee Abstract EIC-146 Flow-Through Shares, the Company applied the accounting treatment recommended by the Canadian Institute of Chartered Accountants (the "CICA") to its flow-through share transactions after March 19, 2004 whereby the tax effect caused by the renouncement of tax credits associated with expenditures relating to flow-through shares is recognized as a future income tax liability and shareholders' equity is reduced. The Company was able to recognize \$356,200 of its previously unrecognized tax assets by reversing a valuation allowance in 2005.

The increase or decrease in a given year's loss is also attributable to the stock-based compensation expense recorded and the write-off of mineral property acquisition costs and associated deferred exploration costs as the result of the abandonment of certain mineral properties.

Stock-based compensation expense arises whenever stock options are granted. The magnitude of the annual compensation expense is dependent upon the number of options granted, vesting provisions, 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 stock based compensation expense in 2005, 2004 and 2003 was \$32,980, \$70,669 and nil respectively.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORM 51-102F1

October 28, 2005

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 exploration results and other information relating to the underlying value of the properties in question. The write-offs in 2005, 2004 and 2003 were \$183,092, \$3,000 and \$109,131 respectively.

Total assets

The increase in total assets over the three year period 2003-2005 is largely the result of the capitalization of the acquisition and exploration incurred on the Company's mineral properties.

Results of Operations

The Company reports a loss of \$389,397 and cash outflows from operations of \$264,999 for the year ended June 30, 2005 compared with a loss of \$709,966 and cash outflows from operations of \$1,030,887 for 2004. 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, 2005 totalled \$534,130 as compared to \$703,364 for 2004. Expenses have decreased in 2005 over 2004 largely as a result of the decrease in consulting, investor relations activities and related travel and in financings and related fees.

Consulting fees decreased by approximately \$129,000, from \$232,896 for 2004 to \$103,880 for 2005 as a result of the following:

- \$32,980 in stock-based compensation expense incurred in 2005 compared to \$42,656 in 2004 which is a non-cash charge that was allocated to consulting expense, representing the fair value of options granted to consultants and to an officer.
- The Company entered into an agreement on August 24, 2003 with Scott F. Gibson & Company Inc. to provide consulting services for a monthly fee of \$5,000, which was subsequently reduced to \$4,000. The Company discontinued the consulting services December, 2004. During the year ended 2005 the Company paid \$20,000 as compared to \$48,300 in the previous year.
- The Company paid approximately \$9,500 associated with the cost of general financing services in 2005 as compared to approximately \$84,410 in 2004.

The Company increased the directors' fees during the year, and as a result the directors' fees for the current year totalled \$60,000 as compared to \$32,000 in the previous year.

The approximate \$10,000 decrease in filing fees in 2005 is largely attributable to the costs in 2004 of approximately \$7,000 for listing on the Deutsche Borse Group (Frankfurt Stock Exchange) and \$1,000 for filing the Annual Information Form which is no longer required.

Investor relations decreased by approximately \$20,000, from \$87,647 in 2004 to \$67,620 in 2005 as a result of the following:

- The decrease is largely a result of fewer attendances at investment conferences, no European promotional trip in 2005, less travel by directors and the decrease in associated costs, in particular the trade show booth design, brochure design and advertising.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORM 51-102F1

October 28, 2005

- The Company entered into an agreement on January 14, 2004 with AM Capital (now B&D Capital Partners) to provide investor relations services for a monthly fee of \$2,000, which was subsequently increased to \$4,000. During the year ended June 30, 2005, the Company paid \$32,000 as compared to \$12,000 in the previous year.

The decrease in printing by approximately \$4,000 and in travel by approximately \$43,000 is also a result of the decrease in the attendance at investment conferences, no European promotional trip in 2005 and less travel by directors.

The overall increase in professional fees by approximately \$5,000 is the result of an approximate \$33,000 increase in accounting fees, legal fees and costs associated with filing the Company's Form 20-F with the Securities Commission in the United States and a \$28,013 stock-based compensation expense incurred in 2004, a non-cash charge that was allocated to professional fees in 2004, representing the fair value of options granted to an officer.

The approximate \$9,000 decrease in transfer agent fees is the result of a considerable decrease in the exercise of warrants in the current year over the previous year.

Write-off of mineral properties for the year ended June 30, 2005 totalled \$183,092 due to the Company's decision to terminate the West Abitibi Lake Property option agreement. The write-off of mineral properties for the year ended June 30, 2004 totalled \$3,000 during which the Company expensed costs incurred to terminate the Leg Lake Property option agreement.

Exploration Activities and Property Expenditures

Cangold spent \$929,394 on exploration costs, including option payments, recovered \$57,829, received option payments of \$72,000 and wrote-off \$183,092 during the year ended June 30, 2005. During the previous year the Company spent \$1,503,544 on exploration costs, including option payments, recovered \$8,552 and wrote-off \$3,000.

The following schedule summarizes the total expenditures made on the properties.

	Birch Lake (a)	Casummit Lake (b)	Thorn (c)	W.A.L.P. (d)	Total	
					Jun 30, 2005	Jun 30, 2004
Balance beginning of period	\$180,875	\$1,179,911	\$1,089,934	\$188,092	\$2,638,812	\$1,146,820
Option payments:						
Cash	-	-	100,000	(5,000)	95,000	78,000
Common shares	-	-	-	-	-	28,250
Staking	-	-	-	-	-	-
Analysis	-	2,004	17,219	-	19,223	65,864
Drilling	-	(2,075)	97,846	-	95,771	389,232
Field costs	-	(13,349)	386,838	-	373,489	416,973
Project admin	1,605	6,578	105,319	-	113,502	180,896
Geology	90	6,263	153,113	-	159,466	202,335
Geophysics	-	236	51,357	-	51,593	103,130
Linecutting	-	-	21,350	-	21,350	38,864
	1,695	(343)	933,042	(5,000)	929,394	1,503,544
Costs recovered	-	(2,911)	(54,918)	-	(57,829)	(8,552)
Option payments received	(72,000)	-	-	-	(72,000)	-
Written-off during the period	-	-	-	(183,092)	(183,092)	(3,000)
	(70,305)	(3,254)	878,124	(188,092)	616,473	1,491,992
Balance, end of period	\$110,570	\$1,176,657	\$1,968,058	\$ -	\$3,255,285	\$2,638,812

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORM 51-102F1

October 28, 2005

a) Birch Lake Property:

Recent Exploration Activities

The Birch Lake Property comprises 240 claim units (3,840 hectares) staked by Cangold and is situated in the Red Lake Mining Division, Northwestern Ontario.

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.

The primary exploration target on the Birch Lake Property is iron formation-hosted gold. 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.

In 2005, Trade Winds drilled 2,913 metres in the southeast portion of the Property, tracing a structural zone that is known to be gold-bearing further to the northwest. While Trade Winds have not furnished Cangold with results of the drilling, they have subsequently terminated their option on the Property.

Management believe that the Birch Lake Property justifies further expenditures which will be required to fully test its potential.

b) Casummit Lake Property:

Recent Exploration Activities

The Casummit Lake Property consists of 101 claim units.

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.

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 assisted in the interpretation of the structure of the underlying rocks and aid in the delineation of exploration targets.

No field work was conducted on the Property in 2005. Management believes that the Casummit Lake Property justifies further expenditures which will be required to fully tests its potential.

c) Thorn Property:

Recent Exploration Activities

The Thorn Property consists of 574 claim units.

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 were targeted for

diamond drill testing and a 13-hole diamond drilling program commenced at the end of September, 2004 that was successfully completed as announced by the Company on November 18, 2004.

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Also announced was the discovery of a barite-quartz-sulphide boulder with visible gold that assayed 265g/t gold and 631g/t silver. The source of the boulder is as yet unknown but the discovery is located approximately 2,000 metres north of the Camp Creek Structural Corridor in a portion of the Property that has not seen any previous work. The boulder is described as being angular with a minimum dimension of 35 cm and therefore has likely not travelled far from its source.

Additional results from the surface program were announced by the Company on January 7, 2005 with the discovery of a new zone of gold-silver-copper mineralization. This new zone, dubbed the Talisker Zone, represents a significant discovery in that the mineralization does not outcrop and the IP chargeability is interpreted to be a least 500 metres long. The discovery of new mineralization underscores the dynamic nature of the mineralizing system present at the Thorn.

An exploration program, begun in June, 2005 and completed in July, 2005, consisted of a comprehensive and integrated program of reconnaissance scale mapping, rock sampling and prospecting, contour soil and silt sampling, Induced Polarization ("IP") geophysics and diamond drilling.

A significant part of the 2005 program was tailored towards the evaluation of volcanic rocks adjacent to the Thorn Stock as recent age dating has revealed that these rocks may be affected by mineralizing events at the Thorn and are therefore a prospective host for high sulphidation mineralization. Field work focused on the margins of the Thorn Stock and the volcanic units, which are thought to be the source of the quartz-barite boulder discovered in 2004. Results indicated a suite of higher temperature alteration minerals typically associated with precious metal mineralization within a high sulphidation system. The findings are important in generating targets with the greatest potential for significant mineralization within this extensive area.

Previous exploration at the Thorn has demonstrated that IP geophysical surveying is an effective tool for targeting buried sulphide mineralization in this region. Untested portions of a large airborne resistivity low were covered by IP with the goal of identifying new anomalies that have the same signature as that reflecting Talisker Zone mineralization. The 2005 IP helped to further outline and define the Talisker Zone and located two new anomalies further north, the Balvenie and Cutty Sark Zones.

A total of five diamond drill holes were completed. Two holes tested the continuity of the Talisker Zone with results from one hole indicating a high grade section comparable to the discovery hole drilled in 2004 and numerous other mineralized zones throughout the length of the hole. Results from the other hole indicated that the Talisker may split into two zones to the southwest. Two holes tested the new IP target at the Cutty Sark Zone with results indicating lithologically controlled alteration within volcanic rocks overlying the Thorn Stock, the first noted on the Thorn property. One hole tested the far eastern extent of the Balvenie Zone and intersected a narrow interval of silver-copper mineralization with minor gold.

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

d) West Abitibi Lake Property (WALP):

Recent Exploration Activities

The West Abitibi Lake Property consisted of 487 claim units.

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 turned their attention to other areas of the Property. The Company subsequently determined that there was not sufficient encouragement to proceed with further work and the option was terminated on February 11, 2005.

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Summary of Quarterly Results

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

Quarter Ended	Revenue	Net income (loss)	Net income (loss) per share ⁽¹⁾
June 30, 2005	\$Nil	\$ 206,062	\$ 0.01
March 31, 2005	\$Nil	\$(91,565)	\$(0.01)
December 31, 2004	\$Nil	\$(340,908)	\$(0.01)
September 30, 2004	\$Nil	\$(162,986)	\$(0.01)
June 30, 2004	\$Nil	\$(233,873)	\$(0.01)
March 31, 2004	\$Nil	\$(184,587)	\$(0.01)
December 31, 2003	\$Nil	\$(176,851)	\$(0.01)
September 30, 2003	\$Nil	\$(114,655)	\$(0.01)

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

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. Note 1 to the Company's 2005 audited financial statements further discusses the going concern issue. The financial statements do not include any adjustments that might result from these uncertainties.

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

Cash and Financial Conditions

The Company had a cash balance of \$497,928 at June 30, 2005 as compared to \$552,336 at June 30, 2004. 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 \$622,248 as at June 30, 2005 compared with a working capital of \$874,979 as at June 30, 2004. Working capital, together with 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 2005, the Company's cash outflows from investing activities was \$887,365 of which \$861,565 was for exploration costs that were deferred compared with cash outflows from investing activities of \$1,464,020 during 2004 of which \$1,466,742 was for exploration costs that were deferred.

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

Financing Activities

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 net cash proceeds of \$1,100,500. 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 financing fees of \$40,300, 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. The estimated fair value of the broker warrants, using an option pricing model, of \$31,775 is included as a non-cash financing cost as a credit to contributed surplus.

As at June 30, 2005, Cangold had 52,364,316 common shares issued and outstanding.

Outstanding Share Data as at October 28, 2005

As at October 28, 2005, the Company has 52,364,316 common shares issued and outstanding or 56,239,316 on a fully diluted basis. If the Company were to issue all 3,875,000 shares issuable upon the exercise of all incentive stock options outstanding, it would raise approximately \$766,500.

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

Included in expenses are the following transactions with related parties totalling \$254,940:

- a) Paid or accrued consulting fees totalling \$35,840 to a company with a director in common and \$5,560 to an officer of the Company.
- b) Paid or accrued directors' fees totalling \$60,000 to directors of the Company.
- c) Paid or accrued management fees totalling \$80,000 to a company with a director in common.
- d) Paid or accrued office rent and administration costs totalling \$42,540 to a company with a director in common and \$31,000 to an officer of the Company.

Included in mineral properties are paid or accrued geological consulting costs totalling \$15,315 to an officer of the Company.

Included in due to related parties totalling \$26,831 is \$6,943 due to companies with directors in common, \$15,415 due to directors of the Company and \$4,473 due to an officer of the Company.

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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 ("CICA") 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 elected to use the intrinsic value method for stock options issued to director and employees ("employees") prior to July 1, 2004. Under the intrinsic value, 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. As at June 30, 2004, no compensation expense had been recorded relating to stock options granted to employees.

Effective July 1, 2004, the Company adopted the amended recommendations of the CICA for accounting for employee stock-based compensation. The amended standard requires recognition of an estimate of the fair value of employee stock-based awards in earnings. Previously, the Company provided note disclosure of pro forma net income as if a fair value based method had been used.

The amended recommendations have been applied retroactively, without restatement of prior periods. The restatement at June 30, 2004 resulted in an increase to contributed surplus and an increase in the deficit of \$318,843. The adjustments represent the total compensation expense which would have been recorded had a fair value based method been used for stock options granted after July 1, 2002.

Asset retirement obligations

During the year ended June 30, 2005, the Company adopted CICA Handbook Section 3110 "Asset Retirement Obligations" ("HB 3110"). This new standard recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Additional Disclosure Requirements

The Company's management is responsible for establishing and maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed, under the supervision of the Board of Directors and its Officers, so as to provide reasonable assurance that material information relating to the Company is made known to the Board of Directors and its Officers by others within the Company. The Officers of the Company certifying its Annual Filings under National Instrument 52-109 have evaluated the effectiveness of these disclosure controls and procedures for the year ending June 30, 2005 and have concluded that they are being maintained as designed.