

FORM 52-109F1

CERTIFICATION OF ANNUAL FILINGS

I, Robert A. Archer, President and Chief Executive Officer of Cangold Limited, certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings*) of Cangold Limited (the issuer) for the period ending June 30, 2006;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statement together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the period presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer is made known to us by others within the entity, particularly during the period in which the annual filings are being prepared; and
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: October 4, 2006

"Robert A. Archer"

Robert A. Archer
President and Chief Executive Officer

FORM 52-109F1

CERTIFICATION OF ANNUAL FILINGS

I, Kaare G. Foy, Chairman and Chief Financial Officer of Cangold Limited, certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings*) of Cangold Limited (the issuer) for the period ending June 30, 2006;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statement together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the period presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer is made known to us by others within the entity, particularly during the period in which the annual filings are being prepared; and
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: October 4, 2006

"Kaare G. Foy"

Kaare G. Foy
Chairman and Chief Financial Officer

Financial Statements
(Expressed in Canadian dollars)

CANGOLD LIMITED

Years ended June 30, 2006 and 2005



KPMG LLP
Chartered Accountants
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Canada

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Cangold Limited as at June 30, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

August 3, 2006

CANGOLD LIMITED

Balance Sheets
(Expressed in Canadian dollars)

June 30, 2006 and 2005

	2006	2005
		(Restated - note 2(e))
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,064,147	\$ 497,928
Short-term investments, market value \$18,750 (2005 - \$29,500)	18,750	29,500
Amounts receivable	6,287	19,012
Prepaid expenses and advances	4,013	245,572
	1,093,197	792,012
Reclamation deposit (notes 3(b) and 3(e))	32,800	25,800
Equipment (note 4)	2,709	3,870
	\$ 1,128,706	\$ 821,682
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,917	\$ 142,933
Due to related parties (note 6)	20,266	26,831
	45,183	169,764
Shareholders' equity:		
Capital stock (note 5)	8,529,254	7,407,448
Contributed surplus (note 5(c))	836,738	608,712
Deficit	(8,282,469)	(7,364,242)
	1,083,523	651,918
	\$ 1,128,706	\$ 821,682

Going concern (note 1)
Subsequent events (notes 3(e) 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, 2006 and 2005

	2006	2005
		(Restated - note 2(e))
Expenses:		
Amortization	\$ 1,161	\$ 1,659
Consulting:		
Incurred	10,880	70,900
Stock-based compensation	87,184	32,980
Director fees:		
Incurred	60,000	60,000
Stock-based compensation	143,992	-
Filing fees	15,783	17,513
Foreign exchange (gain) loss	(44)	1
Investor relations	28,586	67,620
Management fees	24,110	80,000
Mineral property exploration expenditures (notes 2(e) and 3)	394,928	799,565
Office and miscellaneous	24,600	36,706
Printing	3,050	5,807
Professional fees	83,113	114,244
Rent	26,247	29,040
Transfer agent fees	7,863	6,901
Travel	4,355	12,418
	915,808	1,335,354
Loss before undernoted	(915,808)	(1,335,354)
Interest income	8,331	5,784
Write-down of short-term investments	(10,750)	(32,500)
	(2,419)	(26,716)
Net loss for the year	(918,227)	(1,362,070)
Deficit, beginning of year		
As previously stated	(3,752,757)	(3,044,517)
Adjustment for retroactive adoption of amendments to stock-based compensation standard (note 2(g))	-	(318,843)
Adjustment for retroactive change in accounting policy (note 2(e))	(3,611,485)	(2,638,812)
As restated	(7,364,242)	(6,002,172)
Deficit, end of year	\$ (8,282,469)	\$ (7,364,242)
Loss per share (note 2(k)), basic and diluted	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding, basic and diluted	54,896,324	51,349,248

See accompanying notes to financial statements.

CANGOLD LIMITED

Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

	2006	2005
		(Restated - note 2(e))
Cash flows used in operating activities:		
Net loss for the year	\$ (918,227)	\$ (1,362,070)
Adjustment to reconcile net loss to cash provided by operating activities:		
Amortization	1,161	1,659
Stock-based compensation	231,176	32,980
Issuance of shares for mineral property exploration expenditures	1,500	-
Shares received through option of mineral property	-	(62,000)
Write-down of short-term investments	10,750	32,500
Changes in non-cash operating working capital:		
Accounts receivable	12,725	212,447
Prepaid expenses and advances	241,559	(32,927)
Accounts payable and accrued liabilities	(118,016)	50,847
Net cash used in operating activities	(537,372)	(1,126,564)
Cash flows used in investing activities:		
Reclamation deposit	(7,000)	(25,800)
Net cash used in investing activities	(7,000)	(25,800)
Cash flows from financing activities:		
Issuance of shares for cash, net of costs	1,117,156	1,100,500
Decrease in due to related parties	(6,565)	(2,544)
Net cash from financing activities	1,110,591	1,097,956
Increase (decrease) in cash and cash equivalents	566,219	(54,408)
Cash and cash equivalents, beginning of year	497,928	552,336
Cash and cash equivalents, end of year	\$ 1,064,147	\$ 497,928

See accompanying notes to financial statements.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

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.

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

During the year ended June 30, 2006, the Company incurred a loss of approximately \$918,000 (2005 - \$1,362,000) and used cash for operations of approximately \$537,000 (2005 - \$1,127,000). In addition, as at June 30, 2006 the Company has a deficit of approximately \$8,282,000.

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

The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities 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 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 the 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 assumptions used in 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

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

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 Company changed its accounting policy for mineral property exploration expenditures in its fourth quarter of 2006. Prior to March 31, 2006, all acquisition costs and exploration expenditures were capitalized on a property-by-property basis. The Company changed its policy, on a retroactive basis, to expense, as incurred, acquisition costs, periodic option payments related to mineral properties, exploration expenditures and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. Mineral property acquisition costs 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. If the Company owns an interest in a mineral property, exploration expenditures are recognized for only the Company's proportionate interest in the property. This policy change has been applied retroactively and has reduced mineral properties by \$3,255,285, increased capital stock by \$356,200 and increased opening deficit by \$2,638,812 as at June 30, 2005 and increased the net loss for the year ended June 30, 2005 by \$972,673 thereby increasing the deficit to \$7,364,242 as at June 30, 2005. This policy change has also increased the loss per share by \$0.01 for the year ended June 30, 2005 to \$0.03.

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

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

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 operations.

(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, 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 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.

Effective July 1, 2005, stock-based payments to employees are accounted for using the fair value based method. 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.

(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 operations.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

2. Significant accounting policies (continued):

(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:

The Company recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

(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.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

3. Mineral property exploration expenditures:

The continuity of mineral property exploration expenditures for 2006 is as follows:

	Casummit (a)	Thorn (b)	Birch (c)	WALP (d)	Lakeview (e)	2006
Exploration expenditures:						
Option payments:						
Cash consideration	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ 5,000
Common shares	-	-	-	-	1,500	1,500
Drilling	-	38,367	-	-	91,304	129,671
Analysis	-	13,760	-	-	3,462	17,222
Field costs	-	183,098	-	-	1,081	184,179
Project administration	-	33,728	-	-	11,170	44,898
Geology	-	25,611	-	-	-	25,611
Geophysics	-	16,501	-	-	-	16,501
Linecutting	-	3,918	-	-	11,200	15,118
	-	314,983	-	-	124,717	439,700
Cost recoveries	-	(29,772)	-	-	-	(29,772)
Consideration for area of interest provision	-	(15,000)	-	-	-	(15,000)
Net expenditures during the year	-	270,211	-	-	124,717	394,928
Cumulative expenditures, beginning of year	1,176,657	1,968,058	110,570	183,092	-	3,438,377
Cumulative expenditures, end of year	\$ 1,176,657	\$ 2,238,269	\$ 110,570	\$ 183,092	\$ 124,717	\$ 3,833,305

The continuity of mineral property exploration expenditures for 2005 is as follows:

	Casummit (a)	Thorn (b)	Birch (c)	WALP (d)	2005
Exploration expenditures:					
Option payments:					
Cash consideration	\$ -	\$ 100,000	\$ -	\$ (5,000)	\$ 95,000
Common shares	-	-	-	-	-
Drilling	(2,075)	97,846	-	-	95,771
Analysis	2,004	17,219	-	-	19,223
Field costs	(13,349)	386,838	-	-	373,489
Project administration	6,578	105,319	1,605	-	113,502
Geology	6,263	153,113	90	-	189,466
Geophysics	236	51,357	-	-	51,593
Linecutting	-	21,350	-	-	21,350
	(343)	933,042	1,695	(5,000)	929,394
Cost recoveries	(2,911)	(54,918)	-	-	(57,829)
Option payments received	-	-	(72,000)	-	(72,000)
Net expenditures during the year	(3,254)	878,124	(70,306)	(5,000)	799,565
Cumulative expenditures, beginning of year	1,179,911	1,089,934	180,875	188,092	2,638,812
Cumulative expenditures, end of year	\$ 1,176,657	\$ 1,968,058	\$ 110,570	\$ 183,092	\$ 3,438,377

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

3. Mineral property exploration expenditures (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, 2006, 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 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, 2006 and 2005

3. Mineral property exploration expenditures (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, 2006 and 2005

3. Mineral property exploration expenditures (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, 2006, 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.

During the year ended June 30, 2006, Trade Winds notified the Company that it elected to terminate the option agreement.

The Company allowed the claims to lapse in May and June, 2006.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

3. Mineral property exploration expenditures (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.

(e) Lakeview property:

Effective November 28, 2005, the Company signed a letter of intent to enter into an option agreement, for a period of three and one-half years, to purchase a 100% undivided interest in the Lakeview mining claims situated in the Omineca Mining Division, Central British Columbia, for a total consideration of \$125,000 and 275,000 common shares, plus a further 200,000 common shares if the property is placed into commercial production.

The interest in the property is subject to a 2% Net Smelter Return Royalty ("NSR") from commercial operations. The Company has the right to acquire at any time a 50% interest in the NSR for consideration of \$1,000,000.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

3. Mineral property exploration expenditures (continued):

(e) Lakeview property (continued):

During the year ended June 30, 2006, the Company paid \$5,000 and issued 25,000 common shares. Subsequent to June 30, 2006, the Company officially terminated the agreement.

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 \$7,000.

4. Equipment:

2006	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 7,803	\$ 6,851	\$ 952
Drilling equipment	6,026	4,269	1,757
	\$ 13,829	\$ 11,120	\$ 2,709

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

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

5. Capital stock:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued:

	Number of shares	Stated value
Balance, June 30, 2004	45,864,316	\$ 6,338,723
Private placement at \$0.16/\$0.20 per share, net of costs (i)	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		
As previously stated	52,364,316	7,051,248
Adjustment for retroactive change in accounting policy (note 2(e))		
Flow-through shares renounced to investors		356,200
As restated	52,364,316	7,407,448
Private placement at \$0.08 per share, net of costs (ii)	1,816,250	142,016
Private placement at \$0.12 per share, net of costs (iii)	6,666,667	792,515
Exercise of "L" warrants	1,716,250	171,625
Exercise of stock options at \$0.11 per share	100,000	11,000
Shares issued for mineral property interests, net of costs (iv)	25,000	1,500
Reclass from contributed surplus on exercise of stock options		3,150
Balance, June 30, 2006 (v)	62,688,483	\$ 8,529,254

(i) 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. All of the share purchase warrants expired unexercised.

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, 2006 and 2005

5. Capital stock (continued):

(b) Issued (continued):

- (ii) During the year ended June 30, 2006, the Company completed a private placement of 1,816,250 units, at \$0.08 per unit for net cash proceeds of \$142,016. Each unit consists of one common share and one non-transferable Series "L" share purchase warrant which entitles the holder to purchase one common share of the Company for \$0.10 per share until May 28, 2007. Two companies with directors in common participated by acquiring 1,716,250 units.
- (iii) During the year ended June 30, 2006, the Company completed a private placement of 6,666,667 units, at \$0.12 per unit for net cash proceeds of \$792,515. Each unit consists of one common share and one non-transferable Series "M" share purchase warrant which entitles the holder to purchase one common share of the Company for \$0.15 per share until April 26, 2008. Senior officers and a company with directors in common participated by acquiring 100,000 and 1,100,000 units, respectively.
- (iv) During the year ended June 30, 2006, the Company issued, pursuant to the terms of the letter of intent for one of the mineral properties (note 3(e)), 25,000 common shares with a fair value of \$0.06 per share for a total assigned value of \$1,500.
- (v) Included in issued capital stock are 158,672 (2005 - 238,008) 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, 2006, 79,366 (2005 - 79,366) escrow shares were released pursuant to the amendment to the escrow agreement.

(c) Contributed surplus:

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
<hr/>	
Balance, June 30, 2005	608,712
Stock-based compensation for employee awards	143,992
Stock-based compensation for non-employee awards	87,184
Reclassification to common shares on exercise of stock options	(3,150)
<hr/>	
Balance, June 30, 2006	\$ 836,738

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

5. Capital stock (continued):

(d) Warrants:

The continuity of share purchase warrants for 2006 is as follows:

Series	Exercise price	Expiry date	June 30, 2005	Issued	Exercised	Expired	June 30, 2006
Series "I" (extended to)	0.15	Apr 5, 2005 Oct 5, 2005	5,800,000	-	-	(5,800,000)	-
Series "K"	0.22	Aug 27, 2005	750,000	-	-	(750,000)	-
Broker Warrants	0.20	Aug 27, 2005	520,000	-	-	(520,000)	-
Series "L"	0.10	May 28, 2007	-	1,816,250	1,716,250	-	100,000
Series "M"	0.15	Apr 26, 2008	-	6,666,667	-	-	6,666,667
			7,070,000	8,482,917	1,716,250	(7,070,000)	6,766,667

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)	-
Agents' Options	to 0.30	to Oct 28, 2004					
	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)	-
Finders' Warrants	to 0.20	to Mar 19, 2005					
	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" (extended to)	0.15	Apr 5, 2005 Oct 5, 2005	5,800,000	-	-	-	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)	-
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, 2006 and 2005

5. Capital stock (continued):

(e) Stock options:

Pursuant to the policies of the TSX-V, the Company may grant incentive stock options to its officers, directors, employees and consultants. TSX-V policies permit the Company's directors to grant incentive stock options for the purchase of shares of the Company to qualified persons as incentive for their services. Pursuant to the Company's 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.

The continuity of common share stock options for 2006 is as follows:

Exercise price	Expiry date	June 30, 2005	Granted	Cancelled/ expired	Exercised	June 30, 2006
\$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	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)	-
0.12	March 29, 2010	-	1,700,000	-	-	1,700,000
0.17	April 30, 2008	-	200,000	-	-	200,000
0.15	May 7, 2011	-	500,000	-	-	500,000
		3,875,000	2,400,000	(200,000)	(100,000)	5,975,000
Weighted average exercise price		\$0.20	\$ 0.13	\$ 0.28	\$ 0.11	\$ 0.17

As at June 30, 2006, 5,825,000 options with a weighted average exercise price of \$0.17, were exercisable.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

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

The weighted average fair value of options granted during 2006 was \$0.10 (2005 - \$0.08). The average fair value per option was determined using the following weighted average assumptions:

	2006	2005
Risk-free interest rate	4.12%	3.42%
Dividend yield	0%	0%
Expected life	3 years	3 years
Volatility	97%	88%

6. Related party transactions:

- (a) Amounts due to related parties consist of \$20,266 (2005 - \$26,831) 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 property exploration expenditures (note 3) are amounts totalling \$10,715 (2005 - \$15,315) for geological consulting costs charged to the Company by an officer or a company controlled by a director of the Company.
- (c) Included in expenses are amounts totalling \$161,737 (2005 - \$254,940) 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.

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

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 approximately 34% to the loss before income taxes. The reasons for the differences are as follows:

	2006	2005
Computed tax recovery	\$ (313,299)	\$ (485,169)
Financing costs deductible for tax purposes	(54,905)	(58,619)
Non-deductible capital items and other	82,924	12,469
Benefit of current year losses not recognized	273,376	498,826
Resource adjustment	11,904	32,493
Income tax recovery	\$ -	\$ -

The Company has incurred non-capital losses of approximately \$1,860,000 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:

2007	\$ 163,000
2009	197,000
2010	294,000
2011	364,000
2015	453,000
2026	389,000

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.

As at June 30, 2006 and 2005, the tax effect of the significant components within the Company's future tax asset is as follows:

	2006	2005
Future tax assets:		
Non-capital losses carried forward	\$ 576,396	\$ 693,035
Net capital losses carried forward	566,229	650,615
Mineral properties	884,834	870,273
Foreign resource pools	194,180	223,119
Financing costs	79,984	149,223
Other	20,833	21,609
Total future tax assets	2,322,456	2,607,874
Valuation allowance	(2,322,456)	(2,607,874)
Future tax assets, net of allowance	\$ -	\$ -

CANGOLD LIMITED

Notes to Financial Statements
(Expressed in Canadian dollars)

Years ended June 30, 2006 and 2005

7. Income taxes (continued):

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, amounts 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.

9. Subsequent event:

Subsequent to June 30, 2006, the Company entered into a consulting services agreement whereby the consultant will provide certain corporate communications services to the Company and in consideration the Company made a cash payment of \$10,000 (plus GST) and granted incentive stock options to purchase 150,000 common shares at an exercise price of \$0.15 per share for a period of one year expiring on August 2, 2007.

CANGOLD LIMITED

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

For the year ended June 30, 2006

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, 2006 with those of the corresponding year ended June 30, 2005. For a more complete understanding of the Company's financial condition and results of operations, this MD&A should be read together with the 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 Company expressly disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information is only provided as of the date of this MD&A, September 22, 2006 (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 up to the present time have been focused on the exploration and development of precious and base metals in Canada, principally in northern Ontario and northwestern British Columbia. As announced in the news release dated February 12, 2006, the Company will also be concentrating on acquiring gold and copper exploration and production properties in Mexico.

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

The Company changed its accounting policy for mineral property exploration expenditures in the fourth quarter of 2006. The Company now expenses, as incurred, acquisition costs, periodic option payments related to mineral properties, exploration expenditures and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. Mineral property acquisition costs and exploration and development expenditures incurred subsequent to the determination of the feasibility of mining operations are capitalized until the property to which they relate is placed into production, sold, abandoned or the exploration rights are allowed to lapse. These accumulated costs will be amortized to operations by unit-of-production depletion once commercial production has commenced.

In November, 2005, the Company completed a private placement, issuing a total of 1,816,250 units for net cash proceeds of \$142,016 and in April, 2006, the Company completed a second private placement, issuing a total of 6,666,667 units for net cash proceeds of \$792,515. During the year, the Company also raised gross cash proceeds of \$182,625 from the exercise of "L" warrants and stock options. The proceeds from the financings and the warrant and stock option exercises will be used for general working capital purposes and property acquisition investigations.

CANGOLD LIMITED

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

For the year ended June 30, 2006

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		
	2006	2005⁽²⁾	2004⁽²⁾
a) Net sales or total revenues	\$Nil	\$Nil	\$Nil
b) Income (loss) from continuing operations:			
in total	\$(918,227)	\$(1,362,070)	\$(2,201,958)
on a per share basis ⁽¹⁾	\$(0.02)	\$(0.03)	\$(0.06)
c) Net income (loss):			
in total	\$(918,227)	\$(1,362,070)	\$(2,201,958)
on a per share basis ⁽¹⁾	\$(0.02)	\$(0.03)	\$(0.06)
d) Total assets:	\$1,128,706	\$821,682	\$1,001,969
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.

⁽²⁾ The financial information has been restated to reflect the Company's change in accounting policy to expense all acquisition costs and exploration and development expenditures incurred prior to commercial feasibility of mining operations being established.

Net sales or total revenues

Cangold is in the business of exploring for, and where warranted, developing precious and base metals. The Company has no producing properties, and consequently has no sales or revenues in any of the last three financial years.

Loss from continuing operations and Net Loss

There is a \$443,843 decrease in the loss from continuing operations and net loss from 2005 to 2006. A \$404,637 decrease in mineral property exploration expenditures and a 213,105 decrease in general and administrative expenses, excluding mineral property exploration expenditures and stock-based compensation, in 2006 are major contributors to the lower loss, partially offset by an increase of \$198,196 in stock-based compensation expense.

Mineral property exploration expenditures will vary substantially from year to year and are difficult to predict in advance. The magnitude of the annual exploration expense is dependent on the Company's decision to undertake exploration programs on existing properties as well as its decision to undertake any new properties. Fluctuations in exploration expenses generally have a corresponding impact on the fluctuations in general and administrative expenses.

CANGOLD LIMITED

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

For the year ended June 30, 2006

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 2006, 2005 and 2004 was \$231,176, \$32,980 and \$70,669 respectively.

Total assets

The change in total assets over the three year period from 2004-2006 is largely the result of a change in the cash and cash equivalents balance and in the amount of advances outstanding on exploration programs at the yearend.

Results of Operations

The Company reports a loss of \$918,227 and cash outflows from operations of \$537,372 for the year ended June 30, 2006 compared with a loss of \$1,362,070 and cash outflows from operations of \$1,126,564 for same twelve-month period in 2005. 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.

General and administrative expenses, excluding mineral property exploration expenditures and stock-based compensation, for 2006 were \$289,704 compared with \$502,809 for 2005. The decrease is largely attributable to a reduction in costs associated with a reduction in exploration activity, a reduction in promotional activities and an overall decrease in activity in the Company. Major components in the decrease from 2005 to 2006 included consulting (incurred), investor relations, management fees, office, professional fees and travel expense.

There was a substantial increase in stock-based compensation, a non-cash charge, from \$32,980 in 2005 to \$231,176 in 2006 as more options were granted in 2006 (2,400,000 versus 300,000 in 2005). As discussed above, it is difficult to forecast in advance when such grants will be made and therefore when the associated stock-based compensation expense recorded.

Exploration Activities and Property Expenditures

During the year ended June 30, 2006, Cangold spent \$439,700 on exploration costs, including option payments, recovered \$29,772 and received \$15,000 as consideration for a change in the area of mutual interest provision in the Thorn option agreement. During the same twelve-month period of the previous year, the Company spent \$929,394 on exploration costs, including option payments, recovered \$57,829 and received option payments of \$72,000.

The notes to the June 30, 2006 audited financial statements contain a schedule summarizing the total expenditures made on the properties.

a) Birch Lake Property:

Recent Exploration Activities

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

CANGOLD LIMITED

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

For the year ended June 30, 2006

The primary exploration target on the Birch Lake Property is iron formation-hosted gold. Exploration will focus on areas of structural complexity that may be amenable to gold mineralization.

During the year ended June 30, 2005, the Company optioned the Birch Lake Property to Trade Winds Ventures Inc. ("Trade Winds"). 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 has not furnished Cangold with results of the drilling, they terminated their option on the Property on August 31, 2005.

The Company allowed the Birch Lake claims to lapse in May and June, 2006.

b) Casummit Lake Property:

Recent Exploration Activities

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

No field work was conducted on the Property during the years ended June 30, 2005 and June 30, 2006. Management believes however, that the Casummit Lake Property justifies further expenditures which will be required to fully test its potential.

c) Thorn Property:

Recent Exploration Activities

The Thorn Property consists of 574 claim units and is located in the Atlin Mining Division, Northwestern British Columbia.

An exploration program, which began in June, 2005 and was 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.

CANGOLD LIMITED

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

For the year ended June 30, 2006

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

d) Lakeview Property:

On November 28, 2005, the Company signed a letter of intent to enter into an option agreement, for a period of three and one-half years, to purchase a 100% undivided interest in the Lakeview mining claims located in the Omineca Mining Division, Central British Columbia, for a total consideration of \$125,000 and 275,000 common shares, plus a further 200,000 common shares if the property is placed into commercial production. During the year ended June 30, 2006, the Company paid \$5,000 and issued 25,000 common shares.

The interest in the property is subject to a 2% Net Smelter Return Royalty ("NSR") from commercial operations. The Company has the right to acquire at any time a 50% interest in the NSR for consideration of \$1,000,000.

Recent Exploration Activities

A surface diamond drill program was commenced and completed on the Lakeview Property in December, 2005. The program was designed to test a known mineralized horizon at 50 metre centres over a strike length of 300 metres and to give a good preliminary assessment of the potential for the property to host a significant sulphide deposit. A total of seven holes were completed, comprising 798 metres, drilled under both the northern and southern trenches. Two holes, drilled under the north trench, intersected significant mineralization. The other five holes returned no significant values. The results suggest that mineralization is intermittent at this location and/or may be zoned, as is common in volcanogenic sulphide deposits.

The Company subsequently determined that there was not sufficient positive information to proceed with further work and officially terminated the agreement in July, 2006.

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) ⁽²⁾	Net income (loss) per share ⁽¹⁾⁽²⁾
June 30, 2006	\$Nil	\$(327,934)	\$(0.01)
March 31, 2006	\$Nil	\$(73,773)	\$(0.01)
December 31, 2005	\$Nil	\$(195,377)	\$(0.01)
September 30, 2005	\$Nil	\$(321,143)	\$(0.01)
June 30, 2005	\$Nil	\$(251,375)	\$(0.01)
March 31, 2005	\$Nil	\$(133,542)	\$(0.01)
December 31, 2004	\$Nil	\$(514,634)	\$(0.01)
September 30, 2004	\$Nil	\$(462,519)	\$(0.01)

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

⁽²⁾ The financial information has been restated to reflect the Company's change in accounting policy to expense all acquisition costs and exploration and development expenditures incurred prior to commercial feasibility of mining operations being established.

CANGOLD LIMITED

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

For the year ended June 30, 2006

It is the nature of junior exploration companies that there are no sales or revenue. There can also be significant variances in the Company's reported loss from quarter to quarter arising from factors that are difficult to anticipate in advance or to predict from past results. Due to the seasonal nature of exploration and the dependency on the climate, expenditures generally exhibit a seasonal variation. The granting of incentive stock options, which results in the recording of amounts for stock-based compensation can be quite large in relation to other general and administrative expenses incurred in any given quarter.

Liquidity and Capital Resources

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

In order to finance its exploration activities and corporate overhead, the Company is dependent on investor sentiment remaining positive towards the gold and silver exploration business generally, and towards Cangold in particular, so that funds can be raised through the sale of the Company's securities. Many factors have an influence on investor sentiment, including a positive climate for mineral exploration, a company's track record and the experience and calibre of a company's management. There is no certainty that equity funding will be available at the times and in the amounts required to fund the Company's activities. Note 1 to the Company's 2006 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's cash and cash equivalents balance was \$1,064,147 at June 30, 2006 as compared to \$497,928 at June 30, 2005. 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 \$1,048,014 as at June 30, 2006 compared with working capital of \$622,248 as at June 30, 2005. 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 has no off-balance sheet arrangements. Cangold does not use hedges or other financial derivatives.

Investing Activities

During the year ended June 30, 2006, the Company's cash outflows from investing activities was \$7,000 (2005 - \$25,800).

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

Financing Activities

On November 28, 2005, the Company closed a private placement. The Company issued 1,816,250 units at \$0.08 per unit for net cash proceeds of \$142,016. Each unit consists of one common share and one non-transferable Series L share purchase warrant. Each Series L share purchase warrant entitles the holder to purchase, upon exercise, one further common share of the Company for \$0.10 per share until May 28, 2007. No finder's fees were paid.

CANGOLD LIMITED

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

For the year ended June 30, 2006

On April 26, 2006, the Company closed a private placement, issuing 6,666,667 units at \$0.12 per unit for net cash proceeds of \$792,515. Each unit consists of one common share and one non-transferable Series M share purchase warrant. Each Series M share purchase warrant entitles the holder to purchase, upon exercise, one further common share of the Company for \$0.15 per share until April 26, 2008. No finder's fees were paid.

During the year, stock options to purchase 100,000 common shares at a price of \$0.11 per share were exercised for total proceeds of \$11,000 and series L share purchase warrants to purchase 1,716,250 common shares at a price of \$0.10 per share were exercised for total proceeds of \$171,625.

During the year, the Company granted options, under its stock option plan, to purchase 200,000 common shares with an exercise price of \$0.17 per share expiring April 30, 2008, 1,700,000 common shares with an exercise price of \$0.12 per share expiring March 29, 2010 and 500,000 common shares with an exercise price of \$0.15 expiring May 7, 2011.

As at June 30, 2006, Cangold had 62,688,483 common shares issued and outstanding.

Subsequent to June 30, 2006, the Company granted options, under its stock option plan, to purchase 150,000 common shares with an exercise price of \$0.15 per share expiring August 2, 2007.

Outstanding Share Data as at September 22, 2006

As at September 22, 2006 (the "Report Date"), the Company has 62,688,483 common shares issued and outstanding, or 75,580,150 common shares on a fully diluted basis. If the Company were to issue all 6,766,667 shares issuable upon the exercise of all warrants outstanding and all 6,125,000 shares issuable upon the exercise of all incentive stock options outstanding, it would raise approximately \$2,045,000.

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 \$161,737:

- a) Paid or accrued consulting fees totalling \$6,670 to a company with a director in common and \$1,710 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 \$24,110 to a company with a director in common.
- d) Paid or accrued office rent and administration costs totalling \$39,247 to a company with a director in common and \$30,000 to an officer of the Company.

Included in mineral property exploration expenditures are paid or accrued geological consulting costs totalling \$640 to a company with a director in common and \$10,075 to an officer of the Company.

Included in due to related parties totalling \$20,266, is \$2,591 due to companies with directors in common, \$15,000 due to directors of the Company and \$2,675 due to officers of the Company.

CANGOLD LIMITED

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

For the year ended June 30, 2006

Events Subsequent to June 30, 2006

In the opinion of management, the only significant event that transpired subsequent to June 30, 2006 was as follows:

The Company entered into a consulting services agreement whereby the consultant will provide certain corporate communication services to the Company and in consideration the Company made a cash payment of \$10,000 (plus GST) and granted incentive stock options to purchase 150,000 common shares at an exercise price of \$0.15 per share expiring on August 2, 2007.

Critical Accounting Estimates

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles and requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the assumptions used in determining the fair value of non-cash stock-based compensation. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years could differ from these estimates.

Changes in Accounting Policies including Initial Adoption

Mineral Properties

The Company changed its accounting policy for mineral property exploration expenditures in its fourth quarter of 2006. Prior to March 31, 2006, all acquisition costs and exploration expenditures were capitalized on a property-by-property basis. The Company changed its policy, on a retroactive basis, to expense, as incurred, acquisition costs, periodic option payments related to mineral properties, exploration expenditures and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. Mineral property acquisition costs 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. If the Company owns an interest in a mineral property, exploration expenditures recognize only the Company's proportionate interest in the property. This policy change has been applied retroactively and has reduced mineral properties by \$3,255,285, increased capital stock by \$356,200 and increased beginning deficit by \$2,638,812 as at June 30, 2005 and increased the net loss for the year ended June 30, 2005 by \$972,673 thereby increasing the deficit to \$7,364,242 as at June 30, 2005. This policy change has also increased the loss per share by \$0.01 for the year ended June 30, 2005 to \$0.03.

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

Financial Instruments

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

CANGOLD LIMITED

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

For the year ended June 30, 2006

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 Multilateral Instrument 52-109 have evaluated the effectiveness of these disclosure controls and procedures for the year ending June 30, 2006 and have concluded that they are being maintained as designed.

The Officers have also concluded that there has been no change in the Company's internal control over financial reporting during the most recent interim period that has materially affected, or is reasonably likely to affect, the internal control over financial reporting.

Additional Sources of Information

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