



2004 ANNUAL REPORT



Directors' Letter to Shareholders

April 12, 2005

Dear Shareholders,

During 2004, Canasil implemented the planned exploration program on the Tres Marias and Cebollas silver-gold projects in Durango State, Mexico, under our option agreement with Wheaton River Minerals and Luismin. The program included satellite surveys, mapping, sampling and drilling, for a total expenditure of \$296,065. The area covered by these projects was expanded from 2,326 hectares to 3,163 hectares.

The drill program returned several significant high-grade silver-gold intersections, and confirmed the mineralized structures in the zones tested. However a number of intercepts did not return the expected level of gold and silver grades due to intrusive formations in the vein structures. We are reviewing the results to determine future exploration plans for these projects. Our commitments under the agreements have been fulfilled to October 2006.

During the year we actively pursued the acquisition of additional silver-gold projects in Mexico, particularly for more advanced drill ready projects with the potential for hosting a significant deposit. We also registered a Mexican operating subsidiary, Minera Canasil S.A. de C.V., based in Durango, Mexico, together with the technical, administrative and legal infrastructure required to develop our activities in Mexico. We are now well positioned for the evaluation, acquisition and administration of mineral exploration projects in Mexico.

Between June and October 2004 Northgate Minerals Corp. completed a drill program for a total expenditure of \$246,680 on the Brenda gold-copper project in British Columbia under the option agreement for Northgate to earn a 60% interest in this project. Northgate reported significant gold and copper intersections, but decided to terminate the agreement in October 2004, as the average grades observed in the zone tested were sub-economic. This decision had a negative impact on the perceived value of the Brenda project and on Canasil's share value.

Northgate's exploration programs on the Brenda project between 2002 and 2004, with cumulative expenditures of \$621,347, have significantly advanced this project. Canasil now retains 100% title to this advanced gold-copper exploration project, with over \$3,000,000 expenditures to date and 7,730 metres of diamond drilling. The Brenda project hosts a large gold-copper porphyry system in the highly prospective Kemess-Toodoggone exploration camp.

Directors' Letter to Shareholders, (contd.)

Our subsequent review of the extensive exploration data on the Brenda project has identified two large potential target zones on the property, which have not been tested by past exploration and drilling. The Brenda project has the potential for creating significant value, and we plan to apply for permits for further exploration, including diamond drilling, to investigate these target zones.

During 2004, Canasil had a significantly more active investor relations program with expenditures of \$24,965, and exhibited at the Calgary Resource Investment Conference in April 2004 and the Vancouver Gold Conference in June 2004.

Our objectives for 2005 will be to:

- Review the results and determine plans for further exploration of the Tres Marias and Cebollas projects*
- Expand our portfolio of silver and gold projects in Mexico, with particular emphasis on acquiring advanced drill ready exploration projects, and earlier stage projects with high upside potential and low acquisition costs*
- Continue with the exploration of the Brenda project, directly if the required financing is secured, or through joint venture with other companies, in order to investigate the untested target zones*
- Strengthen our investor relations program so that the inherent value of our projects in Mexico and Canada are reflected in our share price and liquidity*
- Strengthen the Company's working capital through additional financing*

We have actively pursued these objectives during the first quarter of 2005, and believe that our continued efforts will generate results and a significant improvement in shareholder value during 2005.

On behalf of the Board,

"Bahman Yamini"

Bahman Yamini, President, CEO & Director

CANASIL RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the consolidated balance sheets of Canasil Resources Inc. as at December 31, 2004 and 2003 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY”

Vancouver, Canada

Chartered Accountants

March 18, 2005

A Member of SC INTERNATIONAL

CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2004	2003
ASSETS		
Current		
Cash and equivalents	\$ 681,818	\$ 1,261,072
Receivables	30,058	4,580
Prepaid expenses	<u>191</u>	<u>424</u>
	712,067	1,266,076
Equipment (Note 3)	2,240	2,479
Resource properties (Note 4)	1,650,561	1,328,719
Reclamation bond	<u>13,000</u>	<u>13,000</u>
	<u>\$ 2,377,868</u>	<u>\$ 2,610,274</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 21,947</u>	<u>\$ 98,948</u>
Stockholders' equity		
Capital stock (Note 5)	5,762,048	5,762,048
Contributed surplus (Note 5)	414,403	347,430
Deficit	<u>(3,820,530)</u>	<u>(3,598,152)</u>
	<u>2,355,921</u>	<u>2,511,326</u>
	<u>\$ 2,377,868</u>	<u>\$ 2,610,274</u>

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Bahman Yamini"

Director

"Alvin Jackson"

Director

The accompanying notes are an integral part of these consolidated financial statements.

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2004	2003
EXPENSES		
Accounting and audit	\$ 15,427	\$ 12,000
Amortization	524	619
Directors fees	15,000	13,000
Foreign exchange	4,124	1,196
General exploration	6,903	26,425
Investor relations	24,965	2,349
Legal fees	15,428	9,104
Management fees	60,000	41,000
Office services and supplies	10,347	7,270
Registration, licence and filing	9,575	9,382
Stock-based compensation (Note 6)	66,973	33,491
Stock transfer fees	5,826	4,478
Telephone	5,053	3,478
Travel and conferences	<u>3,852</u>	<u>403</u>
Loss before other item	(243,997)	(164,195)
OTHER ITEM		
Interest income	<u>21,619</u>	<u>1,002</u>
Loss for the year	(222,378)	(163,193)
Deficit, beginning of year	<u>(3,598,152)</u>	<u>(3,434,959)</u>
Deficit, end of year	<u>\$ (3,820,530)</u>	<u>\$ (3,598,152)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>18,432,342</u>	<u>12,942,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (222,378)	\$ (163,193)
Items not affecting cash:		
Amortization	524	619
Stock-based compensation	66,973	33,491
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(25,478)	786
Decrease in prepaid expenses	233	691
Increase (decrease) in accounts payable and accrued liabilities	<u>(77,001)</u>	<u>71,801</u>
Net cash used in operating activities	<u>(257,127)</u>	<u>(55,805)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Common shares and warrants issued for cash	-	1,275,000
Finders' fees	-	(60,725)
Share issuance costs	<u>-</u>	<u>(22,147)</u>
Net cash provided by financing activities	<u>-</u>	<u>1,192,128</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Resource property option payment received	5,000	30,000
Resource property costs and deferred exploration costs	(326,842)	(18,914)
Equipment	<u>(285)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(322,127)</u>	<u>11,086</u>
Change in cash and equivalents during the year	(579,254)	1,147,409
Cash and equivalents, beginning of year	<u>1,261,072</u>	<u>113,663</u>
Cash and equivalents, end of year	<u>\$ 681,818</u>	<u>\$ 1,261,072</u>

Supplemental disclosure with respect to cash flows (Note 8)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (the "Company") was incorporated under the Company Act of British Columbia and is considered to be in the exploration stage with respect to its interests in resource properties. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves.

The recovery of the amounts comprising resource properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete its exploration and development and upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	2004	2003
Deficit	\$ (3,820,530)	\$ (3,598,152)
Working capital	690,120	1,167,128

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Minera Canasil, S.A. de C.V., a company incorporated in Mexico on November 8, 2004. All significant inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

Cash and equivalents

Cash and equivalents include highly liquid investments with original maturities of three months or less.

Equipment and amortization

Equipment, being furniture and equipment, is recorded at cost and is amortized over its estimated useful life using the declining balance method at 20% per annum.

2. **SIGNIFICANT ACCOUNTING POLICIES** (cont'd...)

Resource properties

All costs related to the acquisition, exploration and development of resource properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment whenever events or changes in circumstances indicated that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Cost of maintaining resource properties

The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

Asset retirement obligations

The CICA recently issued a new section in the CICA Handbook, section 3110, *Asset retirement obligations*, which was effective January 1, 2004. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Adoption of this standard has not affected the Company's financial statements.

Foreign currency translation

The Company's subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transactions. Translation gains and losses are reflected in the results of operations.

Future income taxes

Future income taxes are recorded using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

2. **SIGNIFICANT ACCOUNTING POLICIES** (cont'd...)

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

Stock-based compensation

The Company adopted the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. Effective January 1, 2003, the Company adopted the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. **EQUIPMENT**

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 9,527	\$ 7,287	\$ 2,240	\$ 9,242	\$ 6,763	\$ 2,479

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

4. RESOURCE PROPERTIES

	Tres Marias and Cebollas, Mexico	Brenda Claims, Canada	Total
2004			
Acquisition costs			
Balance, beginning of year	\$ 15,570	\$ 144,551	\$ 160,121
Acquisition costs	30,777	-	30,777
Option payments	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Balance, end of year	<u>46,347</u>	<u>139,551</u>	<u>185,898</u>
Deferred exploration costs			
Balance, beginning of year	<u>11,497</u>	<u>1,157,101</u>	<u>1,168,598</u>
Assays	9,773	-	9,773
Camp and general	6,532	-	6,532
Drilling	159,485	-	159,485
Geology	66,086	-	66,086
Mapping and surveying	18,556	-	18,556
Sampling	3,929	-	3,929
Transportation and general	8,004	-	8,004
Taxes	<u>23,700</u>	<u>-</u>	<u>23,700</u>
Incurred during the year	<u>296,065</u>	<u>-</u>	<u>296,065</u>
Balance, end of year	<u>307,562</u>	<u>1,157,101</u>	<u>1,464,663</u>
Total	<u>\$ 353,909</u>	<u>\$ 1,296,652</u>	<u>\$ 1,650,561</u>

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

4. RESOURCE PROPERTIES (cont'd...)

2003	Tres Marias and Cebollas, Mexico	Brenda Claims, Canada	Total
Acquisition costs			
Balance, beginning of year	\$ -	\$ 174,551	\$ 174,551
Acquisition costs	15,570	-	15,570
Option payments	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
Balance, end of year	<u>15,570</u>	<u>144,551</u>	<u>160,121</u>
Deferred exploration costs			
Balance, beginning of year	-	1,156,454	1,156,454
Geology	<u>11,497</u>	<u>647</u>	<u>12,144</u>
Balance, end of year	<u>11,497</u>	<u>1,157,101</u>	<u>1,168,598</u>
Total	<u>\$ 27,067</u>	<u>\$ 1,301,652</u>	<u>\$ 1,328,719</u>

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties is in good standing.

Tres Marias and Cebollas, Mexico

In fiscal 2003, the Company entered into an option agreement with Wheaton River Minerals Ltd. (“Wheaton”) and its wholly owned subsidiary Minas Luismin S.A. de C.V. to earn a 51% interest in the Tres Marias and Cebollas Gold / Silver properties located in Durango State, Mexico. Pursuant to the agreement, the Company issued 50,000 common shares at a value of \$8,000 to Wheaton and paid a finder’s fee comprised of \$5,000 and 5,000 common shares at a value of \$800 to a third party.

To earn its interest, the Company is required to incur a minimum of US\$1,000,000 in exploration expenditures over five years. The Company's interest may be increased to 75% in the sixth year by incurring a further US\$700,000 in exploration expenditures. Wheaton may buy back a 35% interest in the properties for US\$1,700,000 after the Company has acquired a 75% interest. Certain claims within the property package are subject to a 3% net smelter returns royalty (“NSR”).

Brenda Claims, Canada

The Company holds a 100% interest in twenty-two mineral claims consisting of 178 units known as the Brenda Claims in North Central British Columbia valid to May 30, 2015.

In fiscal 2002, the Company granted Northgate Minerals Corporation (“Northgate”) an option to acquire a 60% interest in the property by incurring exploration expenditures of \$2,000,000 and paying a total of \$140,000 to the Company over a period of four years. Northgate reported cumulative exploration expenditures of \$621,347 however, during fiscal 2004, Northgate terminated its option.

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

4. RESOURCE PROPERTIES (cont'd...)

Brenda Claims, Canada (cont'd...)

The Company received option and extension payments under the agreement from 2002 to 2004 in the amount of \$55,000 which have been credited to resource property costs.

Lil Claim, Canada

The Company has one mineral claim consisting of 20 units known as the Lil Claim in the Omineca Mining division of British Columbia valid to May 31, 2005. Due to a delay in the exploration of the property, cumulative expenditures of \$388,515 were written off in prior years.

Granite Claims, Canada

The Company owns four mineral claims consisting of 76 units known as the Granite Claims in the Omineca Mining division of British Columbia of which 20 units are valid to October 6, 2009 and 56 units are valid to October 6, 2005. Due to a delay in the exploration of the property, cumulative expenditures of \$233,256 were written off in prior years.

Vega Claims, Canada

The Company owns six mineral claims consisting of 56 units known as the Vega Claims in the Omineca Mining division of British Columbia valid to June 14, 2005. Due to a delay in the exploration of the property, cumulative expenditures of \$27,700 were written off in prior years.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus	Total
Authorized				
50,000,000 common voting shares, no par value				
Common shares issued				
Balance, December 31, 2002	12,877,342	\$ 4,845,059	\$ 30,000	\$ 4,875,059
Resource property	50,000	8,000	-	8,000
Finder's fee on resource property	5,000	800	-	800
Warrants exercised	1,000,000	150,000	-	150,000
Private placement	4,500,000	894,405	230,595	1,125,000
Finders' fees on private placement	-	(114,069)	53,344	(60,725)
Share issuance costs	-	(22,147)	-	(22,147)
Stock-based compensation	-	-	33,491	33,491
Balance, December 31, 2003	18,432,342	5,762,048	347,430	6,109,478
Stock-based compensation	-	-	66,973	66,973
Balance, December 31, 2004	18,432,342	\$ 5,762,048	\$ 414,403	\$ 6,176,451

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Private placement

During the year ended December 31, 2003, the Company issued 4,500,000 units at a price of \$0.25 per unit for gross proceeds of \$1,125,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant. One whole warrant entitles the holder to acquire one additional common share at a price of \$0.35 expiring December 31, 2004. On December 2, 2004, the Company extended the expiry date of these warrants to June 30, 2005, exercisable at \$0.35 per share. The share purchase warrants issued as part of this private placement have been recorded at a fair value of \$230,595 and are included in contributed surplus. Finders' fees included the Company paying \$60,725 and issuing 520,500 warrants exercisable into additional common shares at \$0.35 per share expiring December 31, 2004. The finders' warrants have been recorded at a fair value of \$53,344, which is included in contributed surplus.

6. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") which complies with the rules set forth for such plans by the TSX Venture Exchange ("TSX-V") in that at no time may more than 5% of the outstanding issued common shares be reserved for incentive stock options granted to any one individual. The Plan provides for the issuance of options to directors, officers and employees of the Company and its subsidiaries to purchase common shares of the Company. The stock options may be issued at the discretion of the Board of Directors and may be exercisable during a period not exceeding five years. Stock options granted under the Plan will vest in equal quarterly tranches over a period of not less than 18 months. At no time will more than 2,000,000 shares be under option pursuant to the Plan. The exercise price will not be lower than, the greater of, "market price" of the shares on the TSX-V at the time of grant or \$0.10 per share.

As at December 31, 2004, the Company had outstanding stock options and warrants, enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	300,000	\$ 0.32	May 11, 2005
	100,000	0.23	April 17, 2007
	650,000	0.26	November 6, 2008
Warrants	2,250,000	0.35	June 30, 2005

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

6. STOCK OPTIONS AND WARRANTS (cont'd...)

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, December 31, 2002	1,000,000	\$ 0.15	1,085,000	\$ 0.34
Cancelled/expired	-	-	(500,000)	0.33
Granted	2,770,500	0.35	650,000	0.26
Exercised	(1,000,000)	0.15	-	-
Balance, December 31, 2003	2,770,500	0.35	1,235,000	0.27
Cancelled/expired	(520,500)	0.35	(185,000)	0.41
Balance, December 31, 2004	2,250,000	\$ 0.35	1,050,000	\$ 0.27
Exercisable, December 31, 2004	2,250,000	\$ 0.35	887,500	\$ 0.27

Stock-based compensation

The Company granted 650,000 stock options in the 2003 fiscal year. One quarter of these options (162,500) vested during the fourth quarter of 2003 and one half (325,000) vested during fiscal 2004 resulting in stock-based compensation expense under the Black-Scholes option-pricing model of \$66,973 (2003 - \$33,491) and the weighted average fair value of options granted was \$0.21 per share. These amounts were also recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and share purchase warrants issued during the 2003 fiscal year:

	2003
Risk-free interest rate	3.04% - 3.30%
Expected life of options/warrants	1 - 2 years
Annualized volatility	133.8%
Dividend rate	0.00%

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$60,000 (2003 - \$41,000) to companies controlled by an officer and a director for management fees.
- b) Paid or accrued \$14,895 (2003 - \$25,485) for legal services and property acquisition costs to a law firm in which an officer of the Company is a partner.
- c) Paid or accrued \$15,000 (2003 - \$13,000) to a director and to two companies each controlled by a director for directors' fees.
- d) Paid or accrued \$7,500 (2003 - \$Nil) for geological consulting fees to a director and a company controlled by a director.
- e) Recorded stock-based compensation expense of \$66,973 (2003 - \$33,491) on stock options granted to directors and officers of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable at December 31, 2004 is \$7,369 (2003 - \$21,656) due to directors or to companies controlled by directors and to a law firm in which an officer of the Company is a partner.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2004	2003
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

Significant non-cash transactions for the year ended December 31, 2004 include the Company recording stock-based compensation expense of \$66,973 relating to stock options vesting during the year.

Significant non-cash transactions for the year ended December 31, 2003 included the Company:

- a) Issuing 50,000 common shares at a value of \$8,000 in consideration of the option agreement with Wheaton (Note 4).
- b) Issuing 5,000 common shares at a value of \$800 as a finder's fee relating to the option agreement with Wheaton (Note 4).
- c) Recording stock-based compensation expense of \$33,491 relating to stock options granted during the year.
- d) Recording a value of \$53,344 as share issuance costs for finders' warrants issued as part of a private placement.

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, receivables, reclamation bond 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 financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

10. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2004	2003
Loss for the year	\$ (222,378)	\$ (163,193)
Expected income tax (recovery)	\$ (79,166)	\$ (61,361)
Non-deductible expenses	18,387	6,637
Unrecognised benefit of non-capital losses	<u>60,779</u>	<u>54,724</u>
Actual income tax recovery	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2004	2003
Future income tax assets:		
Non-capital loss carryforwards	\$ 168,470	\$ 127,348
Resource properties	738,779	738,779
Financing costs	17,702	24,607
Equipment	<u>10,874</u>	<u>11,570</u>
	935,825	902,304
Valuation allowance	<u>(935,825)</u>	<u>(902,304)</u>
Net future income tax assets	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$473,000. These losses, if not utilized, will expire commencing in 2005. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$3,725,000 to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have been offset by a valuation allowance and have not been recognized in these financial statements.

CANASIL RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of resources properties. Geographic information is as follows:

The Company's assets are located in the following geographic locations:

	2004	2003
Canada	\$ 2,021,684	\$ 2,583,207
Mexico	<u>356,184</u>	<u>27,067</u>
	<u>\$ 2,377,868</u>	<u>\$ 2,610,274</u>

The Company's loss for the year was incurred in the following geographic locations:

	2004	2003
Canada	\$ 222,378	\$ 136,768
Mexico	<u>-</u>	<u>26,425</u>
	<u>\$ 222,378</u>	<u>\$ 163,193</u>

CANASIL RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Year ended December 31, 2004

1.1 Date and period covered:

This Management Discussion and Analysis for Canasil Resources Inc. (the Company) is dated April 6, 2005. It is being filed with the quarterly and year-end report covering the three months and year ended December 31, 2004, and follows the reporting guidelines required under form 51-102F1.

The following discussion and analysis of the financial position of the Company should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2004.

1.2 Operating Performance:

The Company was incorporated in 1984 and is engaged in the exploration and development of mineral properties in Durango State, Mexico, and in British Columbia, Canada, hosting copper-gold, gold and silver prospects.

In October 2003, the Company signed option and joint venture agreements with Wheaton River Minerals (Wheaton River) and Luismin S.A. de C.V. (Luismin) to acquire up to a 75% interest in the Tres Marias and Cebollas silver-gold properties in Durango State, Mexico.

During 2004, the Company undertook an active exploration program on the Mexican properties, with satellite surveys (February and March 2004), underground and surface sampling (April to June 2004), and a diamond drill program of 8 drill holes for 1,219 metres (November 2004 to January 2005) for total exploration expenditures of \$296,065. The Company is reviewing the data from this program in order to determine plans for further exploration of these projects. During 2004 the area covered by these projects was increased from 2,326 hectares to 3,163 hectares through option agreements between Luismin and neighbouring claim holders and applications for new claims. The Company's obligations under the agreements with Wheaton River and Luismin have been fulfilled to October 2006.

In July 2002, the Company signed an option and joint venture agreement with Northgate Minerals Corp. "Northgate" (formerly Northgate Exploration Ltd.) covering the Company's Brenda gold-copper property in British Columbia, Canada. In 2004 Northgate completed 5 diamond drill holes for a total of 1,446 metres with expenditures of \$246,680. Northgate's exploration programs on the Brenda property in 2002, 2003 and 2004 included a total of 4,581 metres of drilling and cumulative exploration expenditures of \$621,347 and \$55,000 in property payments. While these programs returned significant gold and copper mineralised intersection, in October 2004 Northgate decided to terminate the Option and Joint Venture agreement, and as a result the Company retains 100% interest in the project with all claims in good standing to May 31, 2015. The Company has reviewed the data and is preparing plans for further exploration work, including diamond drilling, on the Brenda project.

All other mineral claims in British Columbia have been maintained in good standing.

In 2004 a Mexican subsidiary, Minera Canasil S.A. de C.V., was registered in order to administer the Company's operations in Mexico. The Company continued to review prospective gold/silver projects in Mexico for potential acquisition.

The Company had a more active investor relations program during 2004 and exhibited in the Calgary Resource Investment Conferences in April and the Vancouver Gold Investment Conference in June 2004. Investor relations expenditures in 2004 were \$24,965.

CANASIL RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

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Financial Condition, Results of Operations and Cash Flows

The Company's working capital as at December 31, 2004, was \$690,120 (2003 - \$1,167,128). The Company has sufficient working capital to meet current operating requirements and planned expenditures for exploration and maintenance of its mineral property interests. Over the year operating expenditures were \$243,997 (2003 - \$164,195) and the Company earned interest income of \$21,619 (2003 - \$1,002). The operating expenditures for 2004 included a non-cash provision for Stock Based Compensation of \$66,973 for one-half (325,000) of the 650,000 stock options granted in November 2003, which vested during the year. Net cash used for operating activities increased to \$257,127 (2003 - \$55,805). This was primarily due to an increase in operating expenses (\$79,802), payments made for the reduction of accounts payable (\$77,001) and increase in accounts receivable (\$25,478). Cash used for deferred exploration expenditures and acquisition costs on resource properties during the year was \$326,842 (2003 - 18,914), primarily related to diamond drilling, geological services, satellite and sampling surveys and claim maintenance costs incurred on the Mexico projects. All claim titles on the mineral properties in British Columbia, Canada, were extended where required, with cash payments of \$6,903 (included in operating expenditures) and additional allocations from the Company's PAC account. There was no cash flow from financing activities in 2004 (2003 - \$1,192,128).

Mineral Properties

Under option and joint venture agreements signed with Wheaton River and Luismin, the Company holds an option to earn up to a 75% interest in the Tres Marias and Cebollas silver-gold properties in the San Dimas District, Durango State, Mexico.

The Company holds 100% interest in the following mineral properties located in the Omineca Mining District, in North-central British Columbia, Canada:

- Brenda, gold-copper prospect
- Vega, gold-copper prospect
- Granite, gold prospect
- Lil, silver prospect

Tres Marias and Cebollas silver/gold properties, Durango State, Mexico

The Tres Marias and Cebollas properties cover 3,163 hectares, located 150 km west of the city of Durango and 14 km southeast of Luismin's San Dimas/Tayoltita mine.

In October 2003, the Company signed option and joint venture agreements with Wheaton River Minerals (Wheaton River) and Luismin S.A. de C.V. (Luismin) to acquire up to a 75% interest in these projects. Canasil can earn an initial 51% interest in the properties by issuing 50,000 shares to Wheaton/Luismin and incurring US\$1,000,000 in exploration expenditures over five years. Canasil's interest may be increased to 75% in the sixth year by incurring a further US\$ 700,000 in exploration expenditures. Wheaton/Luismin retains an option to buy back a 35% interest in the properties for US\$1,700,000 after Canasil has acquired a 75% interest.

During 2004 the area covered by these projects was increased to 3,163 hectares through agreements between Luismin and neighbouring claim holders as well as acquisition of new claims. The Company completed regional and local satellite surveys and an underground and surface sampling program to investigate the Tahuehueto, Rosario and Los Laureles vein systems on the property. The underground sampling returned significant high grade gold and silver assays with grades of up to 2,300 g/t silver and 30.3 g/t gold observed. Further sampling and geologic evaluation was carried out to select drill targets and a diamond drill program of 8 drill holes for a total of 1,219 metres was completed between November 2004 and January 2005. Total deferred exploration expenditures on these projects during 2004 were \$296,065 (2003 - \$11,497) and acquisition costs during the year were \$30,777 (2003 - \$15,570), as detailed in Note 4 of the audited financial statements dated December 31, 2004.

CANASIL RESOURCES INC.

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For the Year ended December 31, 2004

Tres Marias and Cebollas silver/gold properties, Durango State, Mexico (contd.)

Drill hole TAH-1 intersected the Tahuehueto vein 16 metres above level 2 of the historical workings at a core depth of 53.23 to 55.37 metres and returned assays of 329 g/t silver and 6.28 g/t gold over 2.14 metres. Drill holes TAH-2, TAH-3 and TAH-4 were drilled to intersect the vein system approximately 30 to 40 metres below level 1 of the historical workings over a strike length of approximately 120 metres. These drill holes all pierced the Tahuehueto structure, however assays returned relatively low gold and silver values due to the presence of later intrusive events displacing the mineralized vein material.

Drill hole ROS-1, designed to test the Rosario vein below the main level 2 historical workings, intersected two quartz vein structures between 107.15 and 109.20 metres, and returned assays of 120 g/t silver and 0.97 g/t gold over 2.05 metres, and between 116.80 and 118.20 metres, returning assays of 76 g/t silver and 0.94 g/t gold over 1.40 metres. A wide zone of intense quartz breccia found in the footwall of the structure from 123.15 metres to 185.5 metres returned only low grade gold and silver assays.

Drill holes LAU-1 (177.15 metres) and LAU-2 (210.95 metres) were designed to test the vertical extent of the Los Laureles vein directly below the historical workings, where samples returned significant high grade gold and silver assays (up to 291 g/t silver and 30.3 g/t gold over 0.60 metres). Due to the difficult access for a drill set-up close to the workings, the drill set-up for these holes had to be located on the opposite side of a stream flowing parallel to the vein structure. As a result the projected intersection of the drill holes and the down-dip extension of the vein system was between 100 to 150 metres below the existing workings. These drill holes intersected quartz veins and breccias with widths from 0.50 to 4.08 metres with anomalous gold and silver values, indicating that the structure hosting high grade gold-silver epithermal mineralization found in the 'main level' workings extends beyond a depth of 140 metres.

The results from this program indicate that precious metal epithermal mineralization at both the Tahuehueto-Rosario and the Los Laureles areas is confined to specific shoots or horizons isolated along extensive regional fault structures. Work completed by Canasil confirms the Tahuehueto-Rosario structure to be over 800 metres long with a known vertical extent of 150 metres. The section of the Los Laureles vein tested extends intermittently for 75 metres and down dip for at least 140 metres. Both these areas of interest remain open along strike and at depth.

Brenda gold/copper property, British Columbia, Canada

The Company holds 100% interest in the Brenda property, 178 claim units covering 4,450 hectares (44.5 square kilometres) located in the core of the Kemess-Toodoggone porphyry copper-gold district in the Omineca Mining Division, approximately 450 kilometres northwest of Prince George, B.C. All claims are currently in good standing to May 30, 2015.

Option and Joint Venture Agreements were signed with Northgate on July 31, 2002, providing for Northgate to earn a 60% interest in the Brenda property by incurring \$2,000,000 in exploration expenditures and making \$140,000 in cash payments over four years. Between August 2002 and October 2004, when the agreement was terminated, Northgate completed \$621,347 in exploration expenditures, including 14 diamond drill holes for a total of 4,581 metres, and cumulative property payments of \$55,000.

In 2002 and 2003 Northgate undertook airborne high resolution magnetic, radiometric and satellite imaging surveys and completed a total of 3,135m of diamond drilling in nine holes for total exploration expenditures of \$373,667 and cumulative option payments of \$50,000. The results confirmed the presence of gold bearing copper porphyry style mineralization with alteration comparable to that found at Kemess. Two of the 2003 drill holes encountered significant gold/copper porphyry mineralization, with drill hole BR-03-06 returning 61.9m at 0.440 g/t gold and 0.128% copper, and BR-03-07 returning 161.6m at 0.565 g/t gold and 0.079% copper. Northgate concluded that these intersections indicate the potential for a significant resource on the property.

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For the Year ended December 31, 2004

Brenda gold/copper property, British Columbia, Canada (contd.)

In 2004 Northgate completed a diamond drill program of five drill holes for a total of 1,446m and total expenditures of \$246,680. Significant gold and copper bearing mineralized intercepts were reported in drill holes BR-04-10, BR-04-12 and BR-04-14 as reported in the table included below:

Northgate 2004 Brenda project Drill Program – Significant Gold-Copper Mineralized Intersections:

Hole #	NAD83_N	NAD83_E	Final Depth m	From m	To m	Core Length m	Au gpt*	Cu %
BR-04-10	6347906	628490	353.6	91.4	251	159.6	0.411	0.038
				263	346	83	0.496	0.021
			Including:	331	346	15	0.888	0.032
BR-04-11	6347504	628414	128	Abandoned due to adverse ground - No significant assays				
BR-04-12	6347518	628602	225.6	65.5	103.6	38.1	0.362	0.091
				108.2	128	19.8	0.539	0.080
				131.1	144.8	13.7	0.346	0.097
				153.9	169.2	15.3	0.285	0.072
BR-04-13	6347850	628680	287.4	18.3	35.1	16.8	0.141	0.032
				42.7	64	21.3	0.122	0.033
				79.2	97.1	17.9	0.120	0.038
				191	235	44	0.145	0.014
BR-04-14	6348006	628426	451.1	142	156	14	0.601	0.017
				343.1	448	104.9	0.399	0.031
			Including:	418.4	442	23.6	0.755	0.029

* For Composite calculations under-limits assays (<0.005 g/t) have been assigned the value 0.002 g/t

Northgate reported that the mineralized intersections observed in drilling to date confirm that significant gold bearing mineralization occurs in the White Pass zone over the tested strike length of 520 metres and to a depth of 451 metres. Gold mineralization is reasonably evenly distributed, but the average grades observed in the zone tested are sub-economic in the range of 0.4 - 0.5 g/t gold and 0.02 – 0.08% copper. Northgate terminated the Option and Joint Venture agreements in October 2004.

The Brenda property is an advanced gold-copper exploration project located centrally in the highly prospective Kemeess-Toodoggone district. There has been over \$3,000,000 in cumulative exploration expenditures on the property, including geophysics, geochemistry and 7,730 metres of diamond drilling in 38 drill holes. The Company has undertaken a review of the exploration data for the Brenda property and concluded that there are at least two large potential target zones (1,000m x 300m and 1,000m by 600m) defined by past drilling, geochemistry and geophysics, which have not been tested. The Company plans to apply for permits for further exploration and drilling on the Brenda project to test these target zones.

Vega gold/copper property, British Columbia, Canada

The 100% owned Vega claims consist of 56 units covering approximately 14 square kilometres located the Omineca Mining Division of British Columbia, 300 km northwest of Prince George. Access to the property is via the Omineca Mines Access Road and logging roads.

Exploration work dating from the 1930's to 1960's by Cominco, Rio Tinto and Croyden Mines identified exposed mineralization with significant copper and gold values on the south bank of Vega Creek, with underground sampling reporting an intersection of over 11 meters with 1.46% copper and 4.9g/t gold, and outlined a copper soil anomaly

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uphill from the underground workings. During the 1970's B.P. Minerals completed geophysical and geochemical surveys followed by a diamond drill program of approximately 2,200 m in 12 holes, reporting numerous mineralized intersections with values ranging between 0.1 – 0.5% copper and between 0.07 – 2.4 g/t gold.

During the 1980's soil geochemistry outlined a large area with anomalous values in copper, gold and arsenic up to 700 meters in length and 250 meters wide. Cyprus Gold (Canada) completed an 8 hole diamond drill program of approximately 1,150 meters, with only drill hole V88-8 giving significant intersections of copper and gold ranging between 0.11 – 0.27% copper and 0.035 – 1.57 g/t gold.

The geological setting of the VEGA property and widespread copper and gold geo-chemical anomalies are strongly indicative of mineralized systems hosting large gold-copper porphyry deposits. The relatively shallow drilling to date has failed to locate significant ore grade zones. There was no active exploration on the Vega property in 2004. All claims were maintained in good standing.

Lil property, British Columbia, Canada

The 100% owned LIL claims comprise 20 units covering 500 hectares, located in the Omineca Mining Division, 350 kilometres northwest of Prince George, British Columbia. Logging roads provide four-wheel drive access to within 2km of the property. Mineralization on the property consists of narrow high grade, silver bearing quartz veins and breccia zones, which have been identified over a distance of 300 meters, with grades ranging from 4.3 ounces/ton to 325.54 ounces/ton silver over 0.20 to 0.90 meters. Large silver bearing floats found downstream in Lil Creek indicate a possibility of wider mineralized veins on the property.

Tests carried out by BC Research Inc., Vancouver, in September 2001 on a sample of silver ore from the LIL property concluded that the composite sample contained a very high silver grade of over 100 oz/ton and that high rates of recovery (94% - 98%) were readily obtained through flotation using a very simple processing flow sheet. Potential contaminants such as mercury, cadmium and selenium were well below problem levels. There was no active exploration on the Lil property during 2004. All claims were maintained in good standing.

Granite property, British Columbia, Canada

The 100% owned Granite Gold-Silver claims comprise 76 units covering 1,900 hectares in the Johansson Lake area, Omineca Mining Division of British Columbia, located 360 km northwest of Prince George. The Omineca Resource Access Road and auxiliary roads provide four-wheel drive access to the property.

Historical exploration records reported encouraging assays from trenches with grades of up to 10.3 g/t gold across 10 meters and sampling in the old underground workings with a grade of 6.86 g/t gold over 12.2 meters including 14.4 g/t gold over 3.0 meters. Three mineralized shear zones with gold/silver mineralization have been identified to date on the property, with rock samples ranging in grade from 1.99 g/t to 43.88 g/t gold and 9.94 g/t to 546.77 g/t silver. Soil and rock geochemistry completed in 1994 outlined a broad 300 metres by 2.0 kilometres Gold soil anomaly.

In 1995 Hemlo Gold Mines Inc reported trench sample assays averaging 6.8 g/t gold over 7.5 meters and drill hole 95-2 (88.4 meters) intersected 9.1 meters of mineralization averaging 3.36 g/t gold and 11.7 g/t silver, of which 3.1 meters showed values of 8.9 g/t Gold and 28.4 g/t Silver. In 1996 further trenching and channel sampling returned average gold and silver values between 1.82 g/t to 9.44 g/t gold and 19.87 g/t to 43.10 g/t silver over widths of 3.0 to 11.0 meters. A diamond drill program of 500 meters completed by Canasil in 1997 intersected several sections with anomalous gold and silver values, however failed to locate sections corresponding in grade to the many samples recovered from these zones. There was no active exploration on the Granite property in 2004. All claims were maintained in good standing.

General Conditions Affecting the Company's Operations

A discussion of general conditions, trends, competitive and environmental factors affecting the Company's business and operations is included below following financial and further operating information.

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For the Year ended December 31, 2004

1.3 Selected Annual Information

The information in the table below sets forth selected audited financial information of the Company as of the end of each of the three (3) years up to the period ended December 31, 2004. This information is derived from the audited financial statements and should be read in conjunction with those statements and notes.

Net loss from continuing operations has increased over the past three years reflecting the Company's increased level of activity to acquire and develop new mineral exploration projects, in particular in Mexico during 2003 and 2004. The total loss figure in 2003 included write-offs of past expenditures on the Lil property in British Columbia, Canada, of \$56,806. This write-off was based on the Company's accounting policies with respect to mineral properties on which there were no significant exploration expenditures during the preceding two years. It did not indicate abandonment of the property in question. The increase in total assets in 2003 reflects the financing of \$1,125,000 completed in December 2003, and the exercise of outstanding warrants for \$150,000 in November and December 2003.

Year Ended December 31	2004	2003	2002
Total Revenue	Nil	Nil	Nil
Net Income (Loss) from continuing operations	\$ (222,378)	\$ (163,193)	\$ (122,592)
Loss per Share	\$ (0.012)	\$ (0.0089)	\$ (0.0095)
Net Income (Loss) – Total	\$ (222,378)	\$ (163,193)	(179,398)
Loss per share	\$ (0.012)	\$ (0.0089)	(0.014)
Total Assets	\$ 2,377,868	\$2,610,274	\$1,467,247
Long Term Financial Liabilities	Nil	Nil	Nil
Cash Dividends per Share	Nil	Nil	Nil
Shareholder's Equity	\$2,355,921	\$2,511,326	\$1,440,100
Working Capital	\$690,120	\$1,167,128	\$92,997
Write-off of Mineral Property Costs	Nil	Nil	\$(55,992)

1.5 Selected Quarterly Information:

The following tables set forth selected financial information of the Company for each of the last eight quarters ending at the end of the most recently completed financial year:

Year	2004				2003			
	Quarter ended: Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Net Inc. (Loss) from continuing operations	(67,407)	(31,758)	(81,019)	(42,194)	(60,676)	(22,878)	(44,226)	(35,413)
Loss per share	(0.0037)	(0.0018)	(0.0043)	(0.0023)	(0.0033)	(0.0018)	(0.0034)	(0.0028)
Net Income (Loss) Total	(67,407)	(31,758)	(81,019)	(42,194)	(60,676)	(22,878)	(44,226)	(35,413)
Loss per share	(0.0037)	(0.0018)	(0.0043)	(0.0023)	(0.0033)	(0.0018)	(0.0034)	(0.0028)
Shares Issued	18,432,342	18,432,342	18,432,342	18,432,342	18,432,342	12,877,342	12,877,342	12,877,342

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1.6 Liquidity and capital resources:

The Company has sufficient financial resources to undertake currently planned exploration programs and operating expenditures. Future exploration and subsequent development of the Company's properties beyond currently planned expenditures will depend on the Company's ability to obtain additional financing. The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company to fulfil its obligations on existing exploration (or joint venture) properties. Failure to obtain financing could result in the delay or indefinite postponement of further exploration and the possible partial or total loss of interest in certain properties.

The Company is dependent on raising funds by the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sale) in order to finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in securing the required financing.

The Company had working capital at December 31, 2004 of \$690,120 (2003 – \$1,167,128). The Company had no material income from operations and the improvement in working capital results from the issuance of share capital.

As at December 31, 2004, the Company had no long-term debt.

For the year ended December 31, 2004, the Company experienced a negative cash flow of \$579,254 (2003 – positive cash flow of \$1,147,409) from operating, investing and financing activities. This reflects the higher levels of cash used in operating activities of \$257,127 (2003 - \$55,805), net cash used in investment activities of \$327,127 (2003 - \$18,914) and the fact that there was no new financing in 2004, compared to net cash received from financing activities in 2003 of \$1,192,128.

The TSX Venture Exchange approved an extension of the expiry date for a total of 2,250,000 share purchase warrants, each entitling the holders to purchase one common share of the Company at \$0.35 by December 31, 2004, by six months to June 30, 2005.

1.7 Related Party Transactions:

During 2004 the Company paid or accrued a total of \$97,395 (2003 - \$79,485) to related parties covering Directors' and management fees and geological and legal services. In addition the Company recorded stock based compensation expense amounting to \$66,974 in 2004 (2003 - \$33,491). 650,000 stock options were granted to directors and officers of the Company in the 2003 fiscal year. One quarter of these options (162,500) vested during the fourth quarter of 2003, and one half (325,000) vested during 2004. No stock options were granted in 2004 to directors and officers of the Company.

1.8 Accounting Policies:

The Company's current accounting policies are stated in the notes attached to the audited annual financial statements for the year ended December 31, 2004.

The CICA recently issued a new section in the CICA Handbook, section 3110, *Asset retirement obligations*, which was effective January 1, 2004. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Adoption of this standard has not affected the Company's financial statements

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1.9 Financial Instruments:

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matter of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The carrying value of cash and cash equivalents, marketable securities, sundry receivable, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

Outstanding Share Data as at December 31, 2004

- (a) Authorized and issued shares as at December 31, 2004 are as follows:

<u>Class</u>	<u>Par Value</u>	<u>Authorized</u>	<u>Issued</u>	<u>Value</u>
Common	No par value	100,000,000	18,432,342	\$5,762,048

- (b) As at December 31, 2004, a total of 1,050,000 incentive stock options were outstanding of which number, 887,500 incentive stock options were exercisable.

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
300,000	0.32	May 11, 2005
100,000	0.23	April 17, 2007
650,000	0.26	November 26, 2008
1,050,000	0.27	

- (c) As at December 31, 2004, the Company had 2,250,000 outstanding share purchase warrants, enabling the holders to acquire 2,250,000 additional common shares at a process of \$0.35 per share on or before June 30, 2005.
- (d) No shares are subject to escrow or pooling arrangements.

1.10 Investor Relations:

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. For 2004 the Company undertook a more active investor relations program, including participation in the Calgary Resource Investment Conferences in April 2004 and the Vancouver Gold Conference in June 2004, and preparation of shareholder communications materials. During 2004 Investor Relations expenditures were \$24,965 (2003 - \$2,349).

1.11 Subsequent events:

Subsequent to December 31, 2004, the Company has completed the diamond drill program at the Tres Marias and Cebollas projects in Durango Mexico as described above. The Company has also been actively evaluating new gold and silver projects for acquisition in Mexico.

The review of past exploration data from the Brenda gold-copper project in British Columbia, Canada, has indicated two significant target zones for further exploration and drilling. The Company intends to apply for permits for further exploration on the Brenda project.

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1.12 Other Information:

Detailed information on the Company and its operations is available on the Company's website at www.canasil.com and on SEDAR at www.sedar.com.

1.13 Forward-Looking Statements:

Any statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Actual results and developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration results, availability of capital and financing, and general economic, market and business conditions.

General Conditions Affecting the Company's Operations

General Trends

The principal business of the Company is the acquisition, exploration and, if warranted, development of natural resource properties of merit. The Company is not geographically limited to any particular region but in recent years has focused attention on natural resource properties in Canada and Mexico.

There has been a trend towards improving base and precious metal prices over the past year, particularly for gold, silver and copper. This trend is forecasted to continue over the coming year. The mining and minerals industry is experiencing increased demand for minerals and metals, in particular from economic growth in Asia. This has resulted in greater interest from the financial community in financing mineral exploration and development projects.

Competitive Conditions

Significant competition exists for natural resource acquisition opportunities. As a result the Company may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable.

Environmental Protection

Environmental legislation is evolving in a manner such that standards, enforcement, fines and penalties for non-compliance are becoming stricter. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in government regulations has the potential to reduce the profitability of future operations. To the Company's knowledge, it is in compliance with all environmental laws and regulations affecting its operations.

Number of Employees

As of December 31, 2004, the Company had no employees. All administrative and certain geological services are provided to the Company by consultants or companies controlled by related parties.

Acquisition and Disposition of Resource Properties

During the year ended December 31, 2003, the Company entered into option and joint venture agreements to acquire up to a 75% interest in the Tres Marias and Cebollas silver-gold properties in Durango, Mexico, as detailed above. During 2004 the area covered by these properties was increased to 3,163 hectares through option agreements to acquire neighbouring claims and through staking of additional claim blocks.

Risk Factors Relating to the Company's Business

The Company's ability to generate revenue and profit from its natural resource properties, or any other resource property it may acquire, is dependent upon a number of factors, including, without limitation, the following:

Precious and Base Metal Price Fluctuations

The Company's ability to finance its mineral property acquisition, exploration and eventual development is dependent upon the market price of certain precious and base metals. The price of such metals has fluctuated

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widely and is affected by numerous economic and political factors, consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and productivity, metal substitutes and stock levels. These fluctuations may result in the Company not receiving an adequate return on invested capital or the investment retaining its value.

Operating Hazards and Risks

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries no liability insurance, and any liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

Exploration and Development

There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few exploration properties are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any commercially viable discoveries.

Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes and the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection.

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

There is a degree of uncertainty attributable to the calculation of reserves and mineralization and corresponding grades being mined or dedicated to future production. In addition, there can be no assurance that precious or other metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Government Regulation

Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as environmental protection, health, safety and labour; mining law reform; restrictions on production; price controls; tax increases; maintenance of claims; tenure; and expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving and requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on the Company's properties, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

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For the Year ended December 31, 2004

Title to Assets

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. The Company's claims may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

Foreign Operations

The Company has entered into agreements to acquire interests in two mineral properties located in Durango State, Mexico, and is currently engaged in exploration activities on these properties.

Management and Directors

The Company is dependent on a small number of directors and officers: Alvin Jackson, Michael McInnis, Gary Nordin, Bahman Yamini, Iain MacPhail and Graham Scott. The loss of any of these persons could have an adverse effect on the Company. The Company does not maintain key person insurance on any of its management.

Conflicts of Interest

Certain officers and directors of the Company are officers and/or directors of other natural resource companies that acquire interest in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law to act honestly and in good faith with a view to the best interests of the Company and its shareholders. They are also required to disclose any personal interest in any material transaction, which is proposed to be entered into with the company, and to abstain from voting as a director for the approval of any such transaction.

Limited Operating History: Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2004, the Company's accumulated deficit was \$3,820,530.

Price Fluctuations and Share Price Volatility

In recent years the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the twelve months ended March 31, 2004, the price of the Company's shares fluctuated from a low of \$0.10 to a high of \$0.30 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance: Dilution

As at December 31, 2004, there were a total of 18,432,342 common shares of the Company issued. There were 1,050,000 stock options and 2,250,000 warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

BY ORDER OF THE BOARD

"Bahman Yamini"

"Alvin Jackson"

Bahman Yamini
President, CEO & Director

Alvin Jackson
Director