



2003 ANNUAL REPORT

1. Operating environment and review of operations:

Canasil Resources Inc. (the Company) is a mineral resource company engaged in the exploration of mineral properties in British Columbia, Canada, and Durango State, Mexico, primarily hosting gold, silver and copper minerals.

2003 was a positive year for the mining and mineral exploration industry. The price of gold ranged between US\$320/oz. (March 2003) and US\$417/oz. (December 2003) over the year and there was a noticeable trend and expectation of higher silver and base metal prices. The price of copper increased over the year from US\$1,550/tonne in January 2003 to US\$2,300/tonne in December 2003. The stronger metal prices resulted in an active interest by the financial community in financing mining and mineral exploration projects.

Canasil took advantage of these developments by building on the base provided by the option and joint venture agreement signed with Northgate Exploration Ltd. in July 2002 for the Brenda gold/copper property in British Columbia, Canada. Northgate completed a diamond drill program on the Brenda property with very encouraging results, encountering significant intersections of gold and copper bearing porphyry mineralization. At the same time the Company embarked on a strategic initiative to acquire gold/silver projects in Mexico and was successful in concluding option and joint venture agreements with Wheaton River Minerals and Luismin S.A. de C.V. for the acquisition of the Tres Marias and Cebollas silver/gold properties in Durango State, Mexico. The Company now has cooperation agreements with three outstanding gold and silver mining companies (Northgate, Wheaton River and Luismin).

The Company's Board of Directors was strengthened during the year with Michael McInnis joining the board. The Company's web site was revised and updated to provide comprehensive information on the Company's activities and projects, and an initial Annual Information Form was filed providing the

basis for wider interest and participation in proposed public financings. As a result the Company was successful in completing a non-brokered private placement for \$1,125,000 in December 2003, strengthening the Company's working capital position and providing funds required for exploration work on the Tres Marias and Cebollas projects.

The positive fundamentals for precious and base metal prices have continued through the first quarter of 2004. The Company has initiated the exploration programs on the Tres Marias and Cebollas projects and has actively pursued possibilities for expanding the ground position at these projects. The Company has also continued to investigate the acquisition of additional precious metal projects in Mexico, while maintaining its mineral properties in British Columbia, Canada.

2. Mineral properties:

Brenda gold/copper property
British Columbia, Canada

In 2003 Northgate completed five diamond drill holes for a total of 1,485 metres and paid the 2003 property payment of \$30,000. Exploration expenditures in 2003 amounted to \$176,927. This brings the total expenditures to date under the option and joint venture agreement with Northgate to \$372,667, and cumulative property payments to date of \$50,000.

Under the agreement, Northgate must incur \$2,000,000 in exploration expenditures and \$140,000 in property payments by July 2006 in order to earn a 60% interest in the Brenda property. 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. These intersections indicate the potential for a significant resource on the property and Northgate has confirmed plans for continued drilling in 2004.

Canasil Resources Inc.

2003 Management Report

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

During 2003 the Company initiated a strategy to review and acquire gold/silver properties in Mexico based on the significant potential for these properties and the opportunity for cost effective exploration, development and operation in Mexico. A number of projects were reviewed resulting in detailed investigation and field visits to five properties. Of these properties the Company selected the Tres Marias and Cebollas projects in Durango State and concluded option and joint venture agreements with Wheaton River Minerals and its wholly owned subsidiary, Luismin S.A. de C.V., for the acquisition of up to a 75% interest in these properties.

The Tres Marias and Cebollas properties cover 1,860 hectares, located 150 km west of the city of Durango and 14 km southeast of Luismin's San Dimas/Tayoltita mine in the Sierra Madre Occidental on the western border of Durango State. The properties are situated on the prospective northwest to southeast structural trend from the San Dimas/Tayoltita mine. The regional and property geology provide a favourable environment for the occurrence of high-grade gold/silver epithermal vein type deposits. Past production from the San Dimas/Tayoltita deposits has been 19 million tonnes of ore with 9.1 million ounces gold and 654 million ounces silver for a total gold equivalent of 19.2 million ounces (Wheaton/Luismin data).

The properties host numerous outcropping mineralized vein systems with samples returning average grades between 2-4 g/t gold and 200-400 g/t silver, with many samples returning significantly higher gold and silver grades. Chip sampling and regional mapping undertaken by Luismin in 2003 identified the potential for multi-directional vein structures, including the Los Laureles vein, with a possible strike length of over 1,200 metres and assays up to 10.14 g/t gold and 333 g/t silver over 1.7 metres. In addition 5 to 10 metre wide zones of breccia, stockwork and intense

silicification along the flanks of these veins have yet to be systematically sampled for gold and silver mineralization. The Tres Marias and Cebollas properties have been sporadically worked by family miners and have never been systematically explored or drill tested.

Under the agreement, 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 retain an option to buy back a 35% interest in the properties for US\$1,700,000 after Canasil has acquired a 75% interest.

This agreement fits the Company's objective of acquiring properties with exceptional geologic potential and the possibility to add significant future value through cost effective exploration. The opportunity to cooperate with Wheaton River and Luismin will be very beneficial given Luismin's established operations and infrastructure in Durango State.

During the first quarter of 2004, the Company has initiated the exploration program on these projects by undertaking a regional satellite survey and a high resolution satellite survey of the properties. These surveys will lead to a comprehensive surface and underground sampling program starting in March 2004, which will prepare the information required for the start of diamond drilling.

Other mineral claims British Columbia, Canada

All other mineral claims in British Columbia (Lil, Granite, Vega) have been maintained in good standing with claim expiry dates extended where required.

Canasil Resources Inc.

2003 Management Report

3. Management:

At the Company's Annual General Meeting held on May 14, 2003, Gary D. Nordin, Alvin W. Jackson and Bahman Yamini were re-elected as Directors of the Company. Bahman Yamini was re-appointed as President and CEO, Iain MacPhail as V.P. Finance and CFO and Graham Scott as Corporate Secretary. Michael McInnis, President and CEO of Gateway Gold Corporation, agreed to join the Company's Board of Directors in November 2003. Mr. McInnis brings over 30 years of active and successful experience in all aspects of the management and development of mineral exploration companies to the board. Gary Nordin agreed to act as V.P. Exploration and oversee the Company's exploration and project development activities.

4. Liquidity and capital resources:

Financing

A private placement of 4,500,000 units at \$0.25 per unit, including one common share and one half share purchase warrant, was completed in December 2003 for gross proceeds of \$1,125,000. Each whole share purchase warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.35 per share for a period of one year following the closing date.

Finder's fees comprised \$60,725 and 520,500 non-transferable share purchase warrants paid to Bolder Investment Partners, Pacific International Securities Inc., Golden Capital Securities Ltd. and Canaccord Capital with respect to the placement of a total of 3,470,000 Units.

The proceeds from the private placement will be used to fund the Company's planned exploration and evaluation program at the Tres Marias and Cebollas projects in Durango, Mexico, for the evaluation and possible acquisition of other mineral properties in Mexico, and for working capital.

In addition, 1,000,000 warrants at \$0.15 outstanding

from the financing in December 2002 were exercised in 2003 for proceeds of \$150,000, bringing total gross financing proceeds in 2003 to \$1,275,000.

Working capital and operating expenditures:

The Company's working capital position at year-end 2003 was \$1,167,128 (December 31, 2002 - \$92,997), which is sufficient to ensure continued operations and fund exploration requirements on the Tres Marias and Cebollas projects, as well as to maintain the existing B.C. properties.

Operating expenses were \$164,195 (2002 - 123,406). This included Stock based compensation of \$33,491 (2002 - Nil) in accordance with the new CICA recommendations for accounting for stock options granted to employees and non-employees, adopted as of January 1, 2002. In 2003 increases in audit fees, Directors' fees and general exploration expenditures (related to the acquisitions in Mexico) were offset by reductions in management fees and legal fees. Capitalized expenditures on Resource properties in 2003 were \$27,067, consisting of acquisition costs for the Tres Marias and Cebollas properties in Mexico.

There will be a significant increase in operating expenditures in 2004, reflecting the planned increase in the Company's operations in Mexico and a significantly expanded investor relations and shareholder communications program. There will also be a considerable increase in exploration expenditures covering work programs on the Tres Marias and Cebollas projects as well as expenditures required for acquisition of new projects.

5. Related party transactions:

Related party transactions during the year included \$63,960 (2002 - \$79,289) paid to and accrued for payment to Directors and Officers of the Company for directors' and management fees and services, and \$25,485 (2002 - \$25,413) for legal services, property acquisition costs and share issuance costs to a law firm controlled by an Officer of the Company.

6. Investor relations activities:

During the year, the Company has provided information to shareholders, investors, brokers and analysts directly and through its web site at www.canasil.com. The Company did not retain any external investor relations services.

7. Subsequent events and objectives for 2004:

Subsequent to December 31, 2003, the Company has initiated the exploration program at the Tres Marias and Cebollas projects in Mexico with satellite surveys and a sampling program aimed at identifying drill targets. The Company has also investigated possibilities for consolidating the land position at the Tres Marias and Cebollas projects and for the acquisition of new projects in Mexico. All mineral properties in British Columbia, Canada, have been maintained and where appropriate claim validities have been extended.

The management objectives during 2004 will be to

build on the cooperation agreement with Northgate Exploration on the Brenda property in British Columbia and with Wheaton River Minerals and Luismin S.A. de C.V. in Mexico to increase shareholder value through further exploration of the Company's mineral properties. The Company will focus on exploration of the Tres Marias and Cebollas silver /gold project in Mexico and on the possibilities to acquire further high value gold/silver properties in Mexico. The Company will also strive to further strengthen its financial position through additional financing opportunities at advantageous terms.

The Company's Directors are grateful to all shareholders for their continued support and confidence.

On behalf of the Board of Directors,

"Bahman Yamini"

Bahman Yamini, President

AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the balance sheets of Canasil Resources Inc. as at December 31, 2003 and 2002 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 December 31, 2003 and 2002 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 30, 2004

A Member of *SC INTERNATIONAL*

CANASIL RESOURCES INC.
BALANCE SHEETS
AS AT DECEMBER 31

	2003	2002
ASSETS		
Current		
Cash and equivalents	\$ 1,261,072	\$ 113,663
Receivables	4,580	5,366
Prepaid expenses	<u>424</u>	<u>1,115</u>
	1,266,076	120,144
Reclamation bond	13,000	13,000
Resource properties (Note 3)	1,328,719	1,331,005
Equipment (Note 4)	<u>2,479</u>	<u>3,098</u>
	<u>\$ 2,610,274</u>	<u>\$ 1,467,247</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 98,948</u>	<u>\$ 27,147</u>
Stockholders' equity		
Capital stock (Note 5)	5,762,048	4,845,059
Contributed surplus (Note 5)	347,430	30,000
Deficit	<u>(3,598,152)</u>	<u>(3,434,959)</u>
	<u>2,511,326</u>	<u>1,440,100</u>
	<u>\$ 2,610,274</u>	<u>\$ 1,467,247</u>

Nature and continuance of operations (Note 1)

On behalf of the Board:

 "Alvin Jackson" Director "Bahman Yamini" Director

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

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

	2003	2002
EXPENSES		
Accounting and audit	\$ 12,000	\$ 4,830
Amortization	619	1,086
Directors fees	13,000	8,750
General exploration	26,425	15,152
Investor relations	2,349	2,434
Legal fees	9,104	14,506
Management fees	41,000	50,000
Office rent	-	2,800
Office services and supplies	8,466	8,741
Registration, licence and filing	9,382	6,993
Stock-based compensation	33,491	-
Stock transfer fees	4,478	2,528
Telephone	3,478	2,808
Travel and conferences	403	2,778
	<u>(164,195)</u>	<u>(123,406)</u>
OTHER ITEMS		
Interest income	1,002	814
Write-off of resource properties (Note 3)	<u>-</u>	<u>(56,806)</u>
	<u>1,002</u>	<u>(55,992)</u>
Loss for the year	(163,193)	(179,398)
Deficit, beginning of year	<u>(3,434,959)</u>	<u>(3,255,561)</u>
Deficit, end of year	<u>\$ (3,598,152)</u>	<u>\$ (3,434,959)</u>
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding	12,942,000	11,937,616

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

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

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (163,193)	\$ (179,398)
Items not affecting cash:		
Amortization	619	1,086
Stock-based compensation	33,491	-
Write-off of resource properties	-	56,806
Write-off of incorporation costs	-	410
Changes in non-cash working capital items:		
(Increase) decrease in receivables	786	(4,024)
(Increase) decrease in prepaid expenses	691	(1,115)
Increase in accounts payable and accrued liabilities	<u>71,801</u>	<u>7,200</u>
Net cash used in operating activities	<u>(55,805)</u>	<u>(119,035)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Common shares and warrants issued for cash	1,275,000	100,000
Finders' fees	(60,725)	-
Share issuance costs	<u>(22,147)</u>	<u>-</u>
Net cash provided by financing activities	<u>1,192,128</u>	<u>100,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Resource property option payment received	30,000	20,000
Resource property costs and deferred exploration costs	<u>(18,914)</u>	<u>(16,627)</u>
Net cash provided by investing activities	<u>11,086</u>	<u>3,373</u>
Change in cash and equivalents during the year	1,147,409	(15,662)
Cash and equivalents, beginning of year	<u>113,663</u>	<u>129,325</u>
Cash and equivalents, end of year	<u>\$ 1,261,072</u>	<u>\$ 113,663</u>

Supplemental disclosure with respect to cash flows (Note 8)

The accompanying notes are an integral part of these 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 interest 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.

	2003	2002
Deficit	\$ (3,598,152)	\$ (3,434,959)
Working capital	1,167,128	92,997

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those 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 amortized over its estimated useful life using the declining balance method at 20% per annum.

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

Resource properties

The Company records its interests in resource properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Resource properties which are sold before that property reaches the production stage, will have all revenues from the sale of the property credited against the cost of the property. Properties, which have reached the production stage, will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of resource exploration interests is based on cash paid, the assigned value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value, as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Deferred exploration costs

The Company defers all exploration costs relating to resource properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned or management has determined there to be an impairment. These costs will be amortized over the proven reserves available on the related property following commencement of production.

Values

The amounts shown for resource properties and deferred exploration costs represent costs to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of current and future reserves.

Cost of maintaining resource properties

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

Environmental protection and rehabilitation costs

Liabilities related to environmental protection and rehabilitation costs are accrued and charged to income when their likelihood of occurrence is established. This includes future removal and site restoration costs as required due to environmental law or contracts.

Foreign currency translation

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations.

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

Stock-based compensation

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which recommends that stock options granted to employees and non-employees be accounted for at fair value. This section also permits, and the Company adopted, the use of the intrinsic value-based method for valuing stock options granted to employees. Under this method, compensation cost for options granted to employees is recognized only when the market price exceeds the exercise price at date of grant. However, pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted is required.

During the current year, the Company adopted, on a prospective basis, the fair value based method of accounting for all stock-based compensation.

Income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, 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 period 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.

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.

Comparative figures

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

3. RESOURCE PROPERTIES

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 historical conveyancing 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 are in good standing.

CANASIL RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

	Tres Marias and Cebollas, Mexico	Brenda Claims, Canada	Lil Claim, Canada	Total
2003				
Acquisition costs				
Beginning of year	\$ -	\$ 174,551	\$ -	\$ 174,551
Additions	15,570	-	-	15,570
Option payments	<u>-</u>	<u>(30,000)</u>	<u>-</u>	<u>(30,000)</u>
End of year	<u>15,570</u>	<u>144,551</u>	<u>-</u>	<u>160,121</u>
Deferred exploration costs				
Beginning of year	-	1,156,454	-	1,156,454
Geology	<u>11,497</u>	<u>647</u>	<u>-</u>	<u>12,144</u>
End of year	<u>11,497</u>	<u>1,157,101</u>	<u>-</u>	<u>1,168,598</u>
Total	\$ 27,067	\$ 1,301,652	\$ -	\$ 1,328,719
2002				
Acquisition costs				
Beginning of year	\$ -	\$ 194,551	\$ -	\$ 194,551
Option payments	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
End of year	<u>-</u>	<u>174,551</u>	<u>-</u>	<u>174,551</u>
Deferred exploration costs				
Beginning of year	-	1,142,095	54,538	1,196,633
Geology	-	3,252	2,268	5,520
Legal	-	10,907	-	10,907
Transportation and travel	<u>-</u>	<u>200</u>	<u>-</u>	<u>200</u>
End of year	<u>-</u>	<u>1,156,454</u>	<u>56,806</u>	<u>1,213,260</u>
Written-off during the year	<u>-</u>	<u>-</u>	<u>(56,806)</u>	<u>(56,806)</u>
Total	\$ -	\$ 1,331,005	\$ -	\$ 1,331,005

Tres Marias and Cebollas, Mexico

During the current year, 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.

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

Tres Marias and Cebollas, Mexico (cont'd...)

The Company issued 50,000 common shares at a value of \$8,000 and a finder's fee of 5,000 common shares at a value of \$800 and paid 10% of the US\$50,000 exploration expenditures required in the first year. The Company must also incur exploration expenditures of US\$1,000,000 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. The property is subject to a 3% net smelter returns royalty ("NSR").

Brenda Claims, Canada

The Company owns twenty-two mineral claims consisting of 178 units known as the Brenda Claims in North Central British Columbia (expiring May 1, 2009).

During the year ended December 31, 2002, option and joint venture agreements were signed with Northgate Exploration Ltd. ("Northgate"). The agreements provide for Northgate to earn a 60% interest in the property by incurring expenditures of \$2,000,000 and paying a total of \$140,000 to the Company over a period of four years. Upon exercise of the option, the parties will enter into a joint venture. If the Company does not elect to participate in the joint venture, or fails to meet its share of planned expenditures, its interest will revert to a 2% NSR, one-half of which may be purchased by Northgate for \$2,000,000.

Northgate currently holds the claims in trust for the Company under the terms of option and joint venture agreements. During the current year, Northgate incurred exploration expenditures of \$176,927 and cumulative exploration expenditures incurred to date under this agreement are \$372,667. During the current year, the Company received a second option payment of \$30,000, which has been credited to resource properties. The cumulative amount of option payments received as at December 31, 2003 under this agreement is \$50,000.

Lil Claim, Canada

The Company owns one mineral claim consisting of 20 units known as the Lil Claim in the Omineca Mining division of British Columbia. The Company incurred cumulative expenditures of \$388,515. Of this amount, \$56,806 was written off in fiscal 2002 and \$331,709 was 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 (20 units expiring October 7, 2008 and 56 units expiring October 7, 2004). The Company incurred cumulative expenditures of \$233,256 which were written off in previous 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 (expiring June 15, 2004). A total of 38 claim units were re-staked in October 2002 for \$10,300 which was included in general exploration costs in fiscal 2002. The Company has also incurred cumulative expenditures of \$17,400 which were written off in previous years.

CANASIL RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

4. EQUIPMENT

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and Equipment	\$ 9,242	\$ 6,763	\$ 2,479	\$ 9,242	\$ 6,144	\$ 3,098
	\$ 9,242	\$ 6,763	\$ 2,479	\$ 9,242	\$ 6,144	\$ 3,098

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, 2001	11,877,342	\$ 4,745,059	\$ 30,000	\$ 4,775,059
Private placement	1,000,000	100,000	-	100,000
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	-	(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

On 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 common share at a price of \$0.35 expiring December 31, 2004. 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 until December 31, 2004. The finders' warrants have been recorded at a fair value of \$53,344, which are included in contributed surplus.

During the year ended December 31, 2002, the Company completed a non-brokered private placement of 1,000,000 units. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.15.

6. STOCK OPTIONS AND WARRANTS

Stock options

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.

At December 31, 2003, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
80,000	\$ 0.41	May 12, 2004
40,000	0.41	July 20, 2004
65,000	0.41	October 7, 2004
300,000	0.32	May 11, 2005
100,000	0.23	April 17, 2007
650,000	0.26	November 6, 2008

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2001	1,085,000	\$ 0.35
Cancelled/expired	(100,000)	0.32
Granted	<u>100,000</u>	0.23
Balance, December 31, 2002	1,085,000	0.34
Cancelled/expired	(500,000)	0.33
Granted	<u>650,000</u>	0.26
Balance, December 31, 2003	1,235,000	\$ 0.29
Exercisable, December 31, 2003	747,500	\$ 0.32

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

Stock-based compensation

The Company granted 650,000 stock options during the current year, resulting in stock-based compensation expense under the Black-Scholes option-pricing model of \$33,491 which was also recorded as contributed surplus on the balance sheet. The weighted average fair value of the stock options granted during the current year was \$0.15 per share.

During the year ended December 31, 2002, the Company accounted for the granting of stock options using the intrinsic value-based method. Had the Company used the fair value-based method to account for the granting of 100,000 stock options, additional compensation expense of \$20,179 would have been recorded in the statement of operations. Loss for the year would have been \$199,577 and basic and diluted loss per common share would have been \$0.02.

Warrants

As at December 31, 2003, the Company had outstanding share purchase warrants, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
520,500	\$ 0.35	December 31, 2004
2,250,000	0.35	December 31, 2004

Black-Scholes valuation

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

	2003	2002
Risk-free interest rate	3.04% - 3.30%	4.01%
Expected life of options/warrants	1 - 2 years	2 years
Annualized volatility	133.80%	127.59%
Dividend rate	0.00%	0.00%

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$30,000 (2002 - \$18,000) for management fees to a company controlled by a director.
- b) Paid or accrued \$25,485 (2002 - \$25,413) for legal services, property acquisition costs and share issuance costs to a law firm in which an officer of the Company is a partner.
- c) Paid or accrued \$13,000 (2002 - \$8,750) to a director and to two companies each controlled by a director for directors' fees.
- d) Paid or accrued \$11,000 (2002 - \$8,000) to a company controlled by an officer of the Company for management fees.
- e) Recorded stock-based compensation expense of \$33,491 (2002 - \$Nil) on stock options granted to directors and officers of the Company.
- f) Paid or accrued the following amounts to a company controlled by a former director and officer of the Company:
 - i) \$Nil (2002 - \$5,500) for geological consulting and related costs;
 - ii) \$Nil (2002 - \$6,000) for management fees; and
 - iii) \$Nil (2002 - \$18,000) for management contract termination fees.

These transactions are in the normal course of operations and are 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, 2003 is \$21,656 (2002 - \$15,039) 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

	2003	2002
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, 2003:

- a) The Company issued 50,000 common shares at a value of \$8,000 in consideration of the option agreement with Wheaton (Note 3).

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

- b) The Company issued 5,000 common shares at a value of \$800 as a finder's fee relating to the option agreement with Wheaton (Note 3).
- c) The Company recorded stock-based compensation expense of \$33,491 relating to stock options granted during the year.
- d) The Company recorded a value of \$53,344 as share issuance costs for finders' warrants issued as part of a private placement.

There were no significant non-cash transactions for the year ended December 31, 2002.

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:

	2003	2002
Loss for the year	\$ (163,193)	\$ (179,398)
Income taxes at statutory rate	\$ (61,361)	\$ (71,042)
Finders' fees and share issuance costs charged to equity	(6,232)	-
Non-deductible expenses	12,869	-
Write-off of resource properties	-	22,495
Unrecognized benefit of non-capital losses	<u>54,724</u>	<u>48,547</u>
Total income tax recovery	\$ -	\$ -

CANASIL RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

10. INCOME TAXES (cont'd...)

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

	2003	2002
Future income tax assets:		
Non-capital loss carryforwards	\$ 127,348	\$ 73,141
Resource properties	738,779	770,348
Financing costs	24,607	2,123
Equipment	<u>11,570</u>	<u>11,055</u>
	902,304	856,667
Valuation allowance	<u>(902,304)</u>	<u>(856,667)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has available for deduction against future taxable income non-capital losses of approximately \$307,000. These losses, if not utilized, will expire commencing in 2004. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$3,404,000 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.

11. SEGMENTED INFORMATION

Industry information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by management, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the resource sector. The Company's mining operations are centralized whereby management of the Company is responsible for business results and the everyday decision making. The Company's operations therefore are segmented on a geographic basis.

The Company's resource properties are located in Canada and Mexico.

The segments' accounting policies are the same as those described in the summary of significant accounting policies except that expenses and other items are not allocated to the individual operating segments when determining profit or loss, but are rather attributed to the corporate head office.

CANASIL RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

11. SEGMENTED INFORMATION (cont'd...)

Industry information (cont'd...)

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

	2003	2002
Canada	\$ 2,583,207	\$ 1,467,247
Mexico	<u>27,067</u>	<u>-</u>
	<u>\$ 2,610,274</u>	<u>\$ 1,467,247</u>

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

	2003	2002
Canada	\$ 136,768	\$ 179,398
Mexico	<u>26,425</u>	<u>-</u>
	<u>\$ 163,193</u>	<u>\$ 179,398</u>

Canasil Resources Inc.
Corporate Information

Directors:

Alvin Jackson
Gary Nordin
Michael McInnis
Bahman Yamini

Advisors:

Peter Steen
Richard Gilbert

Officers:

Bahman Yamini
President & CEO

Gary Nordin
VP Exploration

Iain MacPhail
VP Finance, CFO

Graham Scott
Corporate Secretary

Exchange Listing:

TSX Venture Exchange
Trading Symbol: **CLZ**

Capitalization:

Authorized:
100,000,000 Common Shares

Issued:
(As at December 31, 2003)
18,432,342

Fully Diluted:
(As at March 30, 2004)
22,437,842

**Transfer Agent &
Registrar:**

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10th Floor – 625 Howe St.
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V6C 3B8

Auditors:

Davidson & Company
Vancouver, B.C.

Bankers:

Bank of Montreal
Main Branch
Vancouver, B.C.

Legal Counsel:

Vector Corporate Finance
Lawyers
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Corporate Office:

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