



**FINANCIAL STATEMENTS**

**FOR THE NINE MONTH PERIOD ENDED  
SEPTEMBER 30, 2004**

**(UNAUDITED)**



## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not be reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

*"Bahman Yamini"*

**President and Chief Executive Officer**

*"Iain MacPhail"*

**Vice President, Finance & CFO**

November 3, 2004

*Suite 200, 1695 Marine Drive, North Vancouver, B.C. V7P 1V1  
Tel: (604) 708-3788 Fax: (604) 708-3728*

**CANASIL RESOURCES INC.**  
**INTERIM BALANCE SHEET**  
**SEPTEMBER 30, 2004**  
**(UNAUDITED)**

	September 30 2004	December 31 2003
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 929,817	\$ 1,261,072
Interest receivable	14,484	181
GST recoverable	8,579	4,399
Advances receivable	5,076	-
Prepaid expenses	423	424
	958,379	1,266,076
<b>Reclamation bond</b>	13,000	13,000
<b>Resource properties</b>	1,433,549	1,328,719
<b>Capital assets</b>	2,404	2,479
	\$ 2,407,332	\$ 2,610,274
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable	\$ 17,491	\$ 98,948
<b>Stockholders' equity</b>		
Capital stock	5,762,048	5,762,048
Contributed surplus	380,916	347,430
Deficit	(3,753,123)	(3,598,152)
	2,389,841	2,511,326
	\$ 2,407,332	\$ 2,610,274

**On behalf of the Board:**

*"Bahman Yamini"*
Director
*"Gary Nordin"*
Director

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

**CANASIL RESOURCES INC.**  
**STATEMENT OF OPERATIONS AND DEFICIT**  
**NINE MONTH PERIOD ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>EXPENSES</b>				
Accounting and audit	4,389	\$ 2,500	10,877	\$ 9,500
Amortization	119	155	361	465
Bank charges and interest	262	-	549	-
Directors fees	4,500	2,500	12,000	7,500
Foreign exchange loss / (gain)	1,272	10	1,595	1,083
General exploration	-	4,918	6,096	32,543
Investor relations	-	108	16,566	2,063
Legal	5,292	250	12,756	5,618
Management fees	15,000	8,000	45,000	24,000
Meals and Entertainment	422	-	1,213	-
Office services and supplies	2,932	1,036	9,317	4,757
Registrations, license and filing	595	2,256	11,215	8,963
Stock based compensation	-	-	33,487	-
Stock transfer fees	910	448	4,280	3,730
Telephone	1,180	815	3,127	2,556
Travel and conferences	224	-	3,743	313
	37,097	22,996	172,182	103,091
<b>Interest income</b>	(5,339)	(118)	(17,212)	(574)
<b>Loss for the period</b>	(31,758)	(22,878)	(154,970)	(102,517)
<b>Deficit at beginning of period</b>	(3,721,365)	(3,514,599)	(3,598,153)	(3,434,960)
<b>Deficit at end of period</b>	(3,753,123)	(3,537,477)	(3,753,123)	(3,537,477)
<b>Loss per share</b>	0.002	0.002	0.008	0.008
<b>Weighted average number of shares</b>	18,432,342	12,877,342	18,432,342	12,877,342

**CANASIL RESOURCES INC.**  
**STATEMENT OF CASH FLOWS**  
**NINE MONTH PERIOD ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for period	(31,758)	(22,878)	(154,970)	(102,517)
Items not affecting cash				
Amortization	119	155	361	465
Stock based compensation	-	-	33,487	-
	<u>(31,639)</u>	<u>(22,723)</u>	<u>(121,122)</u>	<u>(102,052)</u>
Net change in non-cash working capital items				
Amounts receivable	(11,987)	2,468	(23,561)	4,113
Prepaid expenses	767	479	1	(109)
Accounts payable and accrued liabilities	(47,234)	7,844	(81,457)	9,105
	<u>(58,454)</u>	<u>10,791</u>	<u>(105,017)</u>	<u>13,109</u>
	<u>(90,093)</u>	<u>(11,932)</u>	<u>(226,139)</u>	<u>(88,943)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Resource property costs expenditures	(21,168)	(379)	(109,830)	(1,026)
Resource property option proceeds	-	30,000	5,000	30,000
Capital asset additions	(286)	-	(286)	-
	<u>(21,454)</u>	<u>29,621</u>	<u>(105,116)</u>	<u>28,974</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Share issue costs	-	-	-	(5,087)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,087)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(111,547)	17,689	(331,255)	(65,056)
<b>Cash and cash equivalents - beginning of period</b>	<u>1,041,364</u>	<u>30,918</u>	<u>1,261,072</u>	<u>113,663</u>
<b>Cash and cash equivalents - end of period</b>	<u>\$ 929,817</u>	<u>\$ 48,607</u>	<u>\$ 929,817</u>	<u>\$ 48,607</u>

**CANASIL RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**  
**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

These financial statements do not contain all the information required for annual financial statements and should be read in conjunction with the most recent annual financial statements.

**2. NATURE OF OPERATIONS**

Canasil Resources Inc. (the "Company") is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

The Company's ability to fulfil its property acquisition and exploration obligations is dependent on its ability to secure additional financing. The company is negotiating with third parties to finance its projects, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

**3. RESOURCE PROPERTIES**

	Tres Marias and Cebollas, Mexico	Brenda Claims, Canada	Total
Balance, December 31, 2003	\$ 27,067	\$ 1,301,652	\$ 1,328,719
Expenditures (Receipts) during the period:			
Acquisition costs	16,806	-	16,806
Assays	7,310	-	7,310
Camp and General	5,964	-	5,964
Geology	36,411	-	36,411
Mapping and Surveying	15,796	-	15,796
Property Taxes	19,539	-	19,539
Travel and accommodation	8,004	-	8,004
Property payments received	-	(5,000)	(5,000)
	<u>109,830</u>	<u>(5,000)</u>	<u>104,830</u>
Balance, September 30, 2004	\$ 136,897	\$ 1,296,652	\$ 1,433,549
Resource Properties consist of:			
Acquisition cost	\$ 38,873	\$ 194,551	\$ 233,424
Property payments received	-	(55,000)	(55,000)
	<u>38,873</u>	<u>139,551</u>	<u>178,424</u>
Deferred development expenditures	98,024	1,157,101	1,255,125
	<u>\$ 136,897</u>	<u>\$ 1,296,652</u>	<u>\$ 1,433,549</u>

**CANASIL RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**  
**(UNAUDITED)**

**4. 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, 2003	18,432,342	5,762,048	347,430	6,109,478
Stock-based compensation (see note 5)	-	-	33,487	33,487
Balance, December 31, 2003 and September 30, 2004	18,432,342	\$5,762,048	\$ 380,917	\$6,142,965

**5. STOCK OPTIONS AND WARRANTS**

**Stock options**

At September 30, 2004, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
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

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

Stock options (cont'd...)

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

	Number of Options	Weighted Average Exercise Price
<b>Options outstanding</b>		
Balance, December 31, 2003	1,235,000	\$ 0.27
Expired during period	(120,000)	\$ 0.41
Balance, September 30, 2004	1,115,000	\$ 0.28
<b>Options exercisable</b>		
Exercisable, December 31, 2003	747,500	\$ 0.32
Expired during period	(120,000)	\$ 0.41
Vested during period	162,500	\$ 0.26
Exercisable, September 30, 2004	790,000	\$ 0.29

**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 quarter (162,500) vested in the second quarter of 2004. Stock-based compensation expense under the Black-Scholes option-pricing model of \$33,487 was reported in each period. These amounts were also recorded as contributed surplus on the balance sheet.

**Warrants**

As at September 30, 2004 and 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

**CANASIL RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(UNAUDITED)**

**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 previous fiscal 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%

**6. RELATED PARTY TRANSACTIONS**

The Company paid or accrued the following amounts to related parties:

	September 30 2004	September 30 2003
	\$	\$
Accounting and audit	951	-
Management fees	45,000	24,000
Legal Fees	8,232	5,618
Deferred exploration costs – Geology	7,500	359
Deferred exploration costs – Acquisition costs	1,720	-
Directors' fees	12,000	7,500
Share issue costs	-	5,087

**7. SEGMENTED INFORMATION**

The Company conducts its operations in Canada and Mexico in one business segment, being the exploration and development of resource properties.



**MANAGEMENT DISCUSSION AND ANALYSIS  
FORM 51-102F1**

**For the Nine Month Period ended September 30, 2004**

**November 3, 2004**

*Suite 200, 1695 Marine Drive, North Vancouver, B.C. V7P 1V1  
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## **CANASIL RESOURCES INC.**

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Nine Month Period ended September 30, 2004

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### **1.1 Date and period covered:**

This Management Discussion and Analysis for Canasil Resources Inc. (the Company) is dated November 3, 2004. It is being filed with the quarterly report covering the nine months ended September 30, 2004, and follows the new reporting guidelines required under form 51-102F1.

The following discussion and analysis of the financial position of the Company for the nine months ended September 30, 2004, should be read in conjunction with the unaudited financial statements and related notes for the period, the information provided in the 2003 Annual Report of the Company and the Quarterly Report for the six months ended June 30, 2004. The details below update the information contained in the MD&A of those reports.

### **1.2 Operating Performance:**

The Company is engaged in the exploration and development of mineral properties located in British Columbia, Canada, and in Durango State, Mexico, hosting gold-copper, 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 the third quarter of 2004, the Company finalised arrangements for conclusion of an option agreement by Luismin for acquisition of 6 claim blocks covering 1,497 hectares in the San Dimas District in Durango, Mexico. Of these 4 blocks covering 837 hectares are adjacent to the Tres Marias and Cebollas projects, increasing the area covered by these projects from 2,326 hectares to 3,163 hectares. The Company also completed plans for a diamond drill program on these projects, scheduled to start in October/November 2004. The Company acquired further satellite and aero-magnetic data of the project area and completed fluid inclusion studies on samples from the drill program target zones. The drill contract providing for a minimum of 1,000 metres core drilling has been signed and the Company's team is on-site to complete preparations for the start of the drill program.

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. During the third quarter 2004, Northgate completed five diamond drill holes for a total of 1,446 metres for total exploration expenditures of \$226,000. While the drill program returned significant gold and copper mineralised intersections, Northgate terminated the Option and Joint Venture agreement in October 2004. Under this agreement Northgate completed a total of \$598,667 in exploration expenditures, including 4,581 metres of diamond drilling in 14 drill holes, and \$55,000 in property payments. This exploration program has advanced the Brenda project significantly, providing a better understanding of the mineralised structures and data required for future exploration. The Company will review and evaluate the detailed results of the drill programs and recommendations from Northgate, which suggest excellent potential exists for more zones on the property, any of which may prove economic.

During the quarter arrangements were completed for the registration of a Mexican subsidiary, Minera Canasil S.A. de C.V., 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 did not have an active external investor relations program during the third quarter.

## **CANASIL RESOURCES INC.**

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Nine Month Period ended September 30, 2004

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### **1.3 Financial Condition, Results of Operations and Cash Flows**

The Company's working capital as at September 30, 2004, was \$940,888 (\$14,829 as at September 30, 2003). 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 period, operating expenditures were \$172,182 (\$103,091 for the same period in 2003) and the Company earned interest income of \$17,212 (\$574 for the same period in 2003). The operating expenditures for the period included a non-cash provision for Stock Based Compensation of \$33,487 for one-quarter (162,500) of the 650,000 stock options granted in November 2003, which vested during the period. Net cash used for operating expenditures increased to \$121,122 (\$102,052 for the same period in 2003) reflecting increases in investor relations costs for exhibiting at the Calgary and Vancouver Resource Investment Conferences, management fees, and a reduction in general exploration expenditures. Total cash used for operating activities for the period increased to \$226,139 (\$88,943 for the same period in 2003) reflecting a reduction in non-cash working capital items of \$105,017 (increase of \$13,109 for the same period in 2003). Cash used for investing activities increased to \$105,116 (\$28,974 income for the same period in 2003). This was entirely made up of exploration expenditures on resource properties during the period related to satellite surveys, geological services, sampling and assays for the Tres Marias and Cebollas projects in Mexico.

### **1.4 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 also holds a 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 the Sierra Madre Occidental on the western border of Durango State. 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.

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. The agreement provides Wheaton/Luismin with an option to buy back a 35% interest in the properties for US\$1,700,000 after Canasil has acquired a 75% interest.

During the third quarter of 2004, the Company completed arrangements for the signature of an option agreement by Luismin for the acquisition of 6 claim blocks covering a total of 1,497 hectares in the San Dimas District of Durango, Mexico. The agreement provides for the acquisition of a 100% interest in four mineral claim blocks covering 837 hectares adjacent to the existing claim blocks at the Tres Marias and Cebollas projects, and two additional claim blocks covering 660 hectares located northwest of the Tayoltita/San Dimas mine. Payment commitments under the agreement will be US\$150,000 over three years, payment of annual property taxes and exploration commitments during the option period, and a 2.5% Net Smelter Return royalty following completion of the acquisition. As a result the area covered by these projects will increase from 2,326 hectares to 3,163 hectares, covering the presumed ore extensions of the outcropping silver/gold vein systems observed through previous exploration work.

**CANASIL RESOURCES INC.**

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Nine Month Period ended September 30, 2004

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

During the quarter, the Company completed acquisition of further satellite and aero-magnetic data covering the project area. Drill targets for the Phase 1 drill program were selected and a number of samples from the target zones collected for a fluid inclusion study. The results of the fluid inclusion study confirm the potential for gold-silver mineralization above and below the vein systems sampled. In October 2004 the Company finalised a diamond drill contract for the first phase of diamond drilling providing for a minimum of 1,000 metres of core drilling in 7 – 8 drill holes to test the Tahuehueto and Rosario veins at the Cebollas project and the Los Laureles vein at the Tres Marias project. Samples collected in April 2004 from these veins returned significant high grade gold and silver assays as announced on April 23 and June 3, 2004. The drill program is expected to take approximately 30 – 45 days to complete with initial results expected in January 2005.

During the quarter arrangements were completed for the registration of a Mexican subsidiary, Minera Canasil S.A. de C.V., in order to administer the Company's operations in Mexico.

***Brenda gold/copper property, British Columbia, Canada***

The Brenda property covers 4,450 hectares (44.5 sq. km.) located in the core of the Kemess-Toodoggone porphyry copper-gold district, approximately 450 km northwest of Prince George, B.C., and 25 km northwest of Northgate's 300,000 oz/year Kemess South mine. All claims are currently in good standing to May 30, 2014.

The Company entered into Option and Joint Venture Agreements with Northgate On July 31, 2002, providing for Northgate to earn a 60% interest in the property by incurring \$2,000,000 in exploration expenditures and making \$140,000 in cash payments by July 31, 2006. Between August 2002 and October 2004 Northgate completed \$598,667 in exploration expenditures, including 14 diamond drill holes for a total of 4,581 metres, and cumulative property payments of \$55,000.

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. The 2004 drill program returned further significant gold and copper mineralized intersections, as reported in the table included below.

Northgate concluded 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 and copper 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 Au and 0.02 - 0.08% Cu. Northgate terminated the option and joint venture agreement in October 2004.

The Brenda property claims are currently in good standing to May 2014. Canasil will review the detailed results and recommendations from Northgate, which suggest excellent potential exists for more zones on the property any of which may prove economic, for further exploration and development of the property in order to evaluate and pursue future opportunities for continued exploration of the Brenda project.

**CANASIL RESOURCES INC.**

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Nine Month Period ended September 30, 2004

***Brenda gold/copper property, British Columbia, Canada (cont'd.)***

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

***Acquisition and Disposition of Resource Properties***

During the quarter ended September 30, 2004, the Company completed arrangements for the signature of an option agreement by Lusimin for the acquisition of 6 claim blocks covering a total of 1,497 hectares in the San Dimas District of Durango, Mexico, as described above. This agreement will increase the area covered by the Tres Marias and Cebollas projects from 2,326 hectares to 3,163 hectares, covering the presumed ore extensions of the outcropping silver-gold vein systems observed through previous exploration work.

The Company continued to review opportunities for the acquisition of new silver-gold projects in Mexico.

**CANASIL RESOURCES INC.**

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Nine Month Period ended September 30, 2004

**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 period:

Year	2004			2003			2002	
Quarter ended:	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31
Net Income (Loss) from continuing operations	(31,758)	(81,109)	(42,194)	(60,676)	(22,878)	(44,226)	(35,413)	(19,215)
Loss per share	(0.0018)	(0.0044)	(0.0023)	(0.0033)	(0.0018)	(0.0034)	(0.0028)	(0.0015)
Net Income (Loss) Total	(31,758)	(81,109)	(42,194)	(60,676)	(22,878)	(44,226)	(35,413)	(76,021)
Loss per share	(0.0018)	(0.0044)	(0.0023)	(0.0033)	(0.0018)	(0.0034)	(0.0028)	(0.0059)
Shares Issued	18,432,342	18,432,342	18,432,342	18,432,342	12,877,342	12,877,342	12,877,342	12,877,342

**1.6 Liquidity and capital resources:**

The Company has sufficient financial resources to undertake currently planned exploration programs and operating expenditures.

The Company had working capital at September 30, 2004 of \$940,888 compared with a working capital of \$14,829 as at September 30, 2003. The Company had no material income from operations. As at September 30, 2004, the Company had no long-term debt.

For the period ended September 30, 2004, the Company experienced a negative cash flow of \$331,255 from operating and investing activities, compared to \$65,056 for the period ended September 30, 2003. This increase is a result of resource property expenditures (\$109,830 primarily on the Tres Marias and Cebollas projects in Mexico), increased operating expenditures (\$121,122), a reduction in accounts payable (\$81,457) and increase in amounts receivable (\$23,561).

There was no new financing during the period.

**1.7 Related Party Transactions:**

During the period the Company paid or accrued a total of \$75,403 (\$42,564 for the same period in 2003) to related parties covering Directors' and management fees and geological and legal services.

**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, 2003.

## CANASIL RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS - FORM 51-102F1

For the Nine Month Period ended September 30, 2004

### 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.

### 1.10 Outstanding Share Data as at September 30, 2004

- (a) Authorized and issued shares as at September 30, 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 September 30, 2004, a total of 1,115,000 incentive stock options were outstanding of which number 790,000 incentive stock options were exercisable, 162,500 will become exercisable in November 2004, and a further 162,500 in May 2005. 40,000 incentive stock options expired during the quarter ended September 30, 2004.

<u>Number Of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
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 26, 2008
<u>1,115,000</u>	<u>0.28</u>	

- (c) As at September 30, 2004, the Company had 2,770,500 outstanding share purchase warrants, enabling the holders to acquire 2,770,500 additional common shares at a process of \$0.35 per share on or before December 31, 2004.
- (d) No shares are subject to escrow or pooling arrangements.

### 1.11 Investor Relations:

The Company maintains a website, [www.canasil.com](http://www.canasil.com), with detailed corporate information and information covering its mineral exploration projects and operations. For 2004 the Company has budgeted a more active investor relations program, including participation in industry investment conferences and preparation of shareholder communications materials. During the period the Company exhibited at the Calgary and Vancouver Resource Investment Conferences held in April and June 2004 respectively. Total expenditures for exhibiting at these conferences, including preparation and rental of stand exhibits and materials, was \$19,305.

The Company has also reviewed possibilities for engaging professional investor relations services aimed at distributing Company information to a wider range of potential investors. The Company did not exhibit at the Toronto Resource Investment conference in October 2004.

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**1.12 Subsequent events:**

Subsequent to September 30, 2004, the Company was notified by Northgate of the termination of the Option and Joint Venture agreements for the Brenda gold-copper project.

The Company entered into a drill contract and has started the implementation of the planned drill program at the Tres Marias and Cebollas projects in Mexico.

The registration of the Company's Mexican subsidiary, Minera Canasil S.A. de C.V. was completed.

**1.13 Other Information:**

Detailed information on the Company and its operations is available on the Company's website at [www.canasil.com](http://www.canasil.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

**1.14 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, continued availability of capital and financing, and general economic, market and business conditions.

BY ORDER OF THE BOARD

*"Bahman Yamini"*

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Bahman Yamini  
President, CEO and Director

*"Gary Nordin"*

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Gary Nordin  
Director