

CANHORN CHEMICAL CORPORATION

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REPORT TO SHAREHOLDERS

Dear Shareholders:

As announced on April 13th, we are pleased to advise that the Company has entered into a Letter of Intent to amalgamate with Nayarit Gold Inc. If the amalgamation is successfully completed the Company will re-enter the exploration sector through Nayarit's gold project in Mexico. Further details concerning the proposed amalgamation are contained in the Company's press release of April 13th and in the notes to the financial statements accompanying this report. We look forward to reporting further to you on the progress of the transaction over the next few months.

On behalf of the Board of Directors

"signed"

Herman Becker-Fluegel
Chairman

May 27, 2004

CANHORN CHEMICAL CORPORATION**Balance Sheet**

(Expressed in Canadian dollars)

	March 31, 2004	December 31 2003
	(unaudited)	(audited)
ASSETS		
Current		
Cash	\$ 626	\$ 4,838
Due from Nayarit Gold Inc. (Note 2)	25,000	11,719
Prepaid expenses and sundry receivables	4,067	1,282
	<u>29,693</u>	<u>17,839</u>
Investments (Note 3)		
In shares of other companies	6	6
In resource properties	3	3
	<u>\$ 29,702</u>	<u>\$ 17,848</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 14,966	\$ 9,066
Loan payable to a shareholder (Note 4(a))	48,046	48,046
Due to a related party (Note 4(b))	18,663	7,953
	<u>81,675</u>	<u>65,065</u>
SHAREHOLDERS' DEFICIENCY		
Capital Stock (Note 5)		
Authorized: Common Shares - Unlimited		
Issued: 9,479,066 (March 31, 2003 - 9,229,066)	11,039,932	11,039,932
Deficit	<u>(11,091,905)</u>	<u>(11,087,150)</u>
	<u>(51,973)</u>	<u>(47,217)</u>
	<u>\$ 29,702</u>	<u>\$ 17,848</u>

See accompanying notes to the financial statements

CANHORN CHEMICAL CORPORATION**Statement of Operations and Deficit**

(Expressed in Canadian dollars)

(unaudited)

For the three months ended March 31,	2004	2003
Revenue	<u>\$ -</u>	<u>\$ -</u>
Expenses		
Administration, net of recoveries (Note 2)	\$ 4,769	\$ 23,616
Loss (gain) on foreign exchange	(14)	1,088
Net income (loss) for the period	<u>(4,755)</u>	<u>(24,704)</u>
DEFICIT, beginning of the period	<u>(11,087,150)</u>	<u>(11,008,396)</u>
DEFICIT, end of the period	<u>\$ (11,091,905)</u>	<u>\$ (11,033,100)</u>
Net income (loss) per share for the period (Note 5(d))	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>

See accompanying notes to the financial statements.

CANHORN CHEMICAL CORPORATION**Statement of Cash Flow**

(Expressed in Canadian dollars)

(unaudited)

For the three months ended March 31,	2004	2003
Operating activities		
Net income (loss) for the period	\$ (4,755)	\$ (24,704)
Non-cash items:		
Prepaid and sundry	(2,785)	(166)
Accounts payable and accrued liabilities	5,899	14,379
	<u>(1,641)</u>	<u>(10,491)</u>
Financing activities		
Increase in due from Nayarit Gold Inc.	(13,281)	(14,692)
Decrease in loan payable	-	-
Increase in loan payable to a shareholder	-	7,885
Increase in amount due to a related party	10,710	3,880
	<u>(2,571)</u>	<u>(2,927)</u>
Change in cash	(4,212)	(13,418)
CASH, beginning of period	4,838	31,707
CASH, end of period	\$ 626	\$ 18,289

See accompanying notes to the financial statements.

CANHORN CHEMICAL CORPORATION

Notes to the Financial Statements

(Expressed in Canadian dollars)

March 31, 2004

(unaudited)

1. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Translation of foreign currencies

Foreign currency transactions are translated into Canadian dollars at the rates prevailing on the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end rate of exchange. Gains and losses are included in the determination of results of operations.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Basis of Presentation

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The application of the going concern concept is dependent on the Corporation's ability to settle its debt and obtain financing in order to continue its operations. Management is of the opinion that suitable business opportunities will be identified and that external financing will be obtained to meet the Corporation's liabilities and commitments as they become due.

Investments

The Corporation has various investments with nominal values. Investments are accounted for at cost.

2. Due from Nayarit Gold Inc.

At March 31, 2004 the Corporation had incurred approximately \$25,000 in expenses related to a proposed amalgamation with Nayarit Gold Inc. ("Nayarit"). These expenses were recovered from Nayarit during April. See Note 8 – Subsequent Events for further details of the proposed amalgamation.

3. Investments

In Shares of Other Companies

	Number of Shares held	2004	2003
United Reef Limited	100,000	\$1	\$1
Various (nominal value)	-	5	5
		<u>\$6</u>	<u>\$6</u>

In Resource Properties

	2004	2003
Various	<u>\$3</u>	<u>\$3</u>

4. Related Party Transactions

- (a) Great Horn, Inc. ("Great Horn") is related to the Corporation by virtue of common management and is a significant influence investor in the Corporation.

At March 31, 2004 the Corporation had loans payable to Great Horn in the amount of \$48,046 (2003 – \$29,240). The balance is non-interest bearing and has no specific terms of repayment.

- (b) At March 31, 2004 the Corporation was indebted to a company owned by the Secretary and a director of the Corporation in the amount of approximately \$18,663 (2003 - \$4,730). These balances represent amounts charged to the Corporation for administrative, accounting and secretarial services and rent provided to the Corporation.

5. Capital Stock

- (a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preference shares, issuable in series.

- (b) Issued

Common Shares

The Corporation's issued and outstanding common shares are as follows:

	Number of common shares	Amount
Balance at December 31, 2001	7,629,066	\$10,854,932
Issued for cash, private placements	1,600,000	160,000
Balance at December 31, 2002	9,229,066	\$11,014,932
Issued for cash, private placement	250,000	25,000
Balance at December 31, 2003 and March 31, 2004	<u>9,479,066</u>	<u>\$11,039,932</u>

At May 27, 2004 the number of common shares issued and outstanding remained the same as at March 31, 2004.

(c) Stock Options

The Corporation has an incentive stock option plan which governs the granting, to a maximum of 1,000,000 options to acquire common shares, and the exercise of options issued to directors, officers and employees of the Corporation. During the period there were no options outstanding under the stock option plan.

(d) Income (loss) per share

Income (loss) per share is calculated using the weighted average number of shares outstanding during the period which was 9,479,066 (2003 -9,229,066).

6. Income Taxes

The major components of the future tax assets and liabilities classified by the source of temporary differences that gave rise to the benefit are as follows:

	December 31,	
	2003	2002
Assets		
Net operating losses (expiring 2004-2010)	\$ 333,200	\$ 711,500
Net capital losses (unlimited)	3,877,600	2,425,000
Total	4,210,800	3,136,500
Valuation allowances	(4,210,800)	(3,136,500)
	<u>\$ -</u>	<u>\$ -</u>

There have been no material changes in the Corporation's tax assets or liabilities at March 31, 2004 (unaudited) from those stated for the year ended December 31, 2003.

In assessing the realizability of the future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets and liabilities is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the future tax assets are deductible, management believes it is more likely than not the Corporation will not realize the benefits of these deductible differences at March 31, 2004 (unaudited).

As at the year-ended December 31, 2003, the Corporation had the following approximate tax loss carryforwards available to reduce future income taxes:

Non-capital losses of \$833,000 expiring between 2004 and 2010. Net capital losses of \$9,694,000 available indefinitely.

7. Financial Instruments

The carrying amounts reflected in the balance sheet for due from Nayarit Gold Inc., prepaid and sundry receivable, accounts payable and accrued liabilities, loan payable to a shareholder and due to a related party approximates fair value because of the limited term of these instruments.

8. Subsequent Events

On April 12, 2004 the Corporation entered into a Letter of Intent (“LOI”) with Nayarit Gold Inc. (“Nayarit”) whereby the companies have agreed to amalgamate, subject to shareholder and regulatory approvals. Each common share of the Corporation and each common share of Nayarit will be exchanged for one common share of the amalgamated entity (“Amalco”).

Nayarit is a private Ontario company with interests in three contiguous mineral exploration concessions located in the State of Nayarit, Mexico. Nayarit presently has issued 8,000,001 common shares and 4 million warrants (Series I warrants) exercisable at \$0.10 until March 31, 2006 to purchase one common share of Nayarit. Pursuant to the terms of the LOI, prior to the completion of the amalgamation, Nayarit will complete a private placement (the “Offering”) of at least \$2 million by way of the sale of units at \$0.50 per unit. Each unit will consist of one common share of Nayarit and one common share purchase warrant (a “Series II warrant”). Each Series II warrant will entitle the holder to acquire one common share of Nayarit for \$0.60 for a period of two years from the date of closing of the Offering.

Upon completion of the Offering, Nayarit will have a total of 12,000,001 common shares issued, 4 million Series I warrants and 4 million Series II warrants. The Series I and Series II warrants are exchangeable on the same terms into Amalco warrants. At completion of the amalgamation, Amalco will have 21,479,067 common shares issued, 4 million Series I warrants and 4 million Series II warrants. If the amalgamation is completed the Corporation’s existing shareholders will hold 44.1% and the Nayarit shareholders will hold 55.9% of Amalco. On a fully diluted basis the Corporation’s shareholders would hold approximately 32.2% of Amalco.

The LOI further provides that the costs of the amalgamation shall be borne by Nayarit and that Nayarit will reimburse the Corporation for any expenses incurred by it related to the amalgamation prior to closing. On execution of the LOI Nayarit advanced \$25,000 to the Corporation to reimburse it for estimated expenses it had incurred through March 31, 2004. The Corporation is not liable to reimburse Nayarit for the amount of any advances made to the Corporation whether or not the amalgamation is completed.

The proposed amalgamation with Nayarit is subject to a number of conditions, including shareholder and regulatory approval, completion of the Offering of \$2 million, satisfactory completion of due diligence reviews and entering into a definitive amalgamation agreement.