



British Columbia Securities Commission

**QUARTERLY AND YEAR END REPORT**  
 BC FORM 51-901F  
 (previously Form 61)

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|                         |  |                |  |                    |                |                |  |                       |  |
|-------------------------|--|----------------|--|--------------------|----------------|----------------|--|-----------------------|--|
| <b>ISSUER DETAILS</b>   |  | FOR YEAR ENDED |  |                    | DATE OF REPORT |                |  |                       |  |
| NAME OF ISSUER          |  |                |  |                    | Y M D          |                |  |                       |  |
| CANASIL RESOURCES INC.  |  | 02   12   31   |  |                    | 03   04   09   |                |  |                       |  |
| ISSUER ADDRESS          |  |                |  |                    |                |                |  |                       |  |
| 200 – 1695 MARINE DRIVE |  |                |  |                    |                |                |  |                       |  |
| CITY/                   |  | PROVINCE       |  | POSTAL CODE        |                | ISSUER FAX NO. |  | ISSUER TELEPHONE NO.  |  |
| NORTH VANCOUVER         |  | BC             |  | V7P 1V1            |                | 604-986-6825   |  | 604-984-6270          |  |
| CONTACT PERSON          |  |                |  | CONTACT'S POSITION |                |                |  | CONTACT TELEPHONE NO. |  |
| BAHMAN YAMINI           |  |                |  | PRESIDENT          |                |                |  | 604-984-6270          |  |
| CONTACT EMAIL ADDRESS   |  |                |  | WEB SITE ADDRESS   |                |                |  |                       |  |
| bahman@canasil.com      |  |                |  | www.canasil.com    |                |                |  |                       |  |

**CERTIFICATE**  
*The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.*

|                      |  |                 |  |              |  |  |
|----------------------|--|-----------------|--|--------------|--|--|
| DIRECTOR'S SIGNATURE |  | PRINT FULL NAME |  | DATE SIGNED  |  |  |
| "Gary Nordin"        |  | GARY NORDIN     |  | Y M D        |  |  |
|                      |  |                 |  | 03   04   09 |  |  |
| DIRECTOR'S SIGNATURE |  | PRINT FULL NAME |  | DATE SIGNED  |  |  |
| "Bahman Yamini"      |  | BAHMAN YAMINI   |  | Y M D        |  |  |
|                      |  |                 |  | 03   04   09 |  |  |

**CANASIL RESOURCES INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**

## AUDITORS' REPORT

To the Shareholders of  
Canasil Resources Inc.

We have audited the balance sheet of Canasil Resources Inc. as at December 31, 2002 and the statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

The audited financial statements at December 31, 2001 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated February 15, 2002.

**"DAVIDSON & COMPANY"**

Vancouver, Canada

Chartered Accountants

March 28, 2003

A Member of *SC INTERNATIONAL*

**CANASIL RESOURCES INC.**  
**BALANCE SHEET**  
**AS AT DECEMBER 31**

|   | 2002                | 2001                |
|---|---------------------|---------------------|
| <b>ASSETS</b>                               |                     |                     |
| <b>Current</b>                              |                     |                     |
| Cash and equivalents                        | \$ 113,663          | \$ 129,325          |
| Receivables                                 | 5,366               | 1,342               |
| Prepaid expenses                            | <u>1,115</u>        | <u>-</u>            |
|   | 120,144             | 130,667             |
| <b>Resource properties</b> (Note 3)         | 1,331,005           | 1,391,184           |
| <b>Capital assets</b> (Note 4)              | 3,098               | 4,184               |
| <b>Reclamation bond</b>                     | 13,000              | 13,000              |
| <b>Incorporation costs</b>                  | <u>-</u>            | <u>410</u>          |
|   | <u>\$ 1,467,247</u> | <u>\$ 1,539,445</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                     |                     |
| <b>Current</b>                              |                     |                     |
| Accounts payable and accrued liabilities    | <u>\$ 27,147</u>    | <u>\$ 19,947</u>    |
| <b>Stockholders' equity</b>                 |                     |                     |
| Capital stock (Note 5)                      | 4,845,059           | 4,745,059           |
| Contributed surplus                         | 30,000              | 30,000              |
| Deficit                                     | <u>(3,434,959)</u>  | <u>(3,255,561)</u>  |
|   | <u>1,440,100</u>    | <u>1,519,498</u>    |
|   | <u>\$ 1,467,247</u> | <u>\$ 1,539,445</u> |

**Nature and continuance of operations** (Note 1)

**On behalf of the Board:**

"Gary Nordin" Director "Bahman Yamini" Director

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

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

|  | 2002                  | 2001                  |
|--|-----------------------|-----------------------|
| <b>EXPENSES</b>                                      |                       |                       |
| Accounting and audit                                 | \$ 4,830              | \$ 12,123             |
| Amortization   | 1,086                 | 1,046                 |
| General exploration                                  | 15,152                | -                     |
| Investor relations                                   | 2,434                 | 2,609                 |
| Legal fees   | 14,506                | 2,281                 |
| Management and directors fees                        | 58,750                | 27,333                |
| Office rent  | 2,800                 | 4,800                 |
| Office services and supplies                         | 8,741                 | 6,720                 |
| Regulatory and filing                                | 6,993                 | 3,913                 |
| Stock transfer fees                                  | 2,528                 | 2,811                 |
| Telephone  | 2,808                 | 2,660                 |
| Travel and conferences                               | <u>2,778</u>          | <u>9,064</u>          |
|  | <u>(123,406)</u>      | <u>(75,360)</u>       |
| <b>OTHER ITEMS</b>                                   |                       |                       |
| Interest income                                      | 814                   | 6,109                 |
| Write-off of resource properties (Note 3)            | <u>(56,806)</u>       | <u>(441,014)</u>      |
|  | <u>(55,992)</u>       | <u>(434,905)</u>      |
| <b>Loss for the year</b>                             | (179,398)             | (510,265)             |
| <b>Deficit, beginning of year</b>                    | <u>(3,255,561)</u>    | <u>(2,745,296)</u>    |
| <b>Deficit, end of year</b>                          | <u>\$ (3,434,959)</u> | <u>\$ (3,255,561)</u> |
| <b>Basic and diluted loss per share</b>              | \$ (0.02)             | \$ (0.04)             |
| <b>Weighted average number of shares outstanding</b> | <u>11,937,616</u>     | <u>11,877,342</u>     |

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

**CANASIL RESOURCES INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

|   | 2002              | 2001              |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                   |                   |
| Loss for the year   | \$ (179,398)      | \$ (510,265)      |
| Items not affecting cash:                                       |                   |                   |
| Amortization  | 1,086             | 1,046             |
| Write-off of resource properties                                | 56,806            | 441,014           |
| Write-off of incorporation costs                                | 410               | -                 |
| Changes in non-cash working capital items:                      |                   |                   |
| (Increase) decrease in receivables                              | (4,024)           | 35,377            |
| (Increase) decrease in prepaid expenses                         | (1,115)           | 338               |
| Increase (decrease) in accounts payable and accrued liabilities | <u>7,200</u>      | <u>(17,916)</u>   |
| Net cash used in operating activities                           | <u>(119,035)</u>  | <u>(50,406)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                   |                   |
| Resource property option payment received                       | 20,000            | -                 |
| Resource property costs and deferred exploration costs          | (16,627)          | (50,499)          |
| Acquisition of capital assets                                   | <u>-</u>          | <u>(409)</u>      |
| Net cash used in (provided by) investing activities             | <u>3,373</u>      | <u>(50,908)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                   |                   |
| Common shares issued for cash                                   | <u>100,000</u>    | <u>-</u>          |
| Net cash provided by financing activities                       | <u>100,000</u>    | <u>-</u>          |
| <b>Decrease in cash and equivalents during the year</b>         | (15,662)          | (101,314)         |
| <b>Cash and equivalents, beginning of year</b>                  | <u>129,325</u>    | <u>230,639</u>    |
| <b>Cash and equivalents, end of year</b>                        | <u>\$ 113,663</u> | <u>\$ 129,325</u> |

**Supplemental disclosure with respect to cash flows (Note 8)**

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

**CANASIL RESOURCES INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Canasil Resources Inc. (the "Company") is 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 mineral 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.

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|                 | 2002           | 2001           |
|-----------------|----------------|----------------|
| Deficit         | \$ (3,434,959) | \$ (3,255,561) |
| Working capital | 92,997         | 110,720        |

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**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.

**Capital assets and amortization**

Capital assets are recorded at cost and amortized over their estimated useful life using the declining balance method at the following rates:

|                         |     |
|-------------------------|-----|
| Furniture and equipment | 20% |
| Geological equipment    | 20% |

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 expenses relating to resource properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. 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 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 plan**

The Company grants options in accordance with the TSX Venture Exchange ("TSX-V"). Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The new section also permits the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted. The Company has elected to adopt the intrinsic value-based method for employee awards. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**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 earnings (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, 2002**

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

|  | Brenda<br>Claims,<br>Canada | Lil<br>Claim,<br>Canada | Granite<br>Claims,<br>Canada | Tharsis<br>and<br>La Zarza,<br>Spain | Total               |
|--|-----------------------------|-------------------------|------------------------------|--------------------------------------|---------------------|
| Balance, December 31, 2001                       | <u>\$ 1,336,646</u>         | <u>\$ 54,538</u>        | <u>\$ -</u>                  | <u>\$ -</u>                          | <u>\$ 1,391,184</u> |
| Additions during the year:                       |                             |                         |                              |                                      |                     |
| Geology  | 3,252                       | 2,268                   | -                            | -                                    | 5,520               |
| Legal  | 10,907                      | -                       | -                            | -                                    | 10,907              |
| Transportation and travel                        | <u>200</u>                  | <u>-</u>                | <u>-</u>                     | <u>-</u>                             | <u>200</u>          |
|  | <u>14,359</u>               | <u>2,268</u>            | <u>-</u>                     | <u>-</u>                             | <u>16,627</u>       |
| Option payments received during the year         | <u>(20,000)</u>             | <u>-</u>                | <u>-</u>                     | <u>-</u>                             | <u>(20,000)</u>     |
| Written-off during the year                      | <u>-</u>                    | <u>(56,806)</u>         | <u>-</u>                     | <u>-</u>                             | <u>(56,806)</u>     |
| Balance, December 31, 2002                       | <u>\$ 1,331,005</u>         | <u>\$ -</u>             | <u>\$ -</u>                  | <u>\$ -</u>                          | <u>\$ 1,331,005</u> |
| Balance, December 31, 2000                       | <u>\$ 1,320,594</u>         | <u>\$ 39,687</u>        | <u>\$ 233,256</u>            | <u>\$ 188,162</u>                    | <u>\$ 1,781,699</u> |
| Additions during the year:                       |                             |                         |                              |                                      |                     |
| Camp construction, supplies<br>and accommodation | -                           | 3,970                   | -                            | -                                    | 3,970               |
| Field office and miscellaneous                   | 960                         | 989                     | -                            | -                                    | 1,949               |
| Geology  | 12,442                      | 2,703                   | -                            | -                                    | 15,145              |
| Staking and recording fees                       | -                           | 4,200                   | -                            | 10,618                               | 14,818              |
| Transportation and travel                        | <u>2,650</u>                | <u>2,989</u>            | <u>-</u>                     | <u>8,978</u>                         | <u>14,617</u>       |
|  | <u>16,052</u>               | <u>14,851</u>           | <u>-</u>                     | <u>19,596</u>                        | <u>50,499</u>       |
| Written-off during the year                      | <u>-</u>                    | <u>-</u>                | <u>(233,256)</u>             | <u>(207,758)</u>                     | <u>(441,014)</u>    |
| Balance, December 31, 2001                       | <u>\$ 1,336,646</u>         | <u>\$ 54,538</u>        | <u>\$ -</u>                  | <u>\$ -</u>                          | <u>\$ 1,391,184</u> |

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

**Brenda Claims, Canada**

The Company owns twenty-two mineral claims consisting of 178 units known as the Brenda Claims in the Omineca Mining Division of British Columbia (expiring May 1, 2004).

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% net smelter return, one-half of which may be purchased by Northgate for \$2,000,000. As at December 31, 2002, Northgate has paid an initial option payment of \$20,000, which has been credited to the resource properties, and incurred expenditures of \$195,740.

During the year ended December 31, 2002, the Company incurred deferred exploration expenditures in the amount of \$14,359.

**Lil Claim, Canada**

The Company owns one claim consisting of 20 units known as the Lil Claim in the Omineca Mining division of British Columbia (expiring May 31, 2004). The Company has incurred cumulative expenditures of \$388,515. Of this amount, \$56,806 was written off in the current year and \$331,709 was written off in previous 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 has 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 claims units were re-staked in October 2002 for \$10,300 which is included in general exploration costs. The Company has also incurred cumulative expenditures of \$17,400 which were written off in previous years.

**Mat Claim, Canada**

The Company owns one mineral claim consisting of 16 units known as the Mat Claim in the Omineca Mining division of British Columbia (expiring September 9, 2003). The Company incurred cumulative exploration expenditures of \$353,483 which were written off in previous years.

**CANASIL RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

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

**Tharsis and La Zarza, Spain**

The Company incurred cumulative expenditures of \$207,758 in previous years in connection with an option agreement to acquire two companies that hold an interest in the Tharsis and La Zarza mining concession in Spain. These expenditures were written off in fiscal 2001.

**4. CAPITAL ASSETS**

|                         | 2002             |                          |                 | 2001             |                          |                 |
|-------------------------|------------------|--------------------------|-----------------|------------------|--------------------------|-----------------|
|                         | Cost             | Accumulated Amortization | Net Book Value  | Cost             | Accumulated Amortization | Net Book Value  |
| Furniture and equipment | \$ 9,242         | \$ 6,144                 | \$ 3,098        | \$ 9,242         | \$ 5,369                 | \$ 3,873        |
| Geological equipment    | 9,798            | 9,798                    | -               | 9,798            | 9,487                    | 311             |
|                         | <u>\$ 19,040</u> | <u>\$ 15,942</u>         | <u>\$ 3,098</u> | <u>\$ 19,040</u> | <u>\$ 14,856</u>         | <u>\$ 4,184</u> |

**5. CAPITAL STOCK**

|   | Number of Shares  | Amount              |
|---|-------------------|---------------------|
| Authorized                                    |                   |                     |
| 50,000,000 common voting shares, no par value |                   |                     |
| Common shares issued                          |                   |                     |
| Balance, December 31, 2000 and 2001           | 11,877,342        | \$ 4,745,059        |
| Private placements                            | <u>1,000,000</u>  | <u>100,000</u>      |
| Balance at December 31, 2002                  | <u>12,877,342</u> | <u>\$ 4,845,059</u> |

Common shares to be issued

During the year ended December 31, 2002, the Company completed a non-brokered private placement of 1,000,000 units. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one warrant share at a price of \$0.15. The common shares were issued from treasury subsequent to December 31, 2002.

**CANASIL RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**6. STOCK OPTIONS AND WARRANTS**

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. All options have no vesting period.

As at December 31, 2002, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

| Number of Shares | Exercise Price | Expiry Date     |
|------------------|----------------|-----------------|
| 300,000          | \$ 0.30        | June 15, 2003   |
| 170,000          | 0.41           | May 12, 2004    |
| 150,000          | 0.41           | July 14, 2004   |
| 65,000           | 0.41           | October 6, 2004 |
| 300,000          | 0.32           | May 11, 2005    |
| 100,000          | 0.23           | April 16, 2007  |

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

|                                  | 2002              |                                 | 2001              |                                 |
|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                  | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of year       | 1,085,000         | \$ 0.35                         | 1,085,000         | \$ 0.35                         |
| Granted                          | 100,000           | 0.23                            | -                 | -                               |
| Expired/cancelled                | (100,000)         | 0.32                            | -                 | -                               |
| Balance, end of year             | 1,085,000         | \$ 0.34                         | 1,085,000         | \$ 0.35                         |
| Options exercisable, end of year | 1,085,000         | \$ 0.34                         | 1,085,000         | \$ 0.35                         |

**Warrants**

As at December 31, 2002, the Company had outstanding share purchase warrants, enabling the holders to acquire further common shares as follows:

| Number of Shares | Exercise Price | Expiry Date      |
|------------------|----------------|------------------|
| 1,000,000        | \$ 0.15        | January 20, 2004 |

**CANASIL RESOURCES INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002

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**7. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued the following amounts to a company controlled by a former director and officer of the Company:
  - i) \$5,500 (2001 - \$17,463) for geological consulting and related costs;
  - ii) \$6,000 (2001 - \$18,000) for management fees; and
  - iii) \$18,000 (2001 - \$Nil) for management contract termination fees included in management fees.
- b) Paid or accrued \$18,000 (2001 - \$7,500) to a company controlled by a director for services. Of these fees \$18,000 (2001 - \$Nil) is included in management fees and \$Nil (2001 - \$7,500) is included in resource properties as acquisition costs.
- c) Paid or accrued \$25,413 (2001 - \$2,781) for legal services and property acquisition costs to a law firm in which the officer of the Company is a partner.
- d) Paid or accrued \$8,750 (2001 - \$Nil) to two companies each controlled by a director for directors' fees.
- e) Paid or accrued \$8,000 (2001 - \$9,333) to a company controlled by an officer of the Company for management fees.

Included in accounts payable at December 31, 2002 is \$15,039 (2001 - \$3,231) due to directors or to companies controlled by directors.

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.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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|  | 2002 | 2001 |
|--|------|------|
| Cash paid for interest during the year     | \$ - | \$ - |
| Cash paid for income taxes during the year | -    | -    |

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There were no significant non-cash transactions for the years ended December 31, 2002 and 2001.

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**9. INCOME TAXES**

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

|   | 2002          | 2001           |
|---|---------------|----------------|
| Loss for the year   | \$ (179,398)  | \$ (510,265)   |
| Income taxes at statutory rates                               | \$ (71,042)   | \$ (232,783)   |
| Resource allowance and share issuance costs charged to equity | -             | 1,812          |
| Unrecognized benefit of non-capital losses                    | <u>71,042</u> | <u>230,971</u> |
| Total income taxes  | \$ -          | \$ -           |

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

|                                | 2002             | 2001             |
|--------------------------------|------------------|------------------|
| Future income tax assets:      |                  |                  |
| Non-capital loss carryforwards | \$ 73,141        | \$ 93,617        |
| Resources properties           | 770,348          | 865,786          |
| Financing costs                | 2,123            | 3,609            |
| Capital assets                 | <u>11,055</u>    | <u>-</u>         |
|                                | 856,667          | 963,012          |
| Valuation allowance            | <u>(856,667)</u> | <u>(963,012)</u> |
| Net future income tax assets   | \$ -             | \$ -             |

The Company has available for deduction against future taxable income non-capital losses of approximately \$195,000. These losses, if not utilized, will expire commencing in 2003. Subject to certain restrictions, the Company also has resource expenditures available of approximately \$3,380,000 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.

**10. SEGMENTED INFORMATION**

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

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**11. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and equivalents, receivables 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.

**12. STOCK-BASED COMPENSATION**

As permitted by CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("Section 3870"), the Company has elected to measure compensation costs using the intrinsic value-based method for employee stock options. Under this method, no compensation expense is recognized when stock options are issued, as the exercise price of each option equals the minimum of the market value at the date immediately preceding the grant. Had the compensation costs been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model, additional compensation expense would have been recorded in the statement of operations of the year, with pro forma results as presented below. Under the transitional provisions of Section 3870, comparative figures are not required.

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|  | December 31,<br>2002 |
|--|----------------------|
| Loss for the year as reported              | \$ (179,398)         |
| Compensation expense under Section 3870    | <u>(20,179)</u>      |
| Pro-forma net loss for the year            | <u>\$ (199,577)</u>  |
| Pro-forma basic and diluted loss per share | <u>\$ (0.02)</u>     |

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

|                          |         |
|--------------------------|---------|
| Risk-free interest rates | 5.08%   |
| Expected life of options | 5 years |
| Annualized volatility    | 132.22% |
| Dividend rate            | 0.00%   |