2011

ANNUAL REPORT

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Annual Review of Operations – May 2012

2011 saw an extremely positive start to the year during the first quarter for the mining and mineral exploration industry, and for Canasil. However the initial upward trend was soon broken by the Japanese earthquake, tsunami and nuclear crisis in early March 2011, followed by a severe correction in the silver price from a peak of $49.50 down to $33 in April 2011. This was accompanied by concerns over the US economy and debt, combining to cause a marked drop in stock markets and share valuations of resource companies. Canasil's share price increased from $0.35 (market cap of $22 million) in early January 2011 to a peak of $0.58 (market cap of $36 million) in early March 2011, and down to $0.22 (market cap of $14 million) by mid April 2011. For the rest of the year there was continued volatility and a general downtrend in the markets caused by concerns initially about the US economic recovery, and during the second half of the year about the European economic and debt crisis, particularly in Greece, Italy, Spain and Portugal, and the failure of the European governments to take decisive action to address these problems. Gold, silver and base metal prices recovered for a short period in June to August of 2011, with silver back up to over $40 per ounce. However this was short lived and after a further severe correction in September 2011 to $27 per ounce, metal prices remained relatively low for the rest of the year. With the uncertainty in Europe all resource stocks showed a gradual decline in the second half of 2011. After an increase to $0.39 in June and July, Canasil shares trended lower and closed the year at $0.17 (market cap of $11 million). Silver closed the year at $29 per ounce, just below the level at the beginning of the year, Gold closed the year at $1600 per ounce, up from the beginning of the year at $1,400 but significantly lower than the peak of $1,900 reached in September 2011. Crude oil closed the year at $100 per barrel, up from $86 at the beginning of the year and after reaching a high of $113 in May 2011 and a low of $78 in October 2011.

Canasil started the year with a relatively strong working capital of $1.8 million. This allowed us to complete very active exploration programs, including extensive ZTEM airborne geophysical surveys and follow up surface sampling on the Sandra-Escobar, Salamandra and Victoria projects, and satellite imaging and 1.800 metres of diamond drilling at Sandra-Escobar in Mexico. We also completed two sampling and evaluation programs on our Vega and Lil projects in British Columbia, Canada. In addition our joint venture partner, MAG Silver, conducted an active program on the La Esperanza project in preparation for the start of a diamond drill program in late 2011. Canasil's exploration expenditures in 2011 were $1,183,040 compared to $449,116 in 2010, and MAG Silver spent $518,765 in 2011 at La Esperanza compared to $393,715 in 2010. Canasil's expenditures exceeded our initial budget of $750,000, but MAG's were significantly lower due to delays in obtaining drill permits and in starting the planned drill program. Pan American Silver also experienced delays in starting the planned drill program at the Carina project, which was postponed to the first quarter of 2012. Both MAG and Pan American completed drill programs on these projects during the first quarter of 2012. The overall increase in the pace of exploration from the level in 2009 and 2010 was very positive, particularly with encouraging results reported from all three ZTEM airborne surveys and sampling programs, as well as from our drill program at Sandra-Escobar which confirmed at least four significant mineralized targets for further drilling.

Annual Review of Operations – May 2012 (contd.)

Our financing objective in 2011 was to build on our success in 2010 and early 2011 to significantly strengthen our working capital with one or more major rounds of financing at higher share price levels. Unfortunately due to the sudden drop in share prices following the Japanese earthquake and tsunami, and later market volatility and unstable market conditions resulting in much lower share prices, we were not able to achieve this objective. A smaller private placement of $488,000 was completed in May 2011 based on units at $0.40, and we received proceeds of $519,000 from the exercise of warrants and $157,000 from the exercise of options. This allowed us to maintain a reasonable working capital position at year end, which was strengthened through a private placement of $675,000 based on units at $0.225 in February 2012. Strengthening our working capital through less dilutive funding still remains our most important priority and will have to be addressed following positive results from our projects and improving market conditions when the share prices and financial markets recover and allow larger funding without higher dilution.

In 2012 we have already seen drill programs at the La Esperanza project by MAG Silver, intersecting very encouraging high grade silver-lead-zinc intercepts on a blind section approximately 100 metres along strike from previous drilling by Canasil. Pan American Silver also completed a small shallow drill program at the Carina project returning low anomalous gold and silver values. Pan American withdrew from the Carina project option in late April 2012 following their decision to withdraw from the agreement with Orko Silver on the neighbouring La Preciosa project. Canasil has continued with sampling programs at the Sandra-Escobar and Salamandra projects. We are continuing to identify significant potential for large mineralized systems at these projects. Currently surface geophysical surveys are planned at both projects to define drill targets. We are very close to completing the $1 million expenditure requirement for the 51% earn-in in Pan American's Escobar claims at Sandra-Escobar, which will be completed in May 2012. Following that Pan American will have an option to back in to a 51% interest in the combined Sandra-Escobar claims. MAG Silver is also actively working on finalizing further drill permits to test three additional silver veins at La Esperanza and plan to start the drill program as soon as the permit has been finalized. We are also planning an active program on our British Columbia projects this summer, however this will have to be reviewed in the context of the current uncertainty in the financial markets following further economic concerns in Europe after the recent French and particularly Greek elections. However MAG's program at La Esperanza and our work at Sandra-Escobar and Salamandra still present significant opportunities for discovery and value added to our projects.

Given the current uncertain market conditions, the Company has a program of evaluating all opportunities and cooperation agreements to advance our highly prospective gold-silver-copper-lead-zinc project portfolio in Mexico and British Columbia, Canada, which include several drill ready projects located on well-recognized mineral trends with a history of discoveries and hosting large mineral deposits. Together with our strong operating team in Mexico, these projects present multiple opportunities for positive results, leading to improving share prices, trading volumes and further financing opportunities.

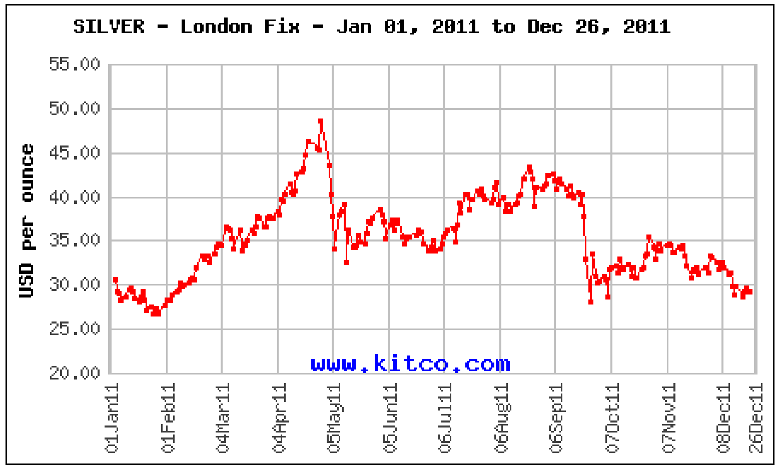
We continue to thank all our shareholders and all those associated with the Company for their support and interest.

"Bahman Yamini"

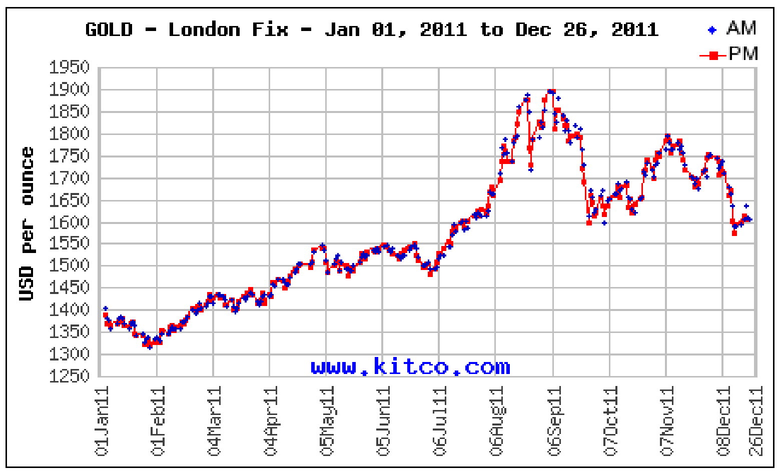
Bahman Yamini, President, CEO & Director

Annual Review of Operations – May 2012 (contd.)

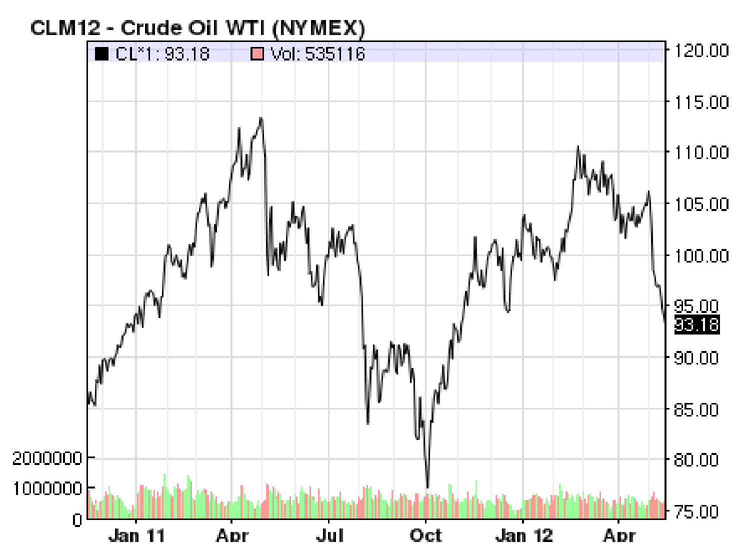
2011 Silver Price Chart



2011 Gold Price Chart



2011 Oil Price Chart



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

Expressed in Canadian Dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the accompanying consolidated financial statements of Canasil Resources Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canasil Resources Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Canasil Resources Inc. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

April 10, 2012

CANASIL RESOURCES INC.

CONSOLIDATED BALANCE SHEETS

Expressed in Canadian Dollars

ASSETS	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Cash and cash equivalents	$ 498,853	$ 1,583,542	$ 80,063
Receivables *(Note 3)*	189,688	104,098	50,294
Prepaid expenses	19,810	21,770	3,086
	708,351	1,709,410	133,443
Reclamation bonds	28,000	20,000	20,000
Property and equipment *(Note 5)*	85,853	56,008	65,977
	$ 822,204	$ 1,785,418	$ 219,420

LIABILITIES			
Current			
Accounts payable and accrued liabilities *(Note 3)*	$ 136,184	$ 85,682	$ 259,979
Due to related party *(Note 8)*	-	-	145,000
	136,184	85,682	404,979

SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	15,198,369	13,971,204	11,128,289
Contributed surplus	1,397,026	1,199,357	922,188
Deficit	(15,909,375)	(13,470,825)	(12,236,036)
	686,020	1,699,736	(185,559)
	$ 822,204	$ 1,785,418	$ 219,420

Nature and continuance of operations *(Note 1)*
Subsequent events *(Note 13)*

ON BEHALF OF THE BOARD:

"Gary Nordin ", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

Expressed in Canadian Dollars

	Number of Shares	Share Capital *(Notes 6,7)*	Contributed Surplus *(Note 7)*	Deficit	Total
Balance – January 1, 2010	41,502,592	$ 11,128,289	$ 922,188	$ (12,236,036)	$ (185,559)
Private placement	3,620,000	362,000	-	-	362,000
Private placement	1,500,000	150,000	-	-	150,000
Private placement	3,820,000	573,000	-	-	573,000
Private placement	4,267,000	1,280,100	-	-	1,280,100
Share issuance costs	-	(126,570)	-	-	(126,570)
Warrants exercised	3,070,000	460,500	-	-	460,500
Options exercised	800,000	80,000	-	-	80,000
Fair value of options exercised	-	63,885	(63,885)	-	-
Share-based compensation	-	-	341,054	-	341,054
Comprehensive loss for the year	-	-	-	(1,234,789)	(1,234,789)
Balance – December 31, 2010	58,579,592	13,971,204	1,199,357	(13,470,825)	1,699,736
Private placement	1,220,000	488,000	-	-	488,000
Share issuance costs	-	(15,960)	-	-	(15,960)
Warrants exercised	3,142,500	519,000	-	-	519,000
Options exercised	885,000	157,000	-	-	157,000
Fair value of options exercised	-	79,125	(79,125)	-	-
Share-based compensation	-	-	276,794	-	276,794
Comprehensive loss for the year	-	-	-	(2,438,550)	(2,438,550)
Balance – December 31, 2011	63,827,092	$ 15,198,369	$ 1,397,026	$ (15,909,375)	$ 686,020

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	2011	2010
Expenses		
Accounting and audit	$ 43,797	$ 29,588
Conferences and conventions	41,812	31,047
Consulting	14,400	-
Depreciation	13,849	9,969
Director fees	40,000	40,000
Exploration and evaluation *(Note 4)*	1,183,040	449,116
Foreign exchange loss	11,245	9,105
General exploration	3,245	42,497
Investor relations and promotions	194,623	35,386
Legal fees	17,627	17,756
Listing and filing fees	17,050	8,487
Loan bonus *(Note 8)*	150,000	-
Management fees	164,500	114,000
Office services and supplies	85,512	54,254
Salaries and wages	145,659	17,086
Shareholder communications	24,954	15,854
Share-based compensation *(Note 7)*	241,029	341,054
Transfer agent fees	12,022	9,049
Travel and accommodation	34,186	10,541
Loss and comprehensive loss for the year	$ 2,438,550	$ 1,234,789
Loss per share – basic and diluted	$ 0.04	$ 0.03
Weighted-average number of shares outstanding	61,645,756	46,242,948

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2011	2010
Operating activities		
Loss for the year	$ (2,438,550)	$ (1,234,789)
Items not involving cash		
Depreciation	13,849	9,969
Share-based compensation	276,794	341,054
Operating loss before working capital changes	(2,147,907)	(883,766)
Changes in non-cash working capital		
Increase in receivables	(85,590)	(53,804)
Decrease (increase) in prepaid expenses	1,960	(18,684)
Increase (decrease) in accounts payable and accrued liabilities	50,502	(174,297)
	(2,181,035)	(1,130,551)
Investing activities		
Increase in reclamation bonds	(8,000)	-
Purchase of equipment	(43,694)	-
	(51,694)	-
Financing activities		
Share capital issued for cash	1,164,000	2,905,600
Share issuance costs	(15,960)	(126,570)
Decrease in due to related party	-	(145,000)
	1,148,040	2,634,030
Change in cash and cash equivalents for the year	(1,084,689)	1,503,479
Cash and cash equivalents - beginning of year	1,583,542	80,063
Cash and cash equivalents - end of year	$ 498,853	$ 1,583,542

Supplemental schedule of non-cash investing and financing transactions		
Fair value of stock options exercised	$ 79,125	$ 63,885

Supplemental cash flow information		
Interest received	$ 9,105	$ 85

- See Accompanying Notes -

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (the "Company") is a mineral exploration company incorporated in British Columbia with its head office located at 750 – 625 Howe Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interest in mineral properties. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The Company's continuing operation is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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. Several adverse conditions and material uncertainties cast significant doubt upon the validity of this assumption. Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests.

These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue. 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. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

	2011	2010
Deficit	$ 15,909,375	$ 13,470,825
Working capital	$ 572,167	$ 1,623,728

2. SIGNIFICANT ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards and basis of presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants, which was revised in 2010 to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Publicly accountable enterprises are required to apply such standards effective for years beginning on or after January 1, 2011.

These are the Company's first annual consolidated financial statements presented in accordance with IFRS. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). In these financial statements, the term Canadian GAAP refers to Canadian GAAP prior to the adoption of IFRS.

These consolidated financial statements have been prepared in compliance with IFRS. The Company's board of directors approved these consolidated financial statements for issue on April 10, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Adoption of International Financial Reporting Standards and basis of presentation - *continued*

Subject to certain transition elections discussed in Note 9, the Company has applied the same accounting policies incorporated in its opening IFRS balance sheet at January 1, 2010 ("Transition Date") and for all periods presented, as if these policies had always been in effect. Note 9 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP. Comparative figures in these financial statements have been restated to give effect to these changes.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Minera Canasil, S.A. de C.V., a company incorporated in Mexico. All significant inter-company transactions, balances, and unrealized translation gains or losses have been eliminated.

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiary is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Translation gains and losses are reflected in profit or loss for the period.

Cash and cash equivalents

Cash and cash equivalents include cash and guaranteed investments certificates at major financial institutions that are readily convertible into a known amount of cash.

Financial instruments

All financial instruments are classified into one of five categories: fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Financial instruments classified as fair value through profit or loss are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income.

The Company discloses the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of inputs are: Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and Level 3 – inputs that are not based on observable market data.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 100% per annum.

Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable. The Company compares the carrying value of property and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Exploration and evaluation

The Company is currently in the exploration stage with all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at December 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share-based compensation

The Company uses the fair value method whereby the Company recognizes share-based compensation costs over the vesting periods for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and each tranche is recognized on a graded-vesting basis over the vesting period. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 calculated on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. 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.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Comparative figures

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

Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. The Company's most significant accounting estimates relate to the useful life of equipment, recognition of deferred tax assets, and estimation of share-based compensation. The Company uses industry standards in determining the useful lives of its equipment and it has not recognized any of its deferred tax assets as management does not consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. The Company inputs such assumptions in a consistent manner following accepted industry practice. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

New accounting pronouncements

The IASB has issued the following standards which have not yet been adopted by the Company. Unless indicated otherwise, each of the new standards is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. A brief summary of these new standards follows:

IFRS 9 – *Financial Instruments*

This is the first part of a new standard on classification and measurement of financial assets that will replace International Auditing Standards ("IAS") 39, *Financial Instruments – Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. IFRS 9 is effective for years beginning on or after January 1, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

New accounting pronouncements – *continued*

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11 - *Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 12 – *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities, and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

		December 31, 2011		December 31, 2010		January 1, 2010
Cash						
Cash	$	196,897	$	1,583,542	$	80,063
Guaranteed investment certificates		301,956		-		-
	$	498,853	$	1,583,542	$	80,063
Accounts receivable						
Value-added taxes	$	187,049	$	56,799	$	49,967
Other		2,639		47,299		327
	$	189,688	$	104,098	$	50,294
Reclamation bonds	$	28,000	$	20,000	$	20,000
Accounts payable						
Accounts payable	$	36,184	$	25,682	$	30,479
Accrued audit, director, and management fees		100,000		60,000		229,500
	$	136,184	$	85,682	$	259,979
Due to related party	$	-	$	-	$	145,000

Cash and cash equivalents are classified as fair value through profit or loss and are carried at fair value measured using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash is held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which is held in a major bank in Mexico and used to fund its foreign projects. The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner. At December 31, 2011, the Company held the equivalent of $11,534 in cash, $102,624 in receivables, and $6,891 in accounts payable, all of which are denominated in pesos.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant credit, interest rate, liquidity or market risks in respect of these financial instruments. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

4. EXPLORATION AND EVALUATION

The Company expenses exploration and evaluation costs relating to its mineral property interests in the period incurred. A description of the Company's mineral interests follows:

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the La Esperanza project, subject to a Net Smelter Returns royalty ("NSR") of up to 1% which can be purchased by the Company for US$100,000. The claims are located in Zacatecas State, Mexico. The agreement granted the Company the right to acquire these claims by making option payments over a period of three years totalling US$150,000. During 2009, the Company extended the agreement one additional year in exchange for an additional payment of US$10,000, bringing the total payments due to the optionor to US$160,000 over a four-year period. In May 2011, the Company completed the final payment of US$75,000 required under the agreement and earned its 100% interest in the property. From 2006 to 2010, the Company added further claims by direct staking to increase the project area.

In August 2010, the Company signed an agreement with MAG Silver Corp. ("MAG") providing MAG the option to earn a 60% interest in the La Esperanza project by making cash payments of $500,000 to the Company and completing $5,000,000 in exploration expenditures over a period of four years. To date, the first two cash payments totalling $150,000 have been received in accordance with the agreement.

In accordance with the agreement, in August 2010 MAG subscribed for a private placement of 1,500,000 units of the Company at a price of $0.10 per unit for gross proceeds of $150,000 *(Note 6)*. In May 2011, MAG subscribed to a further private placement of 500,000 units of the Company at a price of $0.40 per unit for gross proceeds of $200,000 *(Note 6)*, which completed their obligation under the option agreement to subscribe for shares of the Company.

Sandra and Escobar projects, Mexico

The Company has staked the Sandra claims located in Durango State, Mexico. In 2008, the Company entered into an agreement with Pan American Silver Corp. ("Pan American") providing an option for the Company to earn a 51% interest in Pan American's Escobar claims for US$1,000,000 in exploration expenditures over three years. Upon the Company earning in, Pan American will have the option to back-in to a 51% interest in the combined claims of Pan American's Escobar project and the Company's Sandra project by paying the Company three times its exploration expenditures on the combined claims, forming a 51% Pan American and 49% Canasil joint venture. If the Company elects not to contribute its share of joint venture expenditures, Pan American may earn an additional 14% interest by completing a feasibility study, thereby taking its interest to 65%.

At the Company's option, Pan American may earn a further 15% interest for a total 80% interest by financing the Company's share of capital costs required to take the project through to production. If Pan American decides not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US$5,000,000 in a combination of cash and shares paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims.

During 2011, the Company entered into an option agreement granting the Company the right to earn a 100% interest in certain claims within the area of interest of the Sandra and Escobar project. The agreement calls for payments of US$300,000 and exploration expenditures of US$150,000 over 42 months and provides for a 2% NSR that the Company can purchase for US$200,000. To date, the Company has made payments of US$30,000.

4. EXPLORATION AND EVALUATION - *continued*

Carina project, Mexico

During 2010, the Company signed an agreement providing Pan American the option to earn a 55% interest in the Carina project by making cash payments of US$365,000 to the Company and completing US$3,650,000 in exploration expenditures over a period of four years. To date, the first two cash payments totalling US$109,500 have been received in accordance with the agreement.

Upon initial earn-in, the Company and Pan American will form a joint venture to further develop the property. Pan American can increase its interest to 70% by funding to full feasibility within three years and to 80% by financing the project through to production.

Salamandra and Victoria projects, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the Salamandra project located in Durango State, Mexico, subject to an NSR of 2%. The Company can purchase one-half of the NSR for US$1,000,000. The Company has the right to acquire these claims by making cash payments over a period of five years totalling US$500,000. The Company has completed payments of US$50,000 and the date for the final payment of US$450,000 is May 23, 2012. The Company has the option to further extend the final payment of US$450,000 over an additional three or five years based on a specific schedule of payments that includes additional amounts due to the optionor.

The Company has also staked additional claims, known as the Victoria claims, which are contiguous with the Salamandra claims. In 2009, the Victoria claims were reduced to cover the areas immediately surrounding the Salamandra and Carina projects. These blocks were incorporated with the respective projects in 2010. During 2010, the Company re-staked another separate claim to cover part of the previously held Victoria claims.

Colibri project, Mexico

During 2005, the Company staked claims located in Durango State, Mexico. During fiscal 2007, the Company acquired a 100% interest in several additional claims through the issuance of shares and warrants.

Other projects

The Company has staked other claims located in Durango and Sinaloa States, Mexico which include the Vizcaino, Nora, Los Azules, San Fransisco, and Buenavista projects. The Company has also staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in all of these claims.

In January 2011, the Company signed an agreement to acquire a 100% interest in the Candelaria claims that now form part of the Nora project. Upon signing, the Company paid US$30,000 and issued 200,000 stock options at $0.35 to the optionors. The agreement provides for a 1% NSR and calls for semi-annual lease payments starting at US$5,000 in 2011 and gradually increasing to US$20,000 by 2014 and thereafter. All such lease payments made will be credited towards the Company’s purchase of the NSR for an agreed price of US$3,000,000. To date, the Company has made semi-annual lease payments totalling US$5,000.

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION - *continued*

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

Expenditures for the year and cumulative expenditures as at December 31 are as follows:

2011	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 1,703	$ 1,703	$ 2,013,670
- Expenditure recoveries	-	-	-	(202,669)
Other, Canada	-	108,955	108,955	129,971
Sandra and Escobar, Mexico	30,254	662,582	692,836	1,010,140
La Esperanza, Mexico	84,196	63,549	147,745	916,821
- Expenditure recoveries	(84,196)	(39,621)	(123,817)	(166,475)
- Option payments received	(100,000)	-	(100,000)	(150,000)
Colibri, Mexico	-	19,306	19,306	1,667,318
Salamandra, Mexico	-	220,490	220,490	1,195,569
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	148,185	148,185	337,933
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	17,420	17,420	80,393
- Option payments received	(75,375)	-	(75,375)	(111,875)
Other, Mexico	75,134	50,458	125,592	285,214
	$ (69,987)	$ 1,253,027	$ 1,183,040	$ 6,797,895

2010	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ -	$ -	$ 2,011,967
- Expenditure recoveries	-	(1,830)	(1,830)	(202,669)
Other, Canada	1,644	16,019	17,663	21,016
Sandra and Escobar, Mexico	-	126,361	126,361	317,304
La Esperanza, Mexico	50,658	114,275	164,933	769,076
- Expenditure recoveries	(36,205)	(6,453)	(42,658)	(42,658)
- Option payments received	-	(50,000)	(50,000)	(50,000)
Colibri, Mexico	8,956	24,520	33,476	1,648,012
Salamandra, Mexico	40,296	35,911	76,207	975,079
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	32,492	32,492	189,748
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	18,725	18,725	62,973
- Option payments received	-	(36,500)	(36,500)	(36,500)
Other, Mexico	65,329	44,918	110,247	159,622
	$ 130,678	$ 318,438	$ 449,116	$ 5,614,855

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION *- continued*

Expenditures for the year ending December 31, by activity, are as follows:

	2011	2010
Acquisition and option payments	$ 189,583	$ 130,678
Administration and legal	89,877	17,900
Assays	40,437	14,654
Consulting	11,616	23,550
Drilling	261,726	-
Environmental and permits	1,008	-
Field costs	50,767	54,667
Geology	182,327	114,710
Geophysical	355,877	-
Land holding costs	198,018	148,017
Mapping and surveying	33,289	14,302
Roadwork	34,240	7,913
Transportation and rentals	20,467	7,161
Travel and accommodation	13,000	3,894
Expenditure recoveries	(123,817)	(1,830)
Option payments received	(175,375)	(86,500)
	$ 1,183,040	$ 449,116

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and fixtures	Total
Cost						
January 1, 2010	$ 31,686	$ 27,730	$ 14,729	$ 31,971	$ 25,545	$ 131,661
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
December 31, 2010	31,686	27,730	14,729	31,971	25,545	131,661
Additions	-	35,445	6,436	-	1,813	43,694
Disposals	-	-	-	-	-	-
December 31, 2011	31,686	63,175	21,165	31,971	27,358	175,355
Accumulated Depreciation						
January 1, 2010	-	19,645	11,033	18,188	16,818	65,684
Additions	-	2,426	1,663	4,134	1,746	9,969
Disposals	-	-	-	-	-	-
December 31, 2010	-	22,071	12,696	22,322	18,564	75,653
Additions	-	7,013	2,363	2,895	1,578	13,849
Disposals	-	-	-	-	-	-
December 31, 2011	-	29,084	15,059	25,217	20,142	89,502
Net Book Value						
January 1, 2010	$ 31,686	$ 8,085	$ 3,696	$ 13,783	$ 8,727	$ 65,977
December 31, 2010	$ 31,686	$ 5,659	$ 2,033	$ 9,649	$ 6,981	$ 56,008
December 31, 2011	$ 31,686	$ 34,091	$ 6,106	$ 6,754	$ 7,216	$ 85,853

6. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

Private placements

In May 2010, the Company issued 3,620,000 units at a price of $0.10 per unit for cash proceeds of $362,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of $0.15 until May 20, 2011.

In August 2010, the Company issued 1,500,000 units to MAG *(Note 4)* at a price of $0.10 per unit for cash proceeds of $150,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling MAG to purchase one common share at a price of $0.15 until August 27, 2011.

In September 2010, the Company issued 3,820,000 units at a price of $0.15 per unit for gross proceeds of $573,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of $0.25 until September 24, 2011. The Company paid finders' fees of $32,760.

In December 2010, the Company issued 4,267,000 units at a price of $0.30 per unit for gross proceeds of $1,280,100. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of $0.45 until December 17, 2011. The Company paid finders' fees of $66,990. In November 2011, the exercise price of the warrants was reduced to $0.20.

In May 2011, the Company issued 1,220,000 units at a price of $0.40 per unit for gross proceeds of $488,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling the holder to purchase one common share at a price of $0.60 until May 6, 2012. The warrants are subject to an accelerated exercise provision. The Company paid commissions and finder's fees of $15,960. Under the terms of its option agreement on the La Esperanza project *(Note 4)*, MAG subscribed for 500,000 units of this placement.

Shareholder rights plan

A shareholder rights plan was adopted by the shareholders during 2007. The plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Pursuant to the terms of the plan, any bids that meet certain criteria intended to protect the interests of all shareholders are deemed to be "Permitted Bids". In the event that a bid, other than a Permitted Bid, to acquire 20% or more of the common shares is made, shareholders other than those involved in the take-over bid will be entitled to exercise rights to acquire common shares of the Company at a discount to the market price. The shareholders rights plan expires in April, 2012.

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") which complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares, and providing 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, employees and consultants of the Company and its subsidiary 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 ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

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

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, January 1, 2010	3,150,000	$ 0.15	1,933,750	$ 0.34
Issued/granted	6,603,500	$ 0.28	3,675,000	$ 0.19
Exercised	(3,070,000)	$ 0.15	(800,000)	$ 0.10
Expired	(100,000)	$ 0.15	(135,000)	$ 0.39
Outstanding, December 31, 2010	6,583,500	$ 0.28	4,673,750	$ 0.26
Issued/granted	610,000	$ 0.60	500,000	$ 0.34
Exercised	(3,142,500)	$ 0.17	(885,000)	$ 0.18
Expired	(3,441,000)	$ 0.22	(308,750)	$ 0.21
Outstanding, December 31, 2011	610,000	$ 0.60	3,980,000	$ 0.29
Exercisable, December 31, 2011	610,000	$ 0.60	3,905,000	$ 0.29

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS – *continued*

At December 31, 2011, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	755,000	$ 0.50	March 20, 2012 (subsequently expired unexercised)
	100,000	$ 0.25	July 10, 2013
	875,000	$ 0.10	January 27, 2015
	1,750,000	$ 0.28	November 23, 2015
	150,000	$ 0.35	January 13, 2013
	200,000	$ 0.35	January 13, 2016
	150,000	$ 0.30	July 15, 2013
	3,980,000		
Warrants	610,000	$ 0.60	May 6, 2012 *(i)*

(i) These warrants are subject to an accelerated exercise clause such that after six months following the closing of the placement, the Company has the right to accelerate the expiry date of the warrants upon 30 days written notice should the trading price of the Company's shares exceed $1.40 for a period of ten consecutive trading days.

Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers and consultants of the Company during the years ended December 31. Share-based compensation is recorded over the vesting period.

	2011	2010
Total options granted	500,000	3,675,000
Average exercise price	$ 0.34	$ 0.19
Estimated fair value of options granted	$ 84,319	$ 519,367
Estimated fair value per option	$ 0.17	$ 0.14

The fair value of the stock-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2011	2010
Risk-free interest rate	1.88%	2.38%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	93%	107%
Expected option life in years	2.00	4.80

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS – *continued*

The Company has recorded share-based compensation for the options that vested during the year as follows:

		2011		2010
Number of options vested in year		1,637,500		2,300,000
General and administrative	$	241,029	$	341,054
Exploration and evaluation		35,765		-
Compensation recognized in year	$	276,794	$	341,054

During the period, 885,000 stock options (2010 – 800,000) were exercised and the related fair value of $79,125 (2010 – $63,885) was recorded as share capital.

8. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had related party transactions with associated persons or corporations, which were undertaken in the normal course of operations and were measured at the exchange amounts as follows:

a) as at December 31, 2009, a company with a director in common with the Company had advanced $145,000 to the Company. During the year ended December 31, 2010, directors, officers, and companies with directors in common made additional advances totalling $140,844 to the Company. The advances were non-interest bearing, unsecured, due on demand, with no fixed terms of repayment. All advances were repaid during the 2010 fiscal year;
b) accounts payable includes $70,000 (2010 – $30,000) in accrued director fees due to non-executive directors;
c) the Company paid a loan bonus of $150,000 (2010 - $nil) to a company with a director in common with the Company;
d) key management includes executive and non-executive directors and executive officers. The compensation paid or payable to key management is as follows:

		2011		2010
Salaries and wages	$	112,500	$	-
Management fees		164,500		114,000
Director fees		40,000		40,000
Administrative consulting fees		14,400		-
Geological consulting fees		5,600		-
Legal fees		17,627		28,511
Share-based compensation *(i)*		155,557		266,908
	$	510,184	$	449,419

(i) Calculated using the Black-Scholes Option-Pricing Model using the assumptions detailed in Note 7, and equals the aggregate of amounts relating to those portions of stock option grants that vested during the year.

9. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies in Note 2 have been applied in preparing the consolidated financial statements as at and for the years ended December 31, 2011 and 2010 and the opening balance sheet upon transition as at January 1, 2010.

In preparing the opening IFRS balance sheet and the financial statements for the year ended December 31, 2010, the Company has adjusted amounts previously reported in the financial statements prepared in accordance with Canadian GAAP.

IFRS 1 provides certain mandatory exceptions and optional exemptions to full retrospective application for first time adopters of IFRS. In preparing these financial statements, the Company has elected as follows:

Business combinations – IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require the restatement of prior acquisitions that meet the definition of a business combination under IFRS 3R. The Company elected to adopt IFRS 3 effective January 1, 2010.

Share-based payments – IFRS 1 permits the application of IFRS 2, *Share-based Payments*, to equity instruments granted on or before November 7, 2002, that had not vested by the Transition Date. The Company elected to apply this exemption such that it has not applied IFRS 2 to equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

Exploration and evaluation assets – where IFRS permits the capitalization of certain exploration and evaluation expenditures under IFRS 6, *Exploration and Evaluation of Mineral Properties*, the Company has elected to expense its exploration and evaluation costs in the period incurred. Consequently, the Company has retrospectively expensed such costs previously capitalized under Canadian GAAP on the Transition Date with an adjustment to its opening deficit.

Estimates - In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Expressed in Canadian Dollars

9. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS – *continued*

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. Upon transitioning to IFRS, the only change to the Company's Canadian GAAP financial results and position relates to the retrospective expensing of exploration and evaluation assets.

In order to allow the users of the financial statements to better understand these changes, a reconciliation of the assets, liabilities, shareholders' equity (deficiency), loss and comprehensive loss, and cash flows of the Company from those reported under Canadian GAAP to IFRS is provided below:

ASSETS	December 31, 2010	January 1, 2010
Total assets under Canadian GAAP	$ 7,400,273	$ 5,385,159
Effect of transition to IFRS:		
Retrospective expensing of exploration and evaluation costs	(5,614,855)	(5,165,739)
Total assets under IFRS	$ 1,785,418	$ 219,420

LIABILITIES The adoption of IFRS had no impact on the liabilities of the Company.

SHAREHOLDERS' EQUITY (DEFICIENCY)	December 31, 2010	January 1, 2010
Total equity under Canadian GAAP	$ 7,314,591	$ 4,980,180
Effect of transition to IFRS:		
Deficit: Retrospective expensing of exploration and evaluation costs	(5,614,855)	(5,165,739)
Total equity (deficiency) under IFRS	$ 1,699,736	$ (185,559)

Expressed in Canadian Dollars

9. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS – *continued*

LOSS AND COMPREHENSIVE LOSS		Year Ended December 31, 2010
Total loss and comprehensive loss under Canadian GAAP	$	785,673
Effect of transition to IFRS:		
Retrospective expensing of exploration and evaluation costs		449,116
Total loss and comprehensive loss under IFRS	$	1,234,789

The adoption of IFRS had no impact on the net cash flows of the Company. Expensing exploration and evaluation assets under IFRS resulted in reclassifications of cash flow items from investing activities to operating activities, details of which are as follows:

CASH FLOWS		Year Ended December 31, 2010
Cash flows used in operating activities under Canadian GAAP	$	(693,706)
Effect of transition to IFRS:		
Retrospective expensing of exploration and evaluation costs		(436,845)
Cash flows used in operating activities under IFRS	$	(1,130,551)
Cash flows used in investing activities under Canadian GAAP	$	(436,845)
Effect of transition to IFRS:		
Retrospective expensing of exploration and evaluation costs		436,845
Cash flows used in investing activities under IFRS	$	-

10. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company’s objectives have not changed during the current year.

Expressed in Canadian Dollars

11. INCOME TAXES

The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

	2011	2010
Loss before income taxes for accounting purposes	$ (2,438,550)	(1,234,789)
Expected tax recovery for the year	(646,000)	(345,000)
True-up of foreign subsidiary	-	(618,000)
Other items	(80,000)	(32,000)
Non-deductible expenditures	(275,000)	92,000
Change in unrecognized deductible temporary differences	1,001,000	903,000
Tax recovery for the year	$ -	$ -

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities as at December 31 are as follows:

	2011	2010
Deferred Tax Assets		
Non-capital loss carry-forwards	$ 1,680,000	$ 1,731,000
Mineral property expenditures	2,558,000	473,000
Equipment	18,000	18,000
Share issuance costs	23,000	31,000
Unrecognized Deferred Tax Assets	$ 4,279,000	$ 2,253,000

The Company's deferred tax assets expire as follows:

	2011	Expiry Date Range	2010
Share issuance costs	$ 90,000	2032 to 2035	$ 126,000
Non-capital losses	$ 6,333,000	2014 to 2031	$ 4,110,000
Capital assets	$ 69,000	Not applicable	$ 70,000
Mineral expenditures	$ 9,451,000	Not applicable	$ 7,542,000
ITCs	$ 58,000	2027 to 2031	$ 52,000

Expressed in Canadian Dollars

12. SEGMENTED INFORMATION

The company currently operates in only one operating segment, that being the mining exploration industry. The Company operates in the following geographical locations:

2011		Canada		Mexico		Total
Plant and equipment	$	12,471	$	73,382	$	85,853

2010		Canada		Mexico		Total
Plant and equipment	$	12,408	$	43,600	$	56,008

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2011, the Company:

Granted 1,250,000 incentive stock options with an exercise price of $0.20;

Completed a private placement of 3,000,000 units at an exercise price of $0.225 per unit for gross proceeds of $675,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling the holder to purchase one common share of the Company at a price of $0.35 until February 20, 2013. If the closing price of the Company's shares equals or exceeds $0.60 per share for a period of ten consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants by giving the warrant-holders at least 30 days' written notice.

This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated April 10, 2012, and provides information on the Company's activities for the year ended December 31, 2011, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2011, prepared in accordance with International Financial Reporting Standards, the audited consolidated financial statements and related notes for the year ended December 31, 2010, prepared in accordance with Canadian Generally Accepted Accounting Principles, and the MD&A for the year ended December 31, 2010.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

Overview

The Company is engaged in the exploration and development of mineral properties with prospects for gold, silver, copper, zinc, and lead in Durango, Sinaloa and Zacatecas States, Mexico, and in British Columbia, Canada. The Company's stronger working capital position at December 31, 2010, and the option and joint venture agreements with MAG Silver Corp. ("MAG") on the La Esperanza project and Pan American Silver Corp. ("Pan American") on the Carina project, provided opportunities for more active exploration programs and operating activities in 2011.

In Mexico, the Company completed ZTEM airborne geophysical surveys for a total of 1,718 line-kilometres on the Victoria, Salamandra and Sandra Escobar projects in February and March 2011. MAG actively worked on the interpretation of the 1,330 line-kilometre ZTEM airborne survey completed at La Esperanza in October 2010, and the upgrading of access roads, as well as geological mapping and surface sampling on four vein systems to define drill targets. The drill program started in December 2011 and continued through the first quarter of 2012, reporting encouraging drill intercepts from the first three drill holes. MAG reported expenditures of $912,480 at La Esperanza as at December 31, 2011, of which $518,765 was spent during the year. Pan American undertook geological mapping and surface sampling at the Carina project to define drill targets, and completed an initial drill program during the first quarter of 2012. Pan American's first year expenditure deadline was extended from November 18, 2011 to April 18, 2012 because of delays in receiving required drill permits. At the Sandra-Escobar project, a comprehensive exploration program was completed including petrographic analysis of surface samples, high resolution satellite imaging, a ZTEM airborne survey, and 1,848 metres of diamond drilling in eleven drill holes. Assay results to date have confirmed four vein targets with confirmed silver/gold and silver intercepts for further drill testing. 2011 expenditures at Sandra-Escobar project were $692,386. At the Nora project, the Company entered into an agreement with La Cuesta International for an option to acquire a 100% interest in 7,200 hectares of claims surrounding the Nora project claims, expanding the project area to 7,708 hectares. All the mineral claims in Mexico were maintained in good standing. Total Canasil exploration expenditures during the year in Mexico were $1,072,382 (2010 - $433,283).

In British Columbia, Canada, the Company completed evaluation reports on the Lil, Vega and Granite projects, as well as initial field programs at the Lil and Vega projects in September 2011. Applications were submitted and permits received for multi-year exploration programs, including drill programs, at the Brenda gold-copper project and the Lil silver project. The Lil silver project claims were expanded by a further 2,680 hectares during the year. All BC claims were maintained in good standing. Total expenditures in British Columbia during the year were $110,658 (2010 - $15,833).

During 2011, the Company received $519,000 from the exercise of warrants and $157,000 from the exercise of stock options. In May 2011, the Company completed a private placement to raise gross cash proceeds of $488,000 (see *"Outstanding Share Data"*).

The Company exhibited at the Vancouver Mineral Exploration Round-Up and the Vancouver Resource Investment Conference in January 2011, attended the 2011 Prospectors and Developers Association Conference in Toronto in March 2011, the Calgary Resource Investment conference in April 2011, the New York Hard assets conference in May 2011, and the Vancouver World Resource Investment Conference in June 2011. The Company also exhibited at the Toronto Resource Investment Conference in September 2011, the Silver Summit in Spokane in October 2011, and the Precious Metals Conference in Munich, Germany in November 2011.

Mineral Properties

The Company holds the following mineral exploration projects in Mexico and British Columbia, Canada::

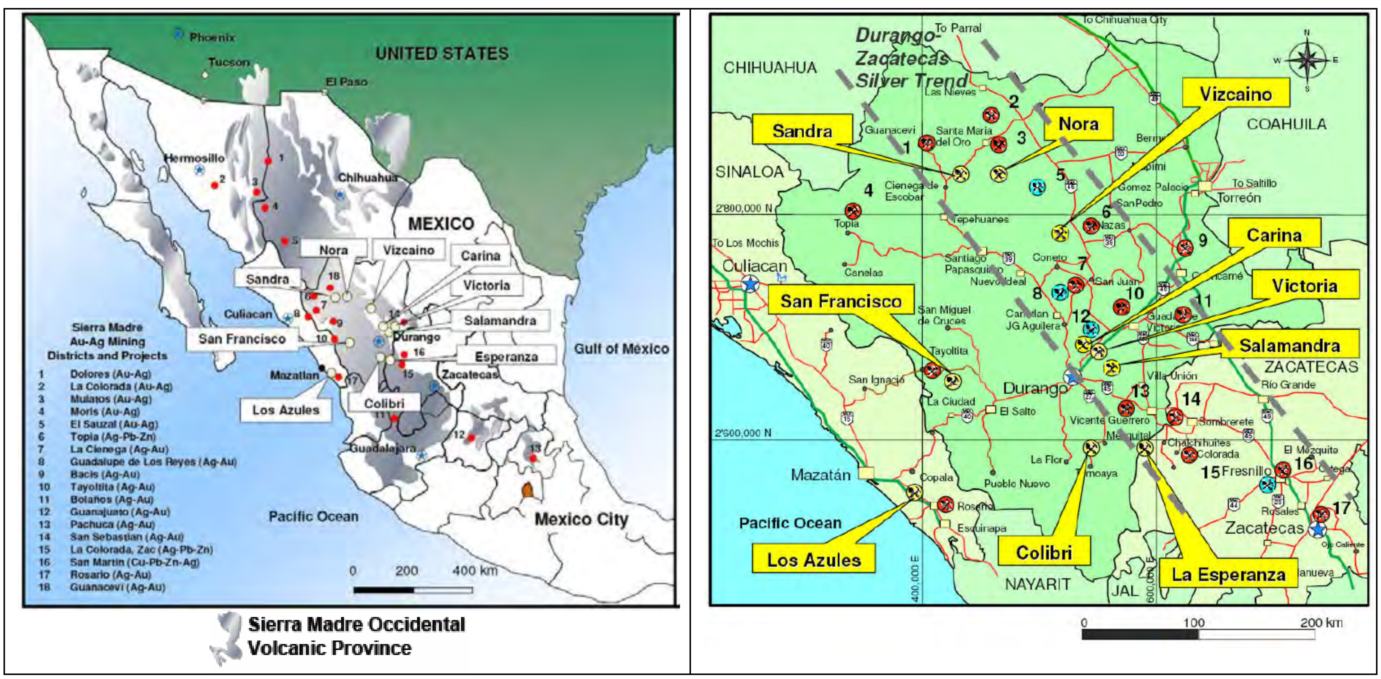
Durango, Zacatecas and Sinaloa, Mexico:

- La Esperanza silver zinc lead project – 100%
- Sandra gold silver project – 100%
- Escobar – option to earn 51%
- Salamandra zinc silver project – 100% in part, plus option to earn 100%
- Carina silver project – 100%
- Colibri silver zinc lead copper project – 100%
- Vizcaino silver gold project – 100%
- Victoria zinc silver project – 100%
- Nora silver gold copper project – 100% in part, plus option to earn 100%
- Los Azules copper silver gold project – 100%
- Buenavista copper silver gold project – 100%
- San Francisco gold silver project – 100%
- Buenavista gold, copper, silver project – 100%

British Columbia, Canada

- Brenda, gold-copper property – 100%
- Vega, gold-copper property – 100%
- Granite, gold property – 100%
- LIL, silver property – 100%

Exploration projects in Mexico



La Esperanza silver-zinc-lead project, Zacatecas State, Mexico

During 2011, the Company completed its obligations under an option agreement to purchase a 100% interest in the original La Esperanza claims covering 435 hectares, subject to a net smelter returns ("NSR") royalty of up to 1.0%, by making option payments over a period of four years totalling US$160,000. The claim area at the La Esperanza project has been increased, through staking of claims, to 18,954 hectares. The project is located on the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. A Phase 1 diamond drill program consisting of nine drill holes for a total of 1,432 metres was completed in 2006 and outlined a mineralized vein with a strike length of over 150 metres, to a depth of 200 metres, which is open in all directions, with a width of up to 10.30 metres carrying high-grade silver mineralization. In 2010 the Company upgraded access roads of over 24 kilometres in the newly acquired claim areas, followed by geological mapping and surface sampling of four high-grade silver vein occurrences on these claims, all returning encouraging silver values.

In August 2010, the Company signed an option agreement providing for MAG to earn a 60% interest in the La Esperanza project for expenditures of $5,000,000 and cash payments to Canasil of $500,000 over a period of four years. The agreement also provided for MAG to subscribe for private placements of up to $350,000 in Canasil shares. The initial payment of $50,000 and first year expenditure commitment of $750,000 were firm commitments. In August 2010, MAG completed the initial payment of $50,000 and a private placement of $150,000 (1,500,000 units at $0.10). In October 2010, MAG completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey at La Esperanza.

During 2011, MAG actively worked on the interpretation of the ZTEM airborne survey and the upgrading of 30 kilometres of access roads on the north and south sides of the project area, as well as geological mapping and surface sampling on four vein systems to define drill targets. The drill program started in December 2011 and continued through the first quarter of 2012, reporting encouraging drill intercepts from the first three drill holes. These holes were drilled on a blind section 100 metres northwest along strike from previous drilling by Canasil. They all intersected the La Esperanza vein with increasing widths and grades with depth. The deepest hole ES12-03 intersected a 10.28 metre (8.22 metres true width) section of quartz vein and breccia assaying 97 grams per tonne ("g/t") silver (2.8 ounces per ton ("opt")), 1.1% lead and 2.3% zinc. Within this zone there is a higher grade interval reporting 278 g/t (8.1 opt) silver, 2.8% lead and 5.8% zinc over 2.42 metres. MAG reported expenditures of $912,480 at La Esperanza as at December 31, 2011, of which $518,765 was spent during the year. In May 2011, the final payment under the purchase option agreement to complete the acquisition of the 435 hectare La Esperanza claims was completed, and the claims were transferred to Minera Canasil SA de CV, the Company's wholly owned Mexican subsidiary. In May 2011, MAG completed its final private placement of $200,000 (500,000 units at $0.40). In August 2011, MAG completed the $100,000 cash payment for the second year of the option agreement, and the deadline for the completion of the first year expenditure and drilling commitments was extended from September 1, 2011 to December 31, 2011.

Sandra-Escobar silver-gold project, Durango State, Mexico

The 100% owned Sandra project covers 7,512 hectares, located 183 kilometres northwest of the City of Durango in Durango State, Mexico. The Company is advancing exploration on the Sandra project together with the adjoining 634 hectare Escobar claims of Pan American under an agreement with Pan American (described below). Compilation and analysis of past surface sampling and geological mapping data in the project area has outlined a high level gold-silver system centered on a large altered rhyolite dome complex, with surrounding argillic and potassic alteration zones with extensive evidence of gold, silver and base metal mineralization. These features are indicative of a disseminated gold-silver system, as well as several silver-gold veins identified by surface mapping.

During 2011, the Company completed a 420 line-kilometre ZTEM airborne geophysical survey over the project area, petrographic analysis of 23 surface samples, a high resolution satellite imaging survey to prepare detailed contour maps, and a 1,848-metre diamond drill program in eleven drill holes. Assay results returned mineralized intercepts from four veins. These included a high-grade intercept of 0.65 metres carrying 429 g/t silver, 2.58 g/t gold and 0.53% copper from the Maria Fernanda vein, an intercept of 2.06 metres carrying 126 g/t silver from the Candelaria vein, and an intercept of 0.45 metres carrying 121 g/t silver, 6.62% zinc and 1.79% lead from the El Encino vein including a wider 10.64 metre intercept of lower grade silver mineralization at the footwall carrying 18 g/t silver, 0.76% zinc and 0.29% lead. Drilling at the San Francisco vein returned 52.5 metres carrying 19 g/t silver. The narrow high-grade silver-gold intercept seen at the Maria Fernanda vein is typical of the vein systems in the Guanacevi district and similar to the veins being successfully mined by Endeavour Silver Corp. and Great Panther Silver Corp. in this district. The occurrence of wider intercepts with lower grade silver mineralization at the El Encino and San Francisco veins points to the possibility of a larger zone of disseminated silver mineralization in these areas. 2011 expenditures at Sandra-Escobar project were $692,836.

The agreement with Pan American provides for the Company to earn an initial 51% interest in Pan American's Escobar claims by completing $1,000,000 in exploration expenditures within three years. Canasil is close to completing the expenditure requirement under the agreement. Following the earn-in, Pan American may back-in to a 51% interest in the combined Sandra and Escobar claims by paying three times Canasil's exploration expenditures on the combined claims, forming a 51% Pan American 49% Canasil joint venture. If the Company elects not to contribute its share of joint venture expenditures, Pan American may earn an additional 14% interest by completing a feasibility study, thereby taking its interest to 65%. At the Company's option, Pan American may earn a further 15% interest for a total 80% interest by financing the Company's share of capital costs required to take the project through to production. If Pan American decides not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US$5 million in a combination of cash and shares paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims.

During 2011, the Company entered into an option agreement granting the Company the right to earn a 100% interest in certain claims within the area of interest of the Sandra and Escobar project. The agreement calls for payments of US$300,000 and exploration expenditures of US$150,000 over 42 months and provides for a 2% NSR that the Company can purchase for US$200,000. To date, the Company has made payments of US$30,000.

Salamandra zinc-silver project, Durango State, Mexico

The Company has an option agreement to purchase a 100% interest in the central 900 hectares of claims comprising the Salamandra project, subject to an NSR of 2%, by making option payments over a period of five years totaling US$500,000. The project area has been expanded through staking of additional claims to a total of 14,719 hectares. The project, is located in Durango State, 35 km northeast of the City of Durango, with good access via paved and gravel roads.

In 2007, the Company completed a 3-Dimensional Induced Polarization geophysical survey, geological mapping and surface sampling programs, and twelve diamond drill holes for a total of 3,595 metres. Eleven out of the twelve drill holes intersected zinc-silver mineralized zones. These included higher grade silver and zinc intercepts of 2.40 metres to 11.60 metres with zinc grades between 0.55% and 12.00% and silver grades between 4 g/t and 102 g/t, within wider mineralized sections of 20 - 45 metres in width grading from 0.32% - 1.08% zinc and 2 g/t – 45 g/t silver. The mineralized zones identified to date appear to be part of a potentially large mineralized system, which is open along strike and to depth, only a small part of which has been explored to date.

In February 2011, the Company completed a 617 line-kilometre ZTEM airborne geophysical survey. Interpretation of the survey results show a large electromagnetic signature over an area of 3.5 kilometres by 2.5 kilometres extending towards the east from the area of previous drilling, confirming the potential for a significantly larger mineralized system in the project area. Surface sampling in the area of the ZTEM geophysical anomaly identified old workings with a 0.90 metre sample returning 2,150 g/t silver, 5.39% copper and 1.89% zinc. The geology and style of mineralization observed at Salamandra are similar to the San Martin silver-base-metal mine of Grupo Mexico, located 80 kilometres southeast of the project, and the largest underground mining operation in Mexico.

Carina Project, Durango, Mexico

The Carina project covers 12,147 hectares and is located 45 kilometres northeast of the City of Durango, in Durango State. The project lies 6.5 kilometres southwest of the La Preciosa project of Pan American Silver and Orko Silver. The area has excellent road access and infrastructure. The project hosts a number of quartz veins, breccias and stockwork zones, striking northwest-southeast and composed of a series of parallel quartz and fluorite veins with bladed textures and widths of 1.5 metres to 2.5 metres. A broad area of quartz stockwork and breccia structures covers an area of 500 metres by 800 metres. A surface sampling and geological mapping program over this area, with a total of 170 samples, returned anomalous gold and silver values. The results indicate a high level epithermal system with potential for extending beyond the outcropping mineralization.

On November 19, 2010, the Company signed an option agreement with Pan American providing for Pan American to earn a 55% interest in the Carina project for expenditures of US$3,650,000 and cash payments to Canasil of US$365,000 over a period of four years. Pan American may increase its interest to 70% by taking the project through to feasibility, and to 80% by funding Canasil's share of investments for taking the project through to production. Pan American can recover Canasil's share of such additional investments from 85% of Canasil's share of cash flow after production. The initial cash payment of US$36,500 was paid by Pan American in November 2010 upon signature of the agreement. The first anniversary payment of US$73,000 was received in November 2011. During 2011, Pan American completed geological mapping and surface sampling to define drill targets for a planned program of 2,910 metres in 14 drill holes. Project expenditures are being incurred by Pan American under the current option agreement. The deadline for the first year expenditures under the agreement was extended from November 18, 2011, to April 18, 2012, due to delays in receiving the required drill permits. Subsequent to the year-end the drill permits were received and a 1,008 metre Phase 1 drill program completed by Pan American with results pending.

Colibri gold-silver-zinc-copper-lead project, Durango State, Mexico

The 100% owned Colibri claims cover 6,163 hectares, located 70 kilometres southeast of the City of Durango. Geological mapping and surface sampling has identified and outlined a number of mineralized veins in the project area with a combined surface strike length of over 14 kilometres, indicating multiple targets for drill testing. The Company completed 34 diamond drill holes for a total of 4,169 metres at the Colibri project in 2006, 2007 and 2008. The drill program returned high-grade mineralized intercepts from the central zone of the Linda vein containing copper, silver and zinc.

Vizcaino Project, Durango, Mexico

The Vizcaino project covers 3,600 hectares, located 127 kilometres north of the City of Durango, in Durango State. The project is located 38 kilometres southeast of Silver Standard Resources' La Pitarrilla deposit and 42 kilometres north of the San Augustin deposit, both major recent discoveries. The Vizcaino project hosts a prominent quartz vein, which can be traced on the surface for over two kilometres with widths of over one metre and up to twelve metres. The exposed vein is composed of fine grained chalcedonic quartz with a classic banded structure indicative of the upper levels of a strong epithermal vein system. A surface sampling and mapping program with 99 samples covering the vein outcrops returned anomalous gold values increasing with lower elevations, suggesting the potential for higher grades at depth. A diamond drill program is warranted to test for mineralization at depth.

Victoria zinc-silver claim area, Durango, Mexico

In October 2010 the Company re-staked a 60,000-hectare claim located within the area of the previous large Victoria claim block. In February 2011, the Company completed a 680 line-kilometre ZTEM airborne geophysical survey on the northern sector of the Victoria claim area, in an area where previous reconnaissance had outlined several mineral showings and areas with anomalous geochemical signatures with gold, arsenic, antimony, copper, lead and zinc. Interpretation of the ZTEM survey results shows an electromagnetic signature over an area of 2.5 kilometres by 2.0 kilometres located centrally within the previously defined geochemical anomalies, and similar to the electromagnetic signature observed at the Salamandra project. This is a very positive indicator and the Company is planning further mapping and surface sampling, as well as a ground IP survey to further investigate this area.

Nora project, Durango State, Mexico

The Company holds a 100% interest in the 500-hectare Nora project claims in north-western Durango State, Mexico. The project hosts a prominent gold-silver-copper vein, with limited historical mining activity. In October 2010, the Company completed agreements to acquire the two Candy claims covering 208 hectares and located within the Nora claim area. In January 2011, the Company entered into an option agreement with La Cuesta International to acquire 100% interest in the 7,200 hectare Candelaria claims surrounding the Nora claims, increasing the project area to over 7,908 hectares. As a result the Nora project has now become a large prospective target with potential for hosting gold, silver and copper mineralization.

In January 2011, the Company signed an agreement to acquire a 100% interest in the Candelaria claims that now form part of the Nora project. Upon signing, the Company paid US$30,000 and issued 200,000 stock options at $0.35 to the optionors. The agreement provides for a 1% NSR and calls for semi-annual lease payments starting at US$5,000 in 2011 and gradually increasing to US$20,000 by 2014 and thereafter. All such lease payments made will be credited towards the Company's purchase of the NSR for an agreed price of US$3,000,000. To date, the Company has made semi-annual lease payments totalling US$5,000.

Los Azules gold-silver-copper project, Sinaloa State, Mexico

The Company holds a 100% interest in the Los Azules claims in Sinaloa State, Mexico, covering 4,531 hectares. The claims host prospects for epithermal vein type mineralization carrying gold, silver and copper. The Los Azules property is located 60 kilometres southeast of the City of Mazatlan.

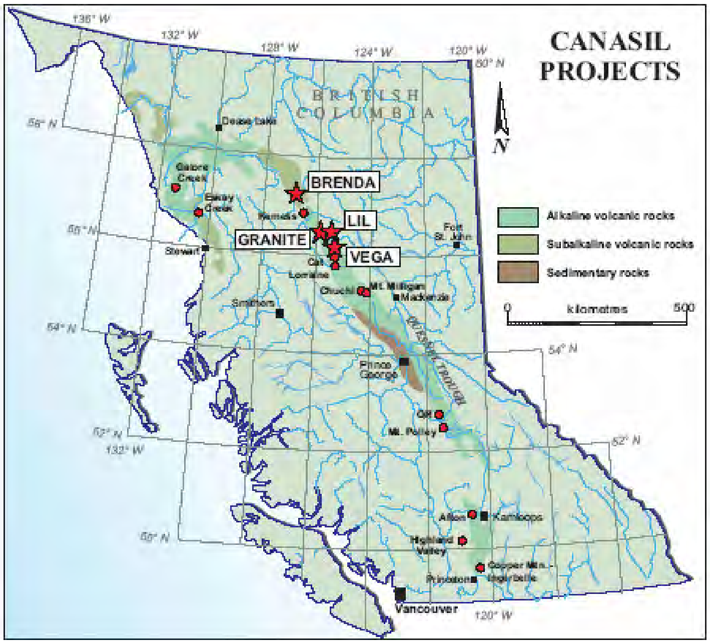
Buenavista copper-silver-gold project, Sonora State, Mexico

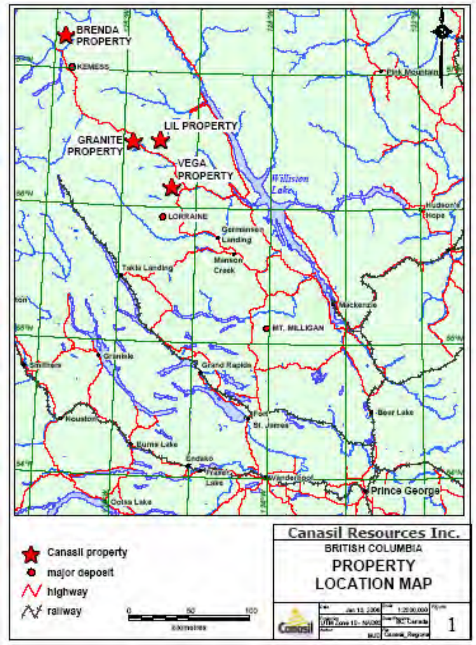
The Company has acquired, through staking, a 100% interest in the Buenavista project claim in Sonora State, Mexico, located 35 kilometres north of Ciudad Obregon. The project claim covers 5,000 hectares and is prospective for hosting copper-silver-gold mineralization.

San Francisco gold-silver project, Durango, Mexico

The San Francisco property, covering 500 hectares, is located approximately 104 kilometres west of the City of Durango in the San Dimas mining district of Durango, 14 kilometres southeast of Goldcorp's Tayoltita mine.

Exploration projects in British Columbia, Canada





Brenda gold-copper property, British Columbia, Canada

The Company's 100%-owned Brenda property consists of 178 claim units, covering 4,450 hectares. The project is located in the Kemess-Toodoggone porphyry copper-gold district, approximately 450 kilometres northwest of Prince George, B.C. The Brenda property is an advanced gold-copper exploration project with over $3,500,000 in cumulative exploration expenditures covering geologic mapping, geochemistry, ground and airborne geophysics, satellite imaging and over 9,700 metres of drilling in 63 drill holes. These programs have identified the potential for a deep porphyry gold-copper system at the Brenda project. The increasing gold and copper grades at depth observed in drilling to date, and the strength of the highly altered mineralized structure observed in the drill core, in conjunction with the strong anomalies observed in the geophysical survey, are highly encouraging and indicate the potential for a large deep-seated gold-copper porphyry system at the Brenda project. The mineralized system averages 300 to 400 metres in width, and has been traced along a strike length of 400 meters by drilling, with a potential strike length in excess of 1,000 metres indicated by the chargeability anomalies observed in the 3-Dimensional Induced Polarization geophysical survey. A deeper sensing geophysical survey, which can penetrate to 1,000 metres depth, as well as deeper drilling to extend some of the existing drill holes may be used in a future program for further definition of the structure at depth. During 2011, the Company applied for and received an exploration permit covering up to 6,000 metres of diamond drilling from ten drill-hole locations and additional geophysical surveys.

Vega gold-copper, LIL silver and Granite gold properties, British Columbia, Canada

The 100%-owned Vega claims are located in the Omineca Mining Division of British Columbia, 300 kilometres northwest of Prince George. Access to the property is via the Omineca Mines Access Road and logging roads. The claim area was expanded to 11,130 hectares in 2010. During 2011, the Company completed a review of the Vega project aimed at planning further exploration activities.

The 100%-owned LIL claims are located in the Omineca Mining Division, 350 kilometres northwest of Prince George, British Columbia. A review of the Lil project was completed in 2011 and aimed at planning further exploration activities. As a result of this review, the Lil claims were maintained and expanded to 6,145 hectares from 3,465 hectares by adding 2,680 hectares of new claims in January 2011.

The 100%-owned Granite gold-silver claims are located in the Johansson Lake area, Omineca Mining Division of British Columbia, 360 kilometres northwest of Prince George. During 2011, the Company completed a review of the Granite project aimed at planning further exploration activities. The Granite claims cover 1,624 hectares.

A $61,902 reconnaissance program was completed at the Lil and Vega projects in September 2011. As a result the Lil claims were extended to September 2013 and the Vega claims to February 2013.

Results of Operations

International Financial Reporting Standards

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants, which was revised in 2010 to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Publicly accountable enterprises are required to apply such standards effective for years beginning on or after January 1, 2011.

The Company's December 31, 2011 consolidated financial statements are its first annual consolidated financial statements presented in accordance with IFRS. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). In this MD&A, the term Canadian GAAP refers to Canadian GAAP prior to the adoption of IFRS.

Note 9 to the Company's December 31, 2011 consolidated financial statements discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP. Comparative figures for 2010 have been restated to give effect to these changes.

The most significant change from the Company's significant accounting policies under Canadian GAAP, and consequently, to the Company's financial position and results of operations under IFRS, relates to its mineral interests. Where the Company formerly capitalized its mineral property costs, under IFRS, the Company has elected to expense its exploration and evaluation costs in the period incurred. Consequently, the Company retrospectively expensed such costs previously capitalized under Canadian GAAP on January 1, 2010, the transition date, with an adjustment to its opening deficit.

Results of Operations for the Years Ended December 31, 2011 and 2010

Operating expenses during 2011 were $2,438,550 (2010 - $1,234,789) and include $1,183,040 (2010 - $449,116) in exploration and evaluation expenditures, which, prior to the transition to IFRS, would have been capitalized under Canadian GAAP. The operating expenses also include non-cash Share-Based Compensation of $241,029 (2010 - $341,054) related to the granting and vesting of options during the year. Management and Directors fees increased to $164,500 (2010 - $114,000) as a result of bonus payments to a Director and an Officer. In addition, on April 1, 2011, the Chief Executive Officer of the Company began drawing a salary instead of charging management fees, therefore, salaries and wages increased to $145,659 (2010 - $17,086). A one-time loan bonus of $150,000 was paid in recognition of loans advanced to the Company from September 2008 to December 2010. Investor Relations and Conferences and Conventions expenses increased to $236,435 (2010 - $66,433) reflecting a significantly more active program including participation in industry investment conferences and the dissemination of Company information in the German speaking markets in Europe. Office Services and Supplies increased to $85,512 (2010 - $54,254) and Travel and Accommodation to $34,186 (2010 – $10,541) reflecting the Company's increased level of operating programs in 2011 compared to 2010. Accounting and Audit fees were $43,797 (2010 – $29,588), which reflect additional costs relating to the transition to IFRS, and the Company recorded a foreign exchange loss of $11,245 (2010 – $9,105) resulting from exchange rate fluctuations between the Canadian Dollar, the U.S. Dollar, and the Mexican Peso.

Net cash used for operating activities during the year, before changes in non-cash working capital items, was $2,147,907 (2010 - $883,766), which includes $1,183,040 (2010 - $449,116) in Exploration and Evaluation expenditures, reflecting the Company's more active exploration programs in 2011. Due to expanded exploration programs in both Canada and Mexico, Accounts Receivable increased by $85,590 (2010 – $53,804) primarily reflecting an increase in recoverable HST and IVA taxes paid. Accounts Payable and Accrued Liabilities increased by $50,502 (2010 – decrease of $174,297). Cash used for investing activities was $51,694 (2010 - $Nil) and related to the purchase of equipment and an increase in reclamation bonds posted. Net cash flow from 2011 financing activities was $1,148,040 resulting from the exercise of options, warrants, and the completion of a private placement during the year (2010 - $2,634,030 resulting from private placements and repayments of advances from related parties).

Selected Annual Information

The information in the following table provides selected financial information of the Company for 2011 and the two preceding years. This information is derived from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information for 2011 and 2010 is presented in accordance with IFRS; the information for 2009 is presented in accordance with Canadian GAAP.

Year Ended December 31	2011 (IFRS)	2010 (IFRS)	2009 (Cdn GAAP)
Total Revenue	$Nil	$Nil	$Nil
Share-Based Compensation Expense	$241,029	$341,054	$8,640
Exploration and Evaluation Expense	$1,183,040	$449,116	n/a
Loss and Comprehensive Loss for the Year	$2,438,550	$1,234,789	$367,836
Loss per Share – Basic and Diluted	$0.04	$0.03	$0.01
Total Assets	$822,204	$1,785,418	$5,385,159
Working Capital	$572,167	$1,623,728	$(271,536)
Long-Term Liabilities	$Nil	$Nil	$Nil
Dividends per Share	$Nil	$Nil	$Nil
Shareholders' Equity	$686,020	$1,699,736	$4,980,180

In 2009, current and cumulative exploration and evaluation costs were capitalized under Canadian GAAP, therefore, the 2009 loss is less than would have been experienced under IFRS, and assets are significantly higher than would have been reported under IFRS. The 2009 loss for the year also reflects the Company's lower level of exploration and operating activities due to the global economic downturn. In 2010 and 2011, the loss increased significantly due to the Company's more active operations, increased share-based compensation, the expensing of exploration and evaluation expenses under IFRS, and other factors as discussed below.

Summary of Quarterly Information

The following table provides selected financial information of the Company for each of the last eight quarters presented in accordance with IFRS:

Year	2011				2010			
Quarter ended:	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**
Revenue	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Exploration and evaluation expense	$59,407	$106,453	$482,208	$534,972	$190,506	$69,967	$94,945	$93,698
Share-based compensation expense	$26,250	$38,361	$61,240	$115,178	$203,387	$23,704	$44,297	$69,666
Loss and comprehensive loss	$225,712	$411,883	$793,741	$1,007,214	$542,772	$203,463	$244,783	$243,771
Loss per share: basic and diluted	$0.00	$0.01	$0.01	$0.02	$0.01	$0.00	$0.01	$0.01
Weighted-average shares	63,245,516	63,078,940	61,397,394	58,778,039	54,175,527	45,983,896	43,173,361	41,502,592

Discussion of Quarterly Information

In 2010 the level of operating and exploration activities recovered following the financial crisis of late 2008 and 2009, particularly in the last quarter of 2010 with greater availability of funding for exploration programs, resulting in increased exploration and evaluation expenditures. The Company also granted 1,750,000 stock options in the fourth quarter of 2010, resulting in an increase in share-based compensation for that quarter, and a significantly higher quarterly loss. Due to the stronger working capital from equity financings completed in 2010, the Company had significantly increased mineral exploration activities from the fourth quarter of 2010 continuing through the first half of 2011.

During the first and second quarters of 2011, the Company had a very active exploration and operating program, which is reflected in the higher quarterly expenditures and losses. The Company transitioned to the new IFRS requirements for financial reporting resulting in all current exploration expenditures being included in operating expenses, compared to their being capitalized in previous periods under Canadian GAAP. This has made a significant difference to the reported quarterly losses for 2011 and the restated losses of 2010. In addition, during the first quarter of 2011, the Company made bonus payments to management in recognition of their commitment to and sacrifices made for the Company and a loan bonus payment in recognition of unsecured advances made to the Company during the period that the Company had limited cash resources and market support. Losses for the third and fourth quarters of 2011 were lower due to the Company being less active in the field on its 100%-owned mineral properties and more focused on raising capital and overseeing its projects under option with Mag and Pan American.

Discussion of Fourth Quarter

During the quarter ended December 31, 2011, the Company reported a loss of $225,712, which compares to a loss of $542,772 for the comparative quarter in 2010. The decrease in the 2011 quarterly loss compared to the 2010 quarterly loss results primarily from a decrease in exploration and evaluation expenses ($131,099), and share-based compensation ($177,137). The Company was more active on its 100%-owned properties in the fourth quarter of 2010 than in 2011 when Mag and Pan American were active on the La Esperanza and Carina properties. In addition, the Company granted 1,750,000 stock options in the fourth quarter of 2010 where no such grant was made in the fourth quarter of 2011.

Cash flows used in operations, before changes in non-cash working capital items, for the fourth quarter totalled $193,364 in 2011 compared to $336,892 in 2010 and reflect the higher level of activity for the prior year's quarter as discussed above.

Liquidity and Capital Resources

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

The Company had working capital at December 31, 2011 of $572,167 (2010 – $1,623,728). The Company had cash on hand of $498,853 as at December 31, 2011 (2010 – $1,583,542).

The Company had no material income from operations. As at December 31, 2011, the Company had no long- or short-term debt.

The Company has option agreements that require certain future cash payments to maintain its interest in mineral properties, however, these payments can be made at the discretion of the Company and are not firm commitments. The Company currently does not have sufficient resources to fund its planned exploration and operating expenditures through 2012 and management recognizes that it will have to raise additional equity capital in the coming year. In February 2012, the Company completed a private placement to raise gross proceeds of $675,000 (see *"Subsequent Events"*).

Given the strong prices of precious and base metals, the high level of interest in the mining exploration sector, the Company's portfolio of prospective projects, and the Company's higher share price, management believes that the Company is well positioned to enter into further option and joint venture agreements to advance its exploration projects, and to raise additional equity funds from the capital markets to fund operating and exploration activities through 2012.

Related Party Transactions and Key Management Compensation

The Company had related party transactions with associated persons or corporations, which were undertaken in the normal course of operations and were measured at the exchange amounts as follows:

a) as at December 31, 2009, a company with a director in common with the Company had advanced $145,000 to the Company. During the year ended December 31, 2010, directors, officers, and companies with directors in common made additional advances totalling $140,844 to the Company. The advances were non-interest bearing, unsecured, due on demand, with no fixed terms of repayment. All advances were repaid during the 2010 fiscal year;
b) accounts payable includes $70,000 (2010 – $30,000) in accrued director fees due to non-executive directors;
c) the Company paid a loan bonus of $150,000 (2010 - $nil) to a company with a director in common with the Company;
d) key management includes executive and non-executive directors and executive officers. The compensation paid or payable to key management is as follows:

	2011	2010
Salaries and wages	$ 112,500	$ -
Management fees	164,500	114,000
Director fees	40,000	40,000
Administrative consulting fees	14,400	-
Geological consulting fees	5,600	-
Legal fees	17,627	28,511
Share-based compensation *(i)*	155,557	266,908
	$ 510,184	$ 449,419

(i) Calculated using the Black-Scholes Option-Pricing Model using the assumptions detailed in Note 7, and equals the aggregate of amounts relating to those portions of stock option grants that vested during the year.

The Company relies heavily on its directors and officers for many of its administrative and professional services.

Mineral Properties – Exploration and Evaluation Expenditures

A summary of the Company's exploration and evaluation expenditures for the year follows:

	2011	2010
Canada		
Brenda Property		
Environmental and permits	$ 663	$ -
Geological	780	-
Mapping and surveying	260	-
Expenditure recoveries	-	(1,830)
	1,703	(1,830)
Other Properties		
Acquisition and option payments	-	1,644
Assays	2,323	-
Consulting	1,040	-
Environmental and permits	345	-
Field costs	727	-
Geological	22,345	-
Land holding costs	46,751	15,819
Mapping and surveying	831	200
Transportation and rentals	23,048	-
Travel and accommodation	11,545	-
	$ 108,955	$ 17,663

Exploration and evaluation expenditures for the year – *continued*

	2011	2010
Mexico		
Sandra and Escobar Properties		
Acquisition and option payments	$ 30,254	$ -
Administration	50,530	5,515
Assays	28,123	12,244
Consulting	8,985	4,343
Drilling	261,726	-
Field costs	37,452	22,141
Geological	93,438	57,194
Geophysical	111,755	-
Land holding costs	11,362	9,760
Legal	571	724
Mapping and surveying	29,046	8,443
Road building	34,240	-
Transportation and rentals	(5,131)	4,659
Travel and accommodation	485	1,338
	692,836	126,361
La Esperanza Property		
Acquisition and option payments	84,196	50,658
Administration	11,835	3,772
Assays	-	2,410
Consulting	-	4,922
Field costs	1,358	23,754
Geological	2,568	24,975
Land holding costs	41,095	39,716
Legal	5,981	639
Mapping and surveying	712	4,065
Road building	-	7,806
Transportation and rentals	-	2,216
Option payments received	(100,000)	(50,000)
Expenditure recoveries	(123,817)	(42,658)
	(76,072)	72,275
Colibri Property		
Acquisition and option payments	-	8,956
Administration	1,918	655
Consulting	-	6,598
Field costs	812	1,155
Geological	1,027	1,577
Land holding costs	15,476	14,349
Transportation and rentals	73	140
Travel and accommodation	-	46
	$ 19,306	$ 33,476

Exploration and evaluation expenditures for the year – *continued*

	2011	2010
Mexico – *continued*		
Salamandra Property		
Acquisition and option payments	$ -	$ 40,296
Administration	8,348	2,530
Assays	6,896	-
Consulting	-	154
Field costs	4,937	3,466
Geological	42,586	4,094
Geophysical	124,529	-
Land holding costs	30,087	25,667
Mapping and surveying	1,758	-
Transportation and rentals	864	-
Travel and accommodation	485	-
	220,490	76,207
Victoria Property		
Administration	2,618	129
Assays	3,095	-
Consulting	1,591	4,996
Field costs	6,093	1,180
Geological	12,048	13,160
Geophysical	119,593	-
Land holding costs	295	12,652
Mapping and surveying	681	-
Transportation and rentals	1,686	146
Travel and accommodation	485	229
	148,185	32,492
Carina Property		
Administration	1,562	2,130
Consulting	-	294
Field costs	164	1,262
Geological	633	4,094
Land holding costs	15,061	10,838
Transportation and rentals	-	107
Option payments received	(75,375)	(36,500)
	(57,955)	(17,775)
Other Properties		
Acquisition and option payments	39,369	65,329
Acquisition - share-based compensation	35,765	-
Administration	5,079	1,807
Consulting	-	2,243
Field costs	583	1,709
Geological	6,901	9,616
Land holding costs	37,895	25,671
Mapping and surveying	-	1,594
Travel and accommodation	-	2,278
	125,592	110,247
Total costs for year	$ 1,183,040	$ 449,116

Changes in Accounting Policies

There were no changes in accounting policies during the year. The Company's accounting policies are set out in full in Note 2 to the December 31, 2011 consolidated financial statements.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements and does not contemplate such arrangements in the foreseeable future.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. The Company's most significant accounting estimates relate to the useful life of equipment, valuation of deferred tax assets, and estimation of share-based compensation. The Company uses industry standards in determining the useful lives of its equipment and it has not recognized any of its deferred tax assets as management does not consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. The Company inputs such assumptions in a consistent manner following accepted industry practice. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, reclamation bonds, accounts payable and accrued liabilities, and due to related party. Cash and cash equivalents are classified as fair value through profit or loss and are carried at fair value using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash is held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which is held in a major bank in Mexico and used to fund its foreign projects. The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner. At December 31, 2011, the Company held the equivalent of $11,534 in cash, $102,624 in receivables, and $6,891 in accounts payable, all of which are denominated in pesos.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant credit, interest rate, liquidity or market risks in respect of these financial instruments. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Disclosure for Venture Issuers without Significant Revenue

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's consolidated financial statements for the year ended December 31, 2011 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common voting shares without par value. As at December 31, 2011, the Company had 63,827,092 common shares issued and outstanding (diluted – 68,417,092) compared to 58,579,592 common shares issued and outstanding (diluted – 69,836,842) as at December 31, 2010.

During the year, 885,000 stock options were exercised, 308,750 stock options expired, and the Company granted 500,000 options to consultants and in connection with a property option agreement. In addition, 3,142,500 warrants were exercised and 3,441,000 warrants expired unexercised. The Company completed one private placement during the year that consisted of 1,220,000 shares and 610,000 warrants. Notes 6 and 7 to the Company's December 31, 2011 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

Subsequent to December 31, 2011, the Company completed a private placement of 3,000,000 shares and 1,500,000 warrants and granted 1,250,000 stock options (see *"Subsequent Events"*). As at the date hereof, the number of outstanding shares is 66,827,092 (diluted – 74,167,092).

Options

As at December 31, 2011, a total of 3,980,000 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
755,000	$ 0.50	March 20, 2012 (subsequently expired unexercised)
100,000	$ 0.25	July 10, 2013
875,000	$ 0.10	January 27, 2015
1,750,000	$ 0.28	November 23, 2015
150,000	$ 0.35	January 13, 2013
200,000	$ 0.35	January 13, 2016
150,000	$ 0.30	July 15, 2013
3,980,000		

Warrants

As at December 31, 2011, a total of 610,000 share purchase warrants were outstanding.

Number of Warrants	Exercise Price	Expiry Date
610,000	$ 0.60	May 6, 2012
610,000		

Escrow

There are no shares subject to escrow or pooling arrangements.

Investor Relations

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. During the year, the Company exhibited at the Vancouver Mineral Exploration Round-Up and the Vancouver Resource Investment Conference in January 2011, attended the 2011 Prospectors and Developers Association Conference in Toronto in March 2011, the Calgary Resource Investment conference in April 2011, the New York Hard assets conference in May 2011, and the Vancouver World Resource Investment Conference in June 2011. The Company also exhibited at the Toronto Resource Investment Conference in September 2011, the Silver Summit in Spokane in October 2011, and the Precious Metals Conference in Munich, Germany in November 2011.

Subsequent Events

Subsequent to December 31, 2011, the Company granted 1,250,000 incentive stock options with an exercise price of $0.20 and completed a private placement of 3,000,000 units at an exercise price of $0.225 per unit for gross proceeds of $675,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling the holder to purchase one common share of the Company at a price of $0.35 until February 20, 2013. If the closing price of the Company's shares equals or exceeds $0.60 per share for a period of ten consecutive trading days, the Company will have the right to accelerate the expiry date of the warrants by giving the warrant-holders at least 30 days' written notice.

General Conditions Affecting the Company's Operations

General Trends

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

During the fourth quarter of 2008, there was a marked deterioration in global economic conditions due to the financial and banking crisis in the U.S.A. and its effects on the global economy. These conditions resulted in a sharp decrease in the price of commodities and precious and base metals as well as sharp drops in all stock markets and loss of confidence in the investment sector. For the mineral exploration industry, these conditions continued through to the third and fourth quarter of 2009, when gradually improving economic conditions resulted in increasing precious and base metal prices and a renewed interest in funding mineral exploration companies. There has been an overall improvement in the share prices of mining and mineral exploration companies and renewed interest in the exploration sector allowing for greater funding opportunities and significantly more active operating and exploration activities from the second half of 2010 and through 2011 to date.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects had deteriorated due to the global financial crisis in late 2008 and first half of 2009. However these conditions started showing improvement in 2010 and appear to be continuing to improve. The higher level of exploration activity has resulted in greater interest in available projects and generally higher prices for mineral exploration services.

Environmental Protection

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

Number of Employees

As of December 31, 2011, the Company had two employees. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants, or companies controlled by related parties. The Company, through its wholly-owned Mexican subsidiary Minera Canasil SA de CV, maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the year, the Company entered into an option agreement with La Cuesta International for acquisition of a 100% interest in 7,200 hectares claims surrounding the Nora project in Durango, Mexico. The Company also completed the final option payment to earn its 100% interest in the La Esperanza property, subject to Mag's option to earn a 60% interest. The Company entered into an option agreement to earn a 100% interest in the San Francisco claims within the Sandra-Escobar project and increased the claim area of the Lil Silver project in British Columbia, Canada, by 2,680 hectares through the staking of new claims.

Risk Factors Relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

The Company's ability to finance its mineral property acquisition, exploration and eventual development is dependent upon the market price of certain precious and base metals. The price of such metals has fluctuated widely and is affected by numerous economic and political factors, consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and productivity, metal substitutes and stock levels. These fluctuations may result in the Company not receiving an adequate return on invested capital or the investment retaining its value.

Operating Hazards and Risks

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries limited liability insurance, and potential liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

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

Environmental Factors

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

Title to Assets

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

Foreign Operations

The Company operates in Mexico and has acquired mineral properties, through staking and option agreements to acquire interests in mineral claims. The Company is currently engaged in exploration activities on these properties.

Management and Directors

The Company is dependent on a small number of directors and officers and operating personnel in Mexico: Alvin Jackson, Michael McInnis, Gary Nordin, Arthur Freeze, Bahman Yamini, Kerry Spong, Graham Scott and Erme Enriquez. The loss of any of these persons could have an adverse effect on the Company. The Company does not maintain key person insurance on any of its management.

Conflicts of Interest

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

Limited Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2011, the Company's accumulated deficit was $15,909,375.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the year, and to the date of this report, the price of the Company's shares fluctuated from a low of $0.17 to a high of $0.58 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date hereof, a total of 66,827,092 common shares of the Company were issued and outstanding. There were 5,230,000 stock options and 2,110,000 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

Forward Looking Statements

Certain statements made and information contained in this MD&A and elsewhere constitute "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results and the estimation of mineral resources, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development results will not be consistent with the Company's expectations, accidents, equipment breakdowns, title matters and surface access, labour disputes, the potential for delays in exploration activities, the potential for unexpected costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis and other risks and uncertainties, including those described under Risk Factors in each management discussion and analysis. In addition, forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of precious and base metals, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment, sufficient labour and subcontractors, and that the political environment within the Company's operating jurisdictions will continue to support the development of environmentally safe mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Approval

The Board of Directors of the Company has approved the disclosure contained in this annual MD&A. A copy of this MD&A and previously published financial statements and MD&A, as well as other information is available on the SEDAR website at www.sedar.com, and on the Company's website at www.canasil.com .