Canasil resources inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

Unaudited

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Unaudited

ASSETS		March 31, 2011		December 31, 2010		January 1, 2010
Current						
Cash and cash equivalents	$	864,055	$	1,583,542	$	80,063
Receivables		112,472		104,098		50,294
Prepaid expenses		19,532		21,770		3,086
		996,059		1,709,410		133,443
Reclamation bond		20,000		20,000		20,000
Property and equipment *(Note 5)*		91,583		56,008		65,977
	$	1,107,642	$	1,785,418	$	219,420

LIABILITIES						
Current						
Accounts payable and accrued liabilities – trade	$	79,365	$	49,077	$	49,979
Accounts payable and accrued liabilities – related parties		40,450		36,605		210,000
Due to related party *(Note 8)*		-		-		145,000
		119,815		85,682		404,979

SHAREHOLDERS' EQUITY (DEFICIENCY)						
Share capital *(Note 6)*		14,205,631		13,971,204		11,128,289
Contributed surplus *(Note 6)*		1,260,235		1,199,357		922,188
Deficit		(14,478,039)		(13,470,825)		(12,236,036)
		987,827		1,699,736		(185,559)
	$	1,107,642	$	1,785,418	$	219,420

Nature and continuance of operations *(Note 1)*
Subsequent events *(Note 12)*

ON BEHALF OF THE BOARD:

"Gary Nordin", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

Unaudited

	Number of Shares	Share Capital *(Note 6)*	Contributed Surplus *(Note 6)*	Deficit	Total
Balance – December 31, 2009	41,502,592	$ 11,128,289	$ 922,188	$ (12,236,036)	$ (185,559)
Share-based compensation	-	-	69,666	-	69,666
Comprehensive loss for the period	-	-	-	(243,771)	(243,771)
Balance – March 31, 2010	41,502,592	11,128,289	991,854	(12,479,807)	(359,664)
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	-	460,500	-	-	460,500
Options exercised	3,070,000	80,000	-	-	80,000
Fair value of options exercised	800,000	63,885	(63,885)	-	-
Share-based compensation	-	-	271,388	-	271,388
Comprehensive loss for the period	-	-	-	(991,018)	(991,018)
Balance – December 31, 2010	58,579,592	13,971,204	1,199,357	(13,470,825)	1,699,736
Warrants exercised	80,000	14,500	-	-	14,500
Options exercised	785,000	147,000	-	-	147,000
Fair value of options exercised	-	72,927	(72,927)	-	-
Share-based compensation	-	-	133,805	-	133,805
Comprehensive loss for period	-	-	-	(1,007,214)	(1,007,214)
Balance – March 31, 2011	$ 59,444,592	$ 14,205,631	$ 1,260,235	$ (14,478,039)	$ 987,827

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED MARCH 31

Unaudited

		2011		2010
Expenses				
Accounting and audit	$	7,925	$	8,125
Amortization		3,184		2,492
Conferences and conventions		4,099		8,631
Consulting fees		14,400		-
Director fees		10,000		10,000
Exploration and evaluation *(Note 4)*		534,972		93,698
Foreign exchange loss		4,958		71
General exploration		6,190		958
Investor relations and promotions		34,465		1,313
Legal fees		5,634		3,021
Listing and filing fees		10,045		750
Management fees		211,500		28,500
Office services and supplies		22,512		11,329
Salaries and wages		4,960		3,386
Shareholder communications		6,627		380
Stock-based compensation *(Note 7)*		115,178		69,666
Transfer agent fees		4,370		1,623
Travel and accommodation		9,731		-
Loss before other item		1,010,750		243,943
Interest income		(3,536)		(172)
Loss and comprehensive loss for the period	$	(1,007,214)	$	243,771
Loss per share – basic and diluted	$	0.02	$	0.01
Weighted-average number of shares outstanding		58,778,039		41,502,592

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31

Unaudited

CASH RESOURCES PROVIDED BY (USED IN)	2011	2010
Operating activities		
Loss for the period	$ (1,007,214)	$ (243,771)
Items not involving cash		
Amortization	3,184	2,492
Share-based compensation *(Note 7)*	133,805	69,666
	(870,225)	(171,613)
Changes in non-cash working capital		
Decrease (increase) in receivables	(8,374)	7,732
Decrease in prepaid expenses	2,238	1,781
Increase in accounts payable and accrued liabilities	34,133	40,937
	(842,228)	(121,163)
Investing activities		
Purchase of equipment	(38,759)	-
Financing activities		
Share capital issued for cash	161,500	-
Increase in due to related party	-	70,844
	161,500	70,844
Change in cash for the period	(719,487)	(50,319)
Cash position - beginning of period	1,583,542	80,063
Cash position - end of period	$ 864,055	$ 29,744

Supplemental schedule of non-cash investing and financing transactions		
Fair value of stock options exercised	$ 72,927	$ -

- See Accompanying Notes -

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (the "Company"), a British Columbia incorporated company with its head office located in Vancouver, British Columbia, 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 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.

	March 31, 2011	December 31, 2010
Deficit	$ 14,478,039	$ 13,470,825
Working capital	$ 876,244	$ 1,623,728

2. SIGNIFICANT ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards ("IFRS") 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 IFRS. 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 IFRS interim consolidated financial statements which cover a portion of the first annual consolidated financial statements that will be presented in accordance with IFRS for the year ending December 31, 2011. Previously, the Company prepared its interim and 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.

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using those standards issued and current as of June 29, 2011, the date that the Company's audit committee approved these financial statements. The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. Actual results may differ from these estimates. These interim consolidated financial statements do not include all of the information required for full annual financial statements.

The standards that will be effective as at December 31, 2011 are subject to change and additional interpretation. Any subsequent changes to IFRS may affect the Company's annual consolidated financial statements for the year ending December 31, 2011 and could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on conversion to IFRS.

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. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

These interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

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.

Estimates, risks, and uncertainties

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, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates and the differences could be material to the Company's results and financial position. Significant estimates used in the preparation of these financial statements relate to the useful lives of property and equipment, valuation allowances for deferred income tax assets, estimates of share-based compensation, and the valuation of warrants in private placements.

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

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 the statement of operations for the period.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method in accordance with IFRS 3, *Business Combinations*. Goodwill arising on acquisition is recognised as an asset and initially measured at cost. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in income or loss. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Business combinations that occurred prior to January 1, 2010 have not been accounted for in accordance with IFRS 3 or IAS 27, *Consolidated and Separate Financial Statements* in accordance with the exemption provided in IFRS 1, *First-time Adoption of International Financial Reporting Standards,* as discussed in Note 9.

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 measures 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. Held-for-trading financial assets 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, 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 or an asset acquisition. 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 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 year in which they occur or in the year 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 March 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 capital stock. 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. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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*

Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net income from operations, such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income (loss) and components of other comprehensive income (loss) are presented in the consolidated statements of loss and comprehensive loss and in the consolidated statements of changes in shareholders' equity.

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, reclamation bond, accounts payable and accrued liabilities, and due to related party. All of the Company's 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 guaranteed investment certificates at a major Canadian bank 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 March 31, 2011, the Company held the equivalent of $49,069 in cash, $32,252 in receivables, and $31,083 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 period.

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 Company has 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 optionee to US$160,000 over a four-year period. The Company has completed payments of US$85,000 and completed the final payment of US$75,000 subsequent to March 31, 2011 *(Note 12)*. From 2006 to 2010, the Company has progressively 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. The initial cash payment of $50,000 (received) and the first-year exploration expenditure of $750,000 are firm commitments.

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 addition, subsequent to March 31, 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 12)*, which completes 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.

4. EXPLORATION AND EVALUATION - *continued*

Carina project, Mexico

During fiscal 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. The initial cash payment of US$36,500 (received) and the first-year exploration expenditure of US$200,000 are firm commitments.

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.

During 2008, the Company granted an arm's length party the right to earn a 60% interest in the properties. Under this agreement, the Company received US$75,000 in cash payments and $91,230 in expenditure recoveries from the optionee. During 2009, the Company received an additional $41,300 in expenditure recoveries before the agreement was terminated on March 19, 2009.

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, and the San Fransisco 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. The Company paid $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 $5,000 in 2011 and increasing to $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 $3,000,000.

4. EXPLORATION AND EVALUATION *- continued*

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

Expenditures for the period and cumulative expenditures as at March 31 are as follows:

2011	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 943	$ 943	$ 2,012,910
- Expenditure recoveries	-	-	-	(202,669)
Other, Canada	-	12,554	12,554	33,570
Los Azules, Mexico	-	6,667	6,667	28,326
Sandra and Escobar, Mexico	-	154,836	154,836	472,140
San Francisco, Mexico	-	-	-	2,651
La Esperanza, Mexico	-	16,206	16,206	742,624
- Option payments received	-	-	-	(50,000)
Colibri, Mexico	-	8,024	8,024	1,656,036
Salamandra, Mexico	-	135,202	135,202	1,110,281
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	137,826	137,826	327,574
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	1,826	1,826	64,799
- Option payments received	-	-	-	(36,500)
Other, Mexico	48,252	12,636	60,888	196,200
	$ 48,252	$ 486,720	$ 534,972	$ 6,149,827

2010	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ -	$ -	$ 2,011,967
- Expenditure recoveries	-	-	-	(200,839)
Lil, Canada	-	-	-	63
Vega, Canada	-	-	-	3,290
Los Azules, Mexico	-	5,390	5,390	14,706
Sandra and Escobar, Mexico	-	31,780	31,780	222,723
San Francisco, Mexico	-	641	641	1,971
Esperanza, Mexico	-	35,493	35,493	639,636
Colibri, Mexico	-	8,834	8,834	1,623,370
Salamandra, Mexico	-	3,629	3,629	902,501
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	17	17	157,273
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Other, Mexico	-	7,914	7,914	90,891
	$ -	$ 93,698	$ 93,698	$ 5,259,437

4. EXPLORATION AND EVALUATION *- continued*

Expenditures for the periods ending March 31, by activity, are as follows:

	2011	2010
Acquisition and option payments	$ 48,252	$ -
Administration and legal	3,461	3,459
Assays	1,993	6,518
Consulting	7,666	4,228
Drilling	6,639	-
Field costs	25,594	15,855
Geology	40,573	16,083
Geophysical	311,247	-
Land holding costs	82,990	34,343
Mapping and surveying	2,657	2,751
Roadwork	-	7,906
Transportation and rentals	1,690	2,331
Travel and accommodation	2,210	224
	$ 534,972	$ 93,698

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	1,501	-	1,813	38,759
Disposals	-	-	-	-	-	-
March 31, 2011	31,686	63,175	16,230	31,971	27,358	170,420
Accumulated Amortization						
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	-					
Disposals	-	1,753	313	724	394	3,184
March 31, 2011	-	23,824	13,009	23,046	18,958	78,837
Net Book Value						
January 31, 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
March 31, 2011	$ 31,686	$ 39,351	$ 3,221	$ 8,925	$ 8,400	$ 91,583

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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. The warrants are subject to an accelerated exercise provision.

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. The warrants are subject to an accelerated exercise provision.

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 warrants are subject to an accelerated exercise provision. 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 warrants are subject to an accelerated exercise provision. The Company paid a finders' fees of $66,990.

Shareholder rights plan

A shareholder rights plan was adopted by the shareholders during fiscal 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.

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 five years. Stock options granted under the Plan vest in equal quarterly tranches over a period of not less than 12 months.

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

	Warrants			Options		
	Number *(i)*		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2009	3,150,000	$	0.15	1,933,750	$	0.34
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
Granted	-	$	-	350,000	$	0.35
Exercised	(80,000)	$	0.18	(785,000)	$	0.19
Expired	-	$	-	(58,750)	$	0.20
Outstanding, March 31, 2011	6,503,500	$	0.28	4,180,000	$	0.28
Exercisable, March 31, 2011	6,503,500	$	0.28	3,042,500	$	0.27

(i) All outstanding warrants are subject to an accelerated exercise clause such that after six months following the closing of the placements, 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, for a period of ten consecutive trading days, exceed the following thresholds:

As to 2,485,000 warrants – 10-day trading share price of $0.30;
As to 1,885,000 warrants – 10-day trading share price of $0.45;
As to 2,133,500 warrants – 10-day trading share price of $0.90.

7. STOCK OPTIONS AND WARRANTS – *continued*

At March 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	100,000	$	0.20	October 27, 2011
	75,000	$	0.20	November 21, 2011
	780,000	$	0.50	March 20, 2012
	100,000	$	0.25	July 10, 2013
	875,000	$	0.10	January 27, 2015
	150,000	$	0.10	May 13, 2012
	1,750,000	$	0.28	November 23, 2015
	350,000	$	0.35	January 13, 2013
	4,180,000			
Warrants	1,735,000	$	0.15	May 20, 2011
	750,000	$	0.15	August 27, 2011
	1,885,000	$	0.25	September 24, 2011
	2,133,500	$	0.45	December 17, 2011
	6,503,500			

Share-based compensation

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

		2011		2010
Total options granted		350,000		1,675,000
Average exercise price	$	0.35	$	0.10
Estimated fair value of options granted	$	62,588	$	133,759
Estimated fair value per option	$	0.18	$	0.08

The fair value of the share-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	1.77%	2.46%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	97.44%	111.08%
Expected option life in years	2.00	5.00

7. STOCK OPTIONS AND WARRANTS – *continued*

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

		2011		2010
Number of options vested in period		587,500		418,750
General and administrative	$	115,178	$	69,666
Exploration and evaluation		18,627		-
Compensation recognized in period	$	133,805	$	69,666

Of the total share-based compensation recognized in the period, $87,924 (2010 - $50,950) relates to options granted to directors, officers, and key management personnel.

During the period, 785,000 stock options (2010 – nil) were exercised and the related fair value of $72,927 (2010 – $nil) was recorded as share capital.

8. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence are as follows:

a) Paid or accrued $24,000 (2010 - $24,000) for management fees to Essec Enterprises Ltd., a company of which the Chief Executive Officer is a director;
b) Paid or accrued $5,634 (2010 - $3,021) for legal services to Vector Corporate Lawyers Inc., a firm in which an officer of the Company is a partner;
c) Incurred an aggregate total of $10,000 (2010 - $10,000) in director fees by paying or accruing $2,500 (2010 - $2,500) to each of the following:
   Stillwater Enterprises Ltd. – a company controlled by a director of the Company
   Discovery Resource Corp. – a company controlled by a director of the Company
   Greenspot Enterprise Ltd. – a company controlled by a director of the Company
   A director of the Company;
d) Paid or accrued $7,500 (2010 - $4,500) in management fees to the Chief Financial Officer;
e) Paid management fee bonuses of $150,000 (2010 - $nil) and $30,000 (2010 - $nil) to Essec Enterprises Ltd. and the Chief Financial Officer, respectively;
f) Paid geological and administrative consulting fees of $20,000 (2010 - $nil) to Discovery Resource Corp.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available for similar services, to management personnel on an arm's length basis.

During the year ended December 31, 2010, directors, officers, and companies with directors in common made 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.

9. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In preparing the opening IFRS balance sheet, the comparative information for the three months ended March 31, 2010, and the financial statements for the year ended December 31, 2010, the Company has adjusted amounts previously reported in 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.

Deemed cost of property, plant and equipment – IFRS 1 provides the option to measure individual items of property, plant and equipment at the Transition Date at fair value and use that fair value as its deemed cost. The Company has elected to use this exemption to value its property and equipment at “fair value as deemed cost” measured at their depreciated historical cost under Canadian GAAP, with no adjustments at 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.

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		March 31, 2010		January 1, 2010
Total assets under Canadian GAAP	$	7,400,273	$	5,416,533	$	5,385,159
Effect of transition to IFRS:						
Retrospective expensing of exploration and evaluation costs		(5,614,855)		(5,259,437)		(5,165,739)
Total assets under IFRS	$	1,785,418	$	157,096	$	219,420

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

SHAREHOLDERS' EQUITY (DEFICIENCY)		December 31, 2010		March 31, 2010		January 1, 2010
Total equity under Canadian GAAP	$	7,314,591	$	4,899,773	$	4,980,180
Effect of transition to IFRS:						
Deficit: Retrospective expensing of exploration and evaluation costs		(5,614,855)		(5,259,437)		(5,165,739)
Total equity (deficiency) under IFRS	$	1,699,736	$	(359,664)	$	(185,559)

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

LOSS AND COMPREHENSIVE LOSS		Three Months Ended March 31, 2010		Year Ended December 31, 2010
Total loss and comprehensive loss under Canadian GAAP	$	150,073	$	785,673
Effect of transition to IFRS:				
Retrospective expensing of exploration and evaluation costs		93,698		449,116
Total loss and comprehensive loss under IFRS	$	243,771	$	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		Three Months Ended March 31, 2010		Year Ended December 31, 2010
Cash flows used in operating activities under Canadian GAAP	$	(31,892)	$	(693,706)
Effect of transition to IFRS:				
Retrospective expensing of exploration and evaluation costs		(89,271)		(436,845)
Cash flows used in operating activities under IFRS	$	(121,163)	$	(1,130,551)
Cash flows used in investing activities under Canadian GAAP	$	(89,271)	$	(436,845)
Effect of transition to IFRS:				
Retrospective expensing of exploration and evaluation costs		89,271		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 period.

11. SEGMENTED INFORMATION

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

2011		Canada		Mexico		Total
Plant and equipment	$	14,675	$	76,908	$	91,583

2010		Canada		Mexico		Total
Plant and equipment	$	16,447	$	47,038	$	63,485

12. SUBSEQUENT EVENTS

Subsequent to March 31, 2011, the Company:

Issued 2,335,000 shares from treasury upon the exercise of warrants for cash proceeds of $357,750.

Completed a private placement of 1,220,000 units at an exercise price of $0.40 per unit for gross proceeds of $488,000. Each unit will consist 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 $0.60 within one year of closing. If, beginning six months following the closing of the private placement, the closing price of the Company's shares equals or exceeds $1.40 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. The Company will pay commissions and finder's fees for a total of $15,960 in connection with this placement. Under the terms of its option agreement on the La Esperanza project *(Note 4)*, MAG subscribed for 500,000 units of this placement.

Completed the final US$75,000 option payment on the La Esperanza property *(Note 4)* to earn its 100% interest in the property. This payment was made by MAG as part of its obligations under its option agreement to earn a 60% interest in the property.

This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("the Company") is dated June 29, 2011, and provides information on the Company's activities for the quarter ended March 31, 2011, and from the end of the 2010 fiscal year to the date of this report. The following discussion and analysis of the financial position of the Company should be read in conjunction with the un-audited condensed interim consolidated financial statements for the quarter ended March 31, 2011, prepared in accordance with International Financial Reporting Standards, and the annual audited consolidated financial statements and related notes, prepared in accordance with Canadian Generally Accepted Accounting Principles, and the MD&A for the year ended December 31, 2010.

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 year-end 2010, and the option and joint venture agreements with MAG Silver Corp. on the La Esperanza project and Pan American Silver Corp. on the Carina project, provided opportunities for a more active exploration program 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 Silver actively worked on the interpretation of the 1,330 line-kilometre ZTEM airborne survey completed at La Esperanza in October 2010, and 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 4 vein systems to define drill targets. MAG Silver reported expenditures of $500,646 at La Esperanza as at March 31, 2011, of which $109,707 was spent during the quarter. Total planned 2011 expenditures by MAG at La Esperanza are $1,125,000. Pan American Silver undertook geological mapping and surface sampling at the Carina project to define drill targets. At the Sandra-Escobar project Canasil prepared access roads and drill pads for a proposed 1,500 metre drill program, which was completed subsequent to the quarter. Canasil also completed petrographic analysis of surface samples from Sandra-Escobar and high resolution satellite imaging to prepare detailed contour maps to support the drill program and future exploration work. At the Nora project, the Company entered into an agreement with La Cuesta International for an option to acquire 100% interest in 7,200 hectares 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.

In British Columbia, Canada, the Company completed internal evaluation reports on the Lil silver project, Vega copper-gold project and the Granite gold project, and subsequent to the end of the quarter prepared and submitted applications for multi-year exploration permits, including drill programs, at the Brenda gold-copper project and the Lil silver project. As a result the Lil silver project claims were expanded by a further 2,680 hectares during the quarter. All BC claims were maintained in good standing.

There was no new financing activity during the quarter. The Company received $14,500 through the exercise of 80,000 warrants and $147,000 through the exercise of 785,000 options during the quarter. Subsequent to the quarter, in May 2011, the Company completed a private placement of $488,000 through the issuance of 1,220,000 units at $0.40, each unit including a half warrant with each whole warrant entitling the holder to purchase an additional common share at $0.60 within 12 months. The Company also received a further $357,750 from the exercise of 2,335,000 warrants in May 2011. In January 2011, the Company issued 350,000 incentive stock options with an exercise price of $0.30.

The Company exhibited at the Vancouver Mineral Exploration Roundup and the Vancouver Resource Investment Conference in January 2011, attended the 2011 Prospectors and Developers Association Conference in Toronto in March 2011, and subsequent to the end of the quarter 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.

Mineral Properties

The Company has acquired the following mineral exploration projects in Mexico since 2005 and to the date of this report:

- La Esperanza silver zinc lead project – 100% interest and option to earn 100%
- Colibri silver zinc lead copper project – 100%
- Salamandra zinc silver project (March 2006) – 100% interest and option to earn 100%
- Sandra gold silver project – 100%
- Los Azules copper gold project – 100%
- San Francisco gold silver project – 100%
- Victoria zinc silver project – 100%
- Vizcaino silver gold project – 100%
- Carina silver project – 100%

The Company holds 100% interest in the following mineral properties located in the Omineca Mining District, in North-central British Columbia, Canada:

- Brenda, gold-copper property
- Vega, gold-copper property
- Granite, gold property
- LIL, silver property

Exploration projects in Mexico

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

The Company has an option agreement to purchase a 100% interest in the original La Esperanza claims covering 435 hectares, subject to a 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 km south-southeast of the city of Durango. A Phase 1 diamond drill program consisting of 9 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 and 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 km 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 make placements of up to $350,000 in Canasil shares. The initial payment of $50,000 (received) and first year expenditure commitment of $750,000 are firm commitments. In August 2010 MAG completed the initial payment of $50,000 and placement of $150,000 for 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 the quarter, and subsequent to the end of the quarter, MAG Silver actively worked on the interpretation of the ZTEM airborne survey and 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 4 vein systems to define drill targets. MAG Silver reported expenditures of $500,646 at La Esperanza as at March 31, 2011, of which $109,707 was spent during the quarter, and reported total planned 2011 expenditures at the project of $1,125,000. 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.

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

The 100% owned Sandra project covers 7,512 hectares, located 183 km northwest of the city of Durango in Durango State, Mexico. The Company is advancing exploration on the Sandra project together with the adjoining 634 hectares Escobar claims of Pan American Silver under an agreement with Pan American (described below). The Company has compiled a database of surface sampling and geological mapping data from the Company's past exploration program, data provided by Pan American Silver, and historical data from a number of companies which had been active in the project area in the past. Analysis of this data has outlined a high level Gold-Silver system on the Sandra and adjoining Escobar claims. The mineralized system is 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, similar to other large bulk tonnage gold-silver-base metal deposits associated with altered intrusive complexes located on a well recognized trend in Durango State. In 2010, the Company completed a comprehensive surface mapping and sampling program to define drill targets in the project area. The results confirm the signature of a potentially large mineralized system. During the quarter, the Company completed a 420 line-kilometre ZTEM airborne geophysical survey over the project area, and petrographic analysis of 23 surface samples. Subsequent to the end of the quarter the Company completed a 1,500 metre diamond drill program and a high resolution satellite imaging survey to prepare detailed contour maps of the project area. Interpretation of the ZTEM survey results confirmed the signature of a porphyry/intrusive target consistent with the geological mapping and surface sampling programs.

The agreement with Pan American signed in August 2008 provides for the Company to earn an initial 51% interest in Pan American's Escobar claims by completing $1,000,000 exploration expenditures in three years. 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.

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 was 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.

The Company has completed a 3-Dimensional Induced Polarization geophysical survey, geological mapping and surface sampling programs, and 12 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 km by 2.5 km extending towards the east from the area of previous drilling, confirming the potential for a significantly larger mineralized system in the project area. The geology and style of mineralization observed at Salamandra are similar to the San Martin silver-base metal mine of Grupo Mexico, located 80 km southeast of the project, and the largest underground mining operation in Mexico at 6,000 tonnes per day.

Carina Project, Durango, Mexico

The Carina project covers 12,147 hectares and is located 45 kilometers 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 NW-SE striking 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 extending beyond the outcropping mineralization.

On November 19, 2010, the Company signed an option agreement with Pan American Silver 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. During the quarter Pan American completed geological mapping and surface sampling to define drill targets. Project expenditures were incurred by Pan American under the current earn-in option and joint venture agreement.

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

The 100% owned Colibri claims cover 6,163 hectares, located 70 km 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 late 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 kilometers north of the city of Durango, in Durango State. The project is located 38 kilometers southeast of Silver Standard Resources' La Pitarrilla deposit and 42 kilometers 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 2 kilometres with widths of over 1 metre and up to 12 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 km by 2.0 km located centrally within the previously defined geochemical anomalies. 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 hectares 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.

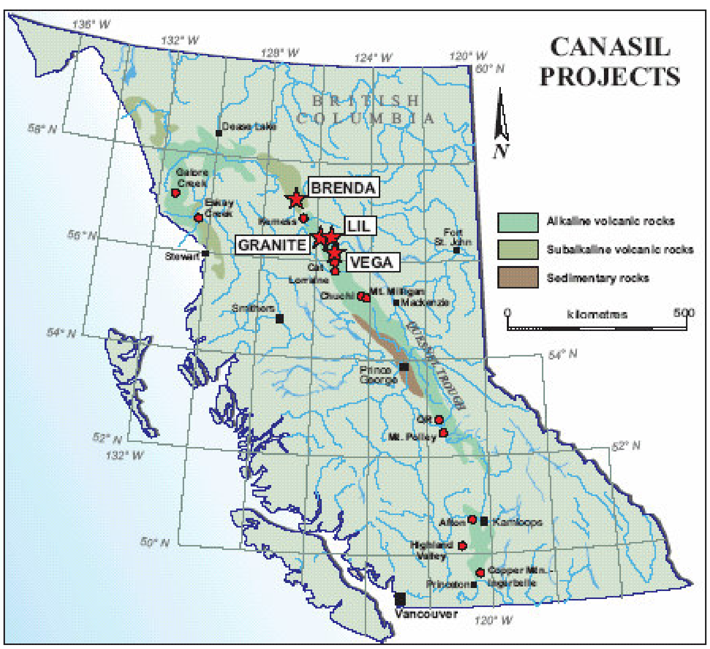
Los Azules gold-silver-copper project, Sinaloa State, Mexico

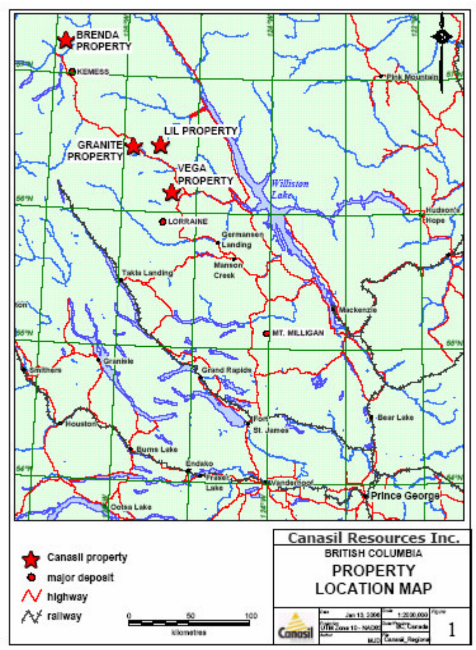
The Company holds a 100% interest in the Los Azules claims in Sinaloa State, Mexico, covering 4,531 hectares. The claims host prospects for epithermal vein type mineralization carrying gold, silver and copper. The Los Azules property is located 60 km southeast of the city of Mazatlan. Between 2006 to 2008, the Company completed a prospecting and sampling program followed by further mapping and evaluation at Los Azules to identify potential mineralized structures. Some of the vein structures have returned gold, silver and copper values, which require further sampling and investigation.

San Francisco gold-silver project, Durango, Mexico

The San Francisco property, covering 500 hectares, is located approximately 104 km west of the city of Durango in the San Dimas mining district of Durango, 14 km southeast of the Goldcorp's Tayoltita mine. The claims are within view of the community of San Francisco. The access road cuts through the centre of the property, as does the main power line supplying the 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 km 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.

Subsequent to the quarter, the Company applied for a multi-year permit from 2011 to 2013 covering up to 6,000 metres of diamond drilling from 10 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 km 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. Subsequent to the quarter 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 km northwest of Prince George, British Columbia. A review of the Lil project was completed 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 km northwest of Prince George. Subsequent to the quarter the Company completed a review of the Granite project aimed at planning further exploration activities. The Granite claims cover 1,624 hectares.

Results of Operations

International Financial Reporting Standards ("IFRS")

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 IFRS. Publicly accountable enterprises are required to apply such standards effective for years beginning on or after January 1, 2011.

This is the first period for which Company has presented IFRS interim consolidated financial statements which cover a portion of the first annual consolidated financial statements that will be presented in accordance with IFRS for the year ending December 31, 2011. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). In this management discussion, the term Canadian GAAP refers to Canadian GAAP prior to the adoption of IFRS.

The standards that will be effective as at December 31, 2011 are subject to change and additional interpretation. Any subsequent changes to IFRS may affect the Company's annual consolidated financial statements for the year ending December 31, 2011 and could result in restatement of the Company's interim consolidated financial statements for the three-month period ended March 31, 2011.

Note 9 to the March 31, 2011 interim 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. 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 three-month period ended March 31, 2011 and 2010

Operating expenses during the first quarter of 2011 were $1,010,750 (Q1 2010 - $243,943) which includes $534,972 (Q1 2010 - $93,698) in exploration and evaluation expenditures, which would have previously been capitalized under Canadian GAAP. The Company earned interest income of $3,536 (Q1 2010 - $172). The operating expenses also include non-cash Share-based Compensation of $115,178 (Q1 2010 - $69,666) related to the issuance of options during the quarter. Net operating expenditures excluding Exploration and Evaluation, Amortization and Share-based compensation were $360,600 (Q1 2010 - $78,087). Management and Directors fees increased to $221,500 (Q1 2010 $38,500) as a result of bonus payments to a Director and Officer. Investor Relations and Conferences and Conventions expenses increased to $38,564 (Q1 2010 - $9,944) reflecting a significantly more active program including the dissemination of Company information in the German speaking markets in Europe. Listing and Filing fees increased to $10,045 (Q1 2010 - $750), Office Services and Supplies increased to $22,512 (Q1 2010 - 11,329) and Travel and Accommodation to $9,731 (Q1 2010 – $Nil) all reflecting the Company's increased level of operating programs in 2011 compared to 2010. Accounting and Audit fees were $7,925 (Q1 2010 – $8,125), and the Company recorded a foreign exchange loss of $4,958 (Q1 2010 – $71) 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 quarter, before changes in non-cash working capital items, was $870,225 (Q1 2010 - $171,613), which includes $534,972 (Q1 2010 - $93,698) in Exploration and Evaluation expenditures reflecting the Company's more active operating programs in 2011. The net cash used in operating activities excluding Exploration and Evaluation expenditures was $335,253 (Q1 2010 - $77,915). Accounts Receivable increased by $8,374 (Q1 2010 – decrease of $7,732), Prepaid Expenses decreased by $2,238 (Q1 2010 - $1,781), Accounts Payable and Accrued Liabilities (Trade) increased by $34,133 (Q1 2010 – increase of $40,937). Cash used for investing activities was $38,759 (Q1 2010 - $Nil). Net cash flow from financing activities was $161,500 from the exercise of options and warrants during the quarter (Q1 2010 - $70,844 from advances from related parties).

Summary of Quarterly Information

The following table provides selected financial information of the Company for each of the last eight quarters:

Year	2011 IFRS	2010 IFRS				2009 Canadian GAAP		
Quarter ended:	**March 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**
Loss before the under-noted	(357,064)	(148,879)	(109,792)	(105,541)	(80,407)	(70,752)	(79,632)	(75,946)
Stock-based compensation	(115,178)	(203,387)	(23,704)	(44,297)	(69,666)	-	-	(4,320)
Exploration and evaluation	(534,972)	(190,506)	(69,967)	(94,945)	(93,698)	-	-	-
Loss for the quarter	(1,007,214)	(542,772)	(203,463)	(244,783)	(243,771)	(70,752)	(79,632)	(80,266)
Loss per share: basic and diluted	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)
Weighted-average shares	58,778,039	54,175,527	45,983,896	43,173,361	41,502,592	36,522,455	35,202,592	35,202,592

Discussion of Quarterly Information

Due to the financial crisis of late 2008, the Company experienced a significantly lower level of exploration and operating activity in 2009, which is reflected in lower levels of administrative expenses and operating losses for 2009, with reductions in expenditures particularly on Investor Relations, Conferences, Travel and Share-Based Compensation. In 2010 the level of operating and exploration activities recovered, increasing through the year and resulting in increasing quarterly losses. There was significantly higher share-based compensation in 2010, related to the issuance of options to directors, officers and consultants.

During the first quarter of 2011 the Company had a very active exploration and operating program reflected in the higher quarterly expenditures and losses. In addition the Company transitioned to the new IFRS requirements for financial reporting resulting in all exploration expenditures being included in operating expenses, compared to their being capitalized in previous period under Canadian GAAP. This has made a significant difference to the reported quarterly losses for the first quarter

2011. 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 during the period that the Company had limited cash resources and market support.

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 sale) in order to finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in securing the required financing.

The Company had a working capital at March 31, 2011 of $876,244 (December 31, 2010 – $1,623,728).

The Company had no material income from operations. As at March 31, 2011, the Company had no long-term or short-term debt. During 2008, 2009, and 2010, the Company received total advances of $215,844 from a related party without interest or specific terms of repayment, and in 2009 had a balance of $210,000 in accounts payable due to related parties for management and directors' fees. All of these balances were fully repaid in 2010.

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 is currently well funded to maintain its planned exploration and operating expenditures through 2011. In 2010 the Company entered into option and joint venture agreements on two of its projects in Mexico, providing for third parties to earn a majority interest through a combination of cash payments to the Company and exploration expenditures to advance the projects. Given the increasing precious and base metal prices and interest in the mining exploration sector in 2010 and early 2011, and the Company's higher share price, management believes that the Company is well positioned to raise additional equity funds from the capital markets and enter into further option and joint venture agreements to advance its exploration projects and fund operating activities through 2011, as well as strengthening the Company's working capital position.

Other Information and Disclosures

Related Party Transactions

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence are as follows:

a) Paid or accrued $24,000 (2010 - $24,000) for management fees to Essec Enterprises Ltd., a company of which the Chief Executive Officer is a director;

b) Paid or accrued $5,634 (2010 - $3,021) for legal services to Vector Corporate Lawyers Inc., a firm in which an officer of the Company is a partner;

c) Incurred an aggregate total of $10,000 (2010 - $10,000) in director fees by paying or accruing $2,500 (2010 - $2,500) to each of the following:

   Stillwater Enterprises Ltd. – a company controlled by a director of the Company

   Discovery Resource Corp. – a company controlled by a director of the Company

   Greenspot Enterprise Ltd. – a company controlled by a director of the Company

   A director of the Company;

d) Paid or accrued $7,500 (2010 - $4,500) in management fees to the Chief Financial Officer;

e) Paid management fee bonuses of $150,000 (2010 - $nil) and $30,000 (2010 - $nil) to Essec Enterprises Ltd. and the Chief Financial Officer, respectively;

f) Paid geological and administrative consulting fees of $20,000 (2010 - $nil) to Discovery Resource Corp.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available for similar services, to management personnel on an arm's length basis.

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

Resource Properties Expenditures

A summary of the Company's resource expenditures for the period follows:

	2010	2009
Canada		
Brenda Property		
Environmental and permits	$ 163	$ -
Geological	780	-
	943	-
Other Properties		
Consulting	1,040	-
Geological	195	-
Land holding costs	11,319	-
	12,554	-
Mexico		
Sandra and Escobar Properties		
Administration	2,035	1,292
Assays	-	6,518
Consulting	5,032	140
Drilling	6,639	-
Field costs	15,315	6,863
Geological	21,059	8,527
Geophysical	92,356	-
Land holding costs	7,485	4,474
Legal	573	-
Mapping and surveying	2,453	2,690
Transportation and rentals	820	1,055
Travel and accommodation	1,069	221
	154,836	31,780
La Esperanza Property		
Administration	242	1,484
Consulting	-	2,015
Field costs	1,352	8,133
Geological	-	4,368
Land holding costs	14,612	9,957
Legal	-	484
Mapping and surveying	-	61
Road building	-	7,800
Transportation and rentals	-	1,191
	16,206	35,493
Colibri Property		
Administration	198	184
Field costs	-	11
Land holding costs	7,752	8,554
Transportation and rentals	74	85
	$ 8,024	$ 8,834

Resource expenditures for the period – *continued*

	2010	2009
Mexico - *continued*		
Salamandra Property		
Administration	$ 260	$ 11
Field costs	2,092	-
Geological	6,409	1,594
Geophysical	109,629	-
Land holding costs	16,738	2,024
Transportation and rentals	74	-
	135,202	3,629
Victoria Property		
Administration	91	-
Assays	1,993	-
Consulting	1,594	-
Field costs	5,416	-
Geological	12,388	-
Geophysical	109,262	-
Land holding costs	5,014	17
Mapping and surveying	204	-
Transportation and rentals	722	-
Travel and accommodation	1,142	-
	137,826	17
Carina Property		
Consulting	-	140
Field costs	-	532
Geological	-	1,594
Land holding costs	1,826	1,217
Transportation and rentals	-	108
	1,826	3,591
Other Properties		
Acquisition and option payments	29,625	-
Acquisition - share-based compensation	18,627	-
Consulting	-	1,933
Field costs	516	321
Geological	544	-
Land holding costs	18,243	8,100
	67,555	10,354
Total costs for period	$ 534,972	$ 63,698

Changes in Accounting Policies

There were no changes in accounting policies during the period.

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 International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of commitments and contingencies at the date of the financial statements, and the reported amount of revenue and expenses during the period. The most significant accounting estimates for the Company relate to the estimation of share-based compensation and valuation of income tax assets. The Company's accounting policies are set out in full in note 2 to the March 31, 2011 un-audited interim consolidated financial statements.

Stock-based Compensation

The fair value of stock options is determined by the application of the Black-Scholes Option-Pricing Model, which requires the input of highly subjective assumptions, including the expected price volatility of the Company's common shares and the expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

Income Taxes

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. The Company has tax assets arising from various tax losses and exploration expenditures that can be carried forward to reduce future taxable income, however, the Company does not consider it probable that these future tax assets will be recovered, therefore it has provided a valuation allowance against these assets.

Financial Instruments

The Company's financial instruments consist of cash, receivables, reclamation bond, accounts payable and accrued liabilities, and due to related party. All of the Company's 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 guaranteed investment certificates at a major Canadian bank 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 March 31, 2011, the Company held the equivalent of $49,069 in cash, $32,252 in receivables, and $31,083 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 period.

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 unaudited condensed interim financial statements for the quarter ended March 31, 2011, provide a breakdown of the general and administrative expenses for the period 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 shares. As at March 31, 2011 the Company had 59,444,592 common shares issued and outstanding (diluted – 70,128,092) compared to 58,579,592 common shares issued and outstanding (diluted – 69,836,842) as at December 31, 2010.

During the quarter, 785,000 stock options were exercised at a weighted average price of $0.19, 58,750 stock options expired and the Company granted 350,000 options at $0.35 to consultants and in connection with a property option agreement. During the quarter 80,000 warrants were exercised at a weighted average price of $0.18.

Subsequent to March 31, 2011, the Company issued 1,220,000 shares and 610,000 warrants under a private placement of units at $0.40 for gross proceeds of $488,000, and 2,335,000 shares upon the exercise of warrants for gross proceeds of $357,750. A total of 225,000 warrants expired bringing the number of outstanding shares to 62,999,592 (diluted – 69,398,092) as of the date hereof.

Options

As at March 31, 2011, a total of 4,180,000 incentive stock options were outstanding.

Number of Shares	Exercise Price	Expiry Date
100,000	$ 0.20	October 27, 2011
75,000	$ 0.20	November 21, 2011
780,000	$ 0.50	March 20, 2012
100,000	$ 0.25	July 10, 2013
875,000	$0.10	February 2, 2015
150,000	$0.10	May 13, 2012
1,750,000	$0.28	November 23, 2015
350,000	$0.35	January 13, 2013
4,180,000		

Warrants

As at March 31, 2011, a total of 6,503,500 share purchase warrants were outstanding, of which 2,485,000 were exercised or expired subsequent to the end of the quarter leaving a balance 4,018,500 warrants outstanding as of the date hereof :

Number of Warrants	Exercise Price	Expiry Date
1,735,000	$0.15	May 20, 2011
750,000	$0.15	August 27, 2011
1,885,000	$ 0.25	September 24, 2011
2,133,500	$0.45	December 17, 2011
6,503,500		

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 quarter the Company exhibited at the Vancouver Mineral Exploration Roundup and the Vancouver Resource Investment Conference in January 2011, attended the PDAC conference in Toronto in March 2011. The Company also contracted IR-World Finanzkommunikation GmbH for translation and distribution of news releases in the German speaking markets in Europe. Subsequent to the quarter end, the Company also exhibited at 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. This resulted in significantly higher Investor Relations expenditures and activities in 2011.

Recent developments

Subsequent to March 31, 2011, the Company closed a non-brokered private placement of 1,220,000 units at an exercise price of $0.40 per unit for gross proceeds of $488,000. Each unit consisted of one common share of the Company and one-half of one share purchase warrant; each full warrant entitles the holder to purchase one common share of the Company at a price of $0.60 within one year of closing. If, beginning six months following the closing of the private placement, the closing price of the Company's shares equals or exceeds $1.40 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. The Company also received $357,750 from the exercise of 2,335,000 warrants. The Company started and is in the process of completing a 1,500 metre diamond drill program at the Sandra-Escobar project in Durango, Mexico

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 natural 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. 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 frm the second half of 2010 through 2011 to date.

Competitive Conditions

The outlook for acquisition and development of natural resource projects had deteriorated due to the global financial crisis in late 2008 and first half of 2009. However these conditions started showing some improvement in the second half of 2009 and appear to be continuing to improve. The lower level of exploration activity has resulted in greater availability and generally lower 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 March 31, 2011, the Company had three employees. Significant administrative and certain geological services are provided to the Company by 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 Resource Properties

During the quarter the Company entered into an option agreement with La Cuesta International for acquisition of 100% interest in 7,200 hectares claims surrounding the Nora project in Durango, Mexico. The Company also increased the claim area of the Lil Silver project in BC, 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 natural 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 no liability insurance, and any 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 ten 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 March 31, 2011, the Company's accumulated deficit was $14,478,039.

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 quarter, and to the date of this report, the price of the Company's shares fluctuated from a low of $0.23 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 March 31, 2011, a total of 59,444,592 common shares of the Company were issued and outstanding. There were 4,180,000 stock options and 6,503,500 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 interim 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