



**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2009**

**Unaudited**

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

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

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

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

*"Bahman Yamini"*

*"Kerry Spong"*

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**President and Chief Executive Officer**

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**Vice President, Finance & CFO**

*November 24, 2009*

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**CANASIL RESOURCES INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

*Unaudited*

<b>ASSETS</b>	<b>September 30 2009</b>	<b>December 31 2008</b>
<b>Current</b>		
Cash	\$ 60,994	\$ 8,266
Receivables	44,995	280,939
Prepaid expenses	3,839	3,715
	<u>109,828</u>	<u>292,920</u>
<b>Reclamation bond</b>	20,000	20,000
<b>Resource properties</b> (Note 4)	5,062,012	4,913,035
<b>Property and equipment</b> (Note 5)	69,622	80,555
	<u>\$ 5,261,462</u>	<u>\$ 5,306,510</u>

**LIABILITIES**

<b>Current</b>		
Accounts payable and accrued liabilities – trade	\$ 59,429	\$ 165,077
Accounts payable and accrued liabilities – related parties	177,351	15,807
Due to related party (Note 8)	155,000	110,000
	<u>391,780</u>	<u>290,884</u>

**SHAREHOLDERS' EQUITY**

<b>Share capital</b> (Note 6)	10,817,039	10,804,539
<b>Subscriptions received in advance</b> (Note 6)	130,000	-
<b>Contributed surplus</b> (Note 6)	922,188	913,548
<b>Deficit</b>	<u>(6,999,545)</u>	<u>(6,702,461)</u>
	<u>4,869,682</u>	<u>5,012,626</u>
	<u>\$ 5,261,462</u>	<u>\$ 5,306,510</u>

**Nature and continuance of operations** (Note 1)  
**Subsequent events** (Note 11)

ON BEHALF OF THE BOARD:

“Michael McInnis”  
\_\_\_\_\_, Director

“Gary Nordin”  
\_\_\_\_\_, Director

- See Accompanying Notes -

**CANASIL RESOURCES INC.**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

*Unaudited*

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008
<b>Expenses</b>				
Accounting and audit	\$ 9,127	\$ 20,802	\$ 26,197	\$ 38,462
Amortization	3,644	4,901	10,933	14,703
Conferences and conventions	275	-	2,060	29,690
Director fees	10,000	10,000	30,000	30,000
Foreign exchange loss (gain)	5,857	2,677	17,461	(4,577)
General exploration	1,895	36,495	40,528	58,976
Investor relations and promotions	293	5,976	1,024	64,751
Legal fees	3,153	7,445	9,356	18,895
Listing and filing fees	-	1,970	9,995	13,555
Management fees	28,500	28,500	85,500	85,500
Office services and supplies	15,742	16,258	47,315	52,861
Shareholder communications	285	788	2,620	7,296
Stock-based compensation <i>(Note 7)</i>	-	58,155	8,640	147,220
Transfer agent fees	897	1,353	6,156	6,527
Travel and accommodation	-	2,664	-	13,678
<b>Loss before other items</b>	<b>(79,668)</b>	<b>(197,984)</b>	<b>(297,785)</b>	<b>(577,537)</b>
Interest income	36	1,064	701	4,401
<b>Loss and comprehensive loss for the period</b>	<b>(79,632)</b>	<b>(196,920)</b>	<b>(297,084)</b>	<b>(573,136)</b>
Deficit - beginning of period	(6,919,913)	(6,120,059)	(6,702,461)	(5,743,843)
<b>Deficit – end of period</b>	<b>\$ (6,999,545)</b>	<b>\$ (6,316,979)</b>	<b>\$ (6,999,545)</b>	<b>\$ (6,316,979)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Weighted-average shares outstanding</b>	<b>35,202,592</b>	<b>34,347,157</b>	<b>35,121,090</b>	<b>33,754,234</b>

- See Accompanying Notes -

**CANASIL RESOURCES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

*Unaudited*

CASH RESOURCES PROVIDED BY (USED IN)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008
<b>Operating activities</b>				
Loss for the period	\$ (79,632)	\$ (196,920)	\$ (297,084)	\$ (573,136)
Items not affecting cash				
Amortization	3,644	4,901	10,933	14,703
Stock-based compensation	-	58,155	8,640	147,220
	<b>(75,988)</b>	<b>(133,864)</b>	<b>(277,511)</b>	<b>(411,213)</b>
Net change in non-cash working capital				
Decrease (increase) in receivables	4,213	5,058	235,944	2,422
Decrease (increase) in prepaid expenses	(1,914)	(8,995)	(124)	(858)
Increase (decrease) in accounts payable and accrued liabilities	53,670	30,999	74,758	14,019
Increase in due to related party	20,000	30,000	45,000	30,000
	<b>(19)</b>	<b>(76,802)</b>	<b>78,067</b>	<b>(365,630)</b>
<b>Investing activities</b>				
Resource property costs	(79,346)	(230,708)	(209,139)	(774,205)
Resource property cost recoveries Received	-	91,230	41,300	166,816
Property and equipment	-	-	-	(6,954)
	<b>(79,346)</b>	<b>(139,478)</b>	<b>(167,839)</b>	<b>(614,343)</b>
<b>Financing activities</b>				
Share capital issued for cash	-	200,000	12,500	325,000
Subscriptions receivable	-	(46,250)	-	-
Subscriptions received in advance	70,000	-	130,000	330,000
	<b>70,000</b>	<b>153,750</b>	<b>142,500</b>	<b>655,000</b>
<b>Increase (decrease) in cash</b>	<b>(9,365)</b>	<b>(62,530)</b>	<b>52,728</b>	<b>(324,973)</b>
Cash position - beginning of period	70,359	95,880	8,266	358,323
<b>Cash position - end of period</b>	<b>\$ 60,994</b>	<b>\$ 33,350</b>	<b>\$ 60,994</b>	<b>\$ 33,350</b>
<b>Supplementary disclosure of non- cash investing and financing transactions</b>				
Increase (decrease) in mineral property accounts payable	\$ (1,416)	\$ (30,979)	\$ (18,862)	\$ (1,517)

- See Accompanying Notes -

**CANASIL RESOURCES INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

*Unaudited*

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Canasil Resources Inc. (the "Company") is considered to be in the exploration stage with respect to its interest in resource properties. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The recovery of the amounts comprising resource properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to successfully complete its exploration and development, and the attainment of future profitable production.

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

	September 30 2009	December 31 2008
Deficit	\$ 6,999,545	\$ 6,702,461
Working capital (deficiency)	\$ (281,952)	\$ 2,036

**2. SIGNIFICANT ACCOUNTING POLICIES**

**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 and balances have been eliminated.

**Basis of Presentation**

These unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. However, they do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's audited financial statements including the notes thereto for the year ended December 31, 2008. All financial information presented herein is unaudited.

**CANASIL RESOURCES INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

*Unaudited*

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**3 FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, reclamation bond, accounts payable and accrued liabilities, and due to related party. Cash is classified under Assets Held-For-Trading and carried at fair value. All of the Company's other financial instruments are carried at amortized cost. 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 at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which it uses to fund its foreign projects. The cash balances 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 expenditures. Accounts payable are settled in a timely manner. At September 30, 2009, the Company held the equivalent of \$7,456 in cash, \$38,088 in accounts receivable, and \$2,347 in accounts payable, all of which are denominated in pesos.

It is management's opinion that the Company is not exposed to any 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. RESOURCE PROPERTIES**

**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 a Net Smelter Returns royalty ("NSR") of 2%. 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 also staked additional claims, known as the Victoria claims, which are contiguous with the Salamandra claims.

During 2008, the Company granted an arm's length party the right to earn a 60% interest in the properties by incurring US\$7,000,000 in exploration expenditures and making US\$375,000 in cash or share payments to the Company over six years. In 2008, the Company received US\$75,000 in cash payments and \$91,230 in expenditure recoveries from the optionee. The Company also completed a private placement of 500,000 shares with the optionee for proceeds of \$125,000 (*Note 6*). During the current period, the Company received \$41,300 in expenditure recoveries. 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 from Oremex Resources Inc. ("Oremex") in consideration for 650,000 common shares of the Company valued at \$247,000 and 75,000 share purchase warrants valued at \$8,358. A former officer of the Company is also a director of Oremex.

**CANASIL RESOURCES INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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*Unaudited*

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**4. RESOURCE PROPERTIES - *continued***

**La Esperanza project, Mexico**

During 2005, the Company entered into an option agreement to earn a 100% interest in the La Esperanza project, subject to an NSR of up to 1.5%. 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.

**Tres Marias and Cebollas properties, Mexico**

During 2003, the Company entered into an option agreement to earn up to a 75% interest in the Tres Marias and Cebollas gold-silver properties located in Durango State, Mexico. In accordance with the terms of the agreement, the Company issued 50,000 common shares at a value of \$8,000 and incurred exploration expenditures of \$405,012. During 2007, the Company terminated work on these properties and wrote off associated costs of \$413,012.

During 2008, the Company signed a letter agreement with Goldcorp Inc. to terminate the option agreement on the projects and issued 275,000 shares with a value of \$8,250 (*Note 6*) to Goldcorp Inc. in full and final settlement of any obligations under the original option agreement. The Company wrote off costs totalling \$9,124 relating to these properties in 2008.

**Sandra and Nora projects, Mexico**

The Company has staked the Sandra and Nora claims located in Durango State, Mexico. In August 2008 the Company entered into a letter agreement with Pan American Silver Corp. ("Pan American"), followed by a final agreement in March 2009, providing an option for the Company to earn a 51% interest in Pan American's Escobar claims for US\$1 million 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 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.

**Other projects**

The Company has staked other claims located in Durango and Sinaloa States, Mexico which include the the Los Azules project, and the San Fransisco project. 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. During 2008, the Company wrote off costs of \$240,784 that were incurred on these other projects. The Company intends to maintain these claims in good standing and may return to explore these properties as future conditions permit.



**CANASIL RESOURCES INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. RESOURCE PROPERTIES - continued**

**Additions for the period and cumulative expenditures as at September 30 are as follows:**

2009	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ 934	\$ 934	\$ 2,011,427
- Expenditure recoveries	-	-	-	(189,001)
Other, Canada	-	3,374	3,374	3,374
Los Azules, Mexico	-	5,682	5,682	5,682
Sandra and Nora, Mexico	-	37,572	37,572	171,053
San Francisco, Mexico	-	1,330	1,330	1,330
Esperanza, Mexico	-	30,117	30,117	530,727
Colibri, Mexico	-	11,201	11,201	1,613,668
Salamandra, Mexico	-	22,334	22,334	896,784
- Expenditure recoveries	-	(12,286)	(12,286)	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	51,281	51,281	157,816
- Expenditure recoveries	-	(29,014)	(29,014)	(113,848)
- Option payments received	-	-	-	(21,596)
Other, Mexico	-	26,452	26,452	67,267
	\$ -	\$ 148,977	\$ 148,977	\$ 5,062,012

2008	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ 42,456	\$ 42,456	\$ 2,010,220
Lil, Canada	-	3,851	3,851	8,809
Vega, Canada	-	8,879	8,879	59,855
Los Azules, Mexico	-	16,189	16,189	84,877
Sandra and Nora, Mexico	-	16,213	16,213	132,500
San Francisco, Mexico	-	1,351	1,351	5,648
Esperanza, Mexico	-	46,325	46,325	488,888
Colibri, Mexico	-	463,406	463,406	1,600,891
Salamandra, Mexico	-	34,730	34,730	843,199
- Expenditure recoveries	-	(6,396)	(6,396)	(6,396)
- Option payments received	-	(53,989)	(53,989)	(53,989)
Victoria, Mexico	-	76,689	76,689	105,163
- Expenditure recoveries	-	(84,834)	(84,834)	(84,834)
- Option payments received	-	(21,596)	(21,596)	(21,596)
Other, Mexico	-	62,598	62,598	93,551
	\$ -	\$ 605,872	\$ 605,872	\$ 5,266,786

**CANASIL RESOURCES INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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*Unaudited*

**5. PROPERTY AND EQUIPMENT**

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 31,686	\$ -	\$ 31,686	\$ 31,686	\$ -	\$ 31,686
Automobile	27,730	18,779	8,951	27,730	14,943	12,787
Computer	14,728	10,277	4,451	14,729	7,079	7,650
Field equipment	31,971	16,710	15,261	31,971	10,310	21,661
Furniture and equipment	25,546	16,273	9,273	25,545	13,954	11,591
Software	1,097	1,097	-	1,097	1,016	81
	<u>\$ 132,758</u>	<u>\$ 63,136</u>	<u>\$ 69,622</u>	<u>\$ 132,758</u>	<u>\$ 47,302</u>	<u>\$ 85,456</u>

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

	Number of Shares	Share Capital	Contributed Surplus
Authorized			
Unlimited common voting shares, without par value			
Issued and outstanding			
Balance, December 31, 2007	33,377,592	\$ 10,471,289	\$ 732,761
Private placement	500,000	125,000	-
Private placement	800,000	200,000	-
Issued for properties (Note 4)	275,000	8,250	-
Stock-based compensation	-	-	180,787
Balance, December 31, 2008	34,952,592	10,804,539	913,548
Warrants exercised	250,000	12,500	-
Stock-based compensation (Note 7)	-	-	8,640
Balance, September 30, 2009	<u>35,202,592</u>	<u>\$ 10,817,039</u>	<u>\$ 922,188</u>

**CANASIL RESOURCES INC.**  
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**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS - *continued***

**Private placements**

Subsequent to September 30, 2009, the Company completed a private placement of 6,300,000 units at a price of \$0.05 per unit for gross proceeds of \$315,000 (*Note 11*). Proceeds of \$130,000 were received prior to September 30, 2009.

In August 2008, the Company issued 800,000 units at a price of \$0.25 per unit for gross proceeds of \$200,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant exercisable at \$0.35 per share until August 8, 2009.

In June 2008, the Company issued 500,000 shares at a price of \$0.25 per share for gross proceeds of \$125,000. The private placement was made in accordance with the option agreement on the Salamandra property (*Note 4*).

**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 in 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 18 months.

**CANASIL RESOURCES INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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*Unaudited*

**7. STOCK OPTIONS AND WARRANTS - continued**

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

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2007	4,088,675	\$ 0.47	2,833,750	\$ 0.37
Granted	400,000	\$ 0.35	100,000	\$ 0.25
Exercised	-	\$ -	-	\$ -
Expired	<u>(2,088,675)</u>	\$ 0.40	<u>(650,000)</u>	\$ 0.26
Outstanding, December 31, 2008	2,400,000	\$ 0.52	2,283,750	\$ 0.40
Granted	-	\$ -	-	\$ -
Exercised (i)	(250,000)	\$ 0.05	-	\$ -
Expired	<u>(2,150,000)</u>	\$ 0.11	<u>(350,000)</u>	\$ 0.75
Outstanding, September 30, 2009	-	\$ -	1,933,750	\$ 0.34
Currently exercisable	-	\$ -	1,933,750	\$ 0.34

(i) During the period, 2,000,000 warrants with an exercise price of \$0.55 were re-priced to \$0.05 and the expiry date was extended from March 12, 2009 to March 31, 2009.

At September 30, 2009, the Company had outstanding stock options enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	743,750	\$ 0.20	March 6, 2011
	150,000	\$ 0.20	October 27, 2011
	75,000	\$ 0.20	November 21, 2011
	865,000	\$ 0.50	March 20, 2012
	<u>100,000</u>	\$ 0.25	July 10, 2013
	<u>1,933,750</u>		

At September 30, 2009, there were no outstanding share purchase warrants.

**CANASIL RESOURCES INC.**  
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**7. STOCK OPTIONS AND WARRANTS - *continued***

**Stock-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 September 30. Stock-based compensation is recorded over the vesting period.

	2009	2008
Total options granted	-	100,000
Average exercise price	\$ -	\$ 0.25
Estimated fair value of options granted	\$ -	\$ 17,280
Estimated fair value per option	\$ -	\$ 0.17

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

	2009	2008
Risk-free interest rate	-	3.37%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	86%
Expected option life in years	-	5.00

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

	2009	2008
Number of options vested in period	50,000	601,250
Compensation recognized in period	\$ 8,640	\$ 147,220

**CANASIL RESOURCES INC.**  
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**8. RELATED PARTY TRANSACTIONS**

The Company entered into transactions with related parties as follows:

- a) Paid or accrued \$72,000 (2008 - \$72,000) for management fees to a company controlled by a director;
- b) Paid or accrued \$9,356 (2008 - \$18,895) for legal services and share issue costs to a law firm in which an officer of the Company is a partner;
- c) Paid or accrued \$30,000 (2008 - \$30,000) in director fees to a director and to three companies, each controlled by a director;
- d) Paid or accrued \$13,500 (2008 - \$13,500) in management fees to an officer.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable at September 30, 2009 is \$177,351 (December 31, 2008 - \$15,807) due to these related parties.

As at September 30, 2009, a company controlled by a director had advanced a total of \$155,000 (December 31, 2008 - \$110,000) to the Company. The advances are non-interest bearing, unsecured, due on demand, and have no fixed terms of repayment.

**9. CAPITAL DISCLOSURES**

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no 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 until such time as it is required to pay operating expenses or resource property 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.

**CANASIL RESOURCES INC.**  
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*Unaudited*

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**10. SEGMENTED INFORMATION**

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

2009	Canada	Mexico	Total
Resource properties	\$ 1,825,800	\$ 3,236,212	\$ 5,062,012
Plant and equipment	\$ 19,794	\$ 49,828	\$ 69,622

2008	Canada	Mexico	Total
Resource properties	\$ 2,078,884	\$ 3,187,902	\$ 5,266,786
Plant and equipment	\$ 28,502	\$ 56,954	\$ 85,456

**11. SUBSEQUENT EVENTS**

Subsequent to September 30, 2009, the Company completed a non-brokered private placement of 6,300,000 units at a price of \$0.05 per unit for gross cash proceeds of \$315,000. Each unit consists of one common share of the Company and one-half of one share purchase warrant; each full warrant entitles the holder to purchase on additional common share at a price of \$0.15 until October 13, 2010.

**CANASIL RESOURCES INC.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Period ended September 30, 2009

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This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("the Company") is dated November 24, 2009, and provides information on the Company's activities for the period ended September 30, 2009, and from the end of the period 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 audited financial statements and related notes for the year ended December 31, 2008, and the un-audited financial statements for the period ended September 30, 2009.

**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.

During the first half of 2009 the company was affected by the negative environment for funding resource exploration companies due to the global financial conditions. As a result the Company focused on minimising operating costs while maintaining its resource properties and assets in Mexico and British Columbia, Canada. During the period the Company pursued opportunities for joint venture cooperation to advance its mineral exploration projects, resulting in numerous visits to review projects in Mexico. The Company also completed the final agreement with Pan American Silver Corp. to advance exploration on Pan American's Escobar and the Company's Sandra projects, and completed compilation and analysis of all data, including historical data, on the Sandra-Escobar project area, outlining the potential for a large disseminated gold-silver mineralized system. The Company terminated the agreement with Blackcomb Minerals on the Salamandra and Victoria projects as Blackcomb did not fulfil the required first year expenditure commitment by March 19, 2009. Deferred exploration and acquisition expenditures in Mexico during the period amounted to \$148,977 (9 months 2008 - \$605,872), net of \$41,300 in expenditure recoveries from Blackcomb Minerals related to the Salamandra and Victoria option agreement. There was no activity on the Company's projects in British Columbia during the period other than maintaining the claims in good standing.

In January 2009 the Company received a B.C. Mineral Exploration Tax Credit of \$189,001 related to the Brenda project, and continued to receive payments for IVA tax claims receivable in Mexico. The Company received \$12,500 from the exercise of warrants in March 2009. On September 15, 2009, the Company announced a private placement of 5,000,000 units at \$0.05 and received \$130,000 in advance subscriptions towards this placement by September 30, 2009. The placement was oversubscribed and closed on October 13, 2009, for a total of 6,300,000 units at \$0.05 with gross proceeds of \$315,000.

The Company exhibited at the Vancouver Mineral Exploration Roundup in January 2009, but did not undertake any other Investor Relations expenditures during the period. Investor Relations expenditures during the period were reduced to \$1,024 (9 months 2008 - \$64,751) and travel and conferences expenditures reduced to \$2,060 (9 months 2008 - \$43,368).

The overall conditions for the mining and resource sector continued to improve during the third quarter 2009, with the prices for energy, gold, silver, copper and other metals showing significant increases. This has had a positive impact on the resource industry with greater interest and better prospects for future funding of precious and base metal exploration projects.

**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 – option to earn 100%
- Colibri silver zinc lead copper project – 100%
- Salamandra zinc silver project – option to earn 100%
- Sandra and Nora gold silver projects – 100%
- Los Azules copper gold project – 100%
- San Francisco gold silver project – 100%
- Victoria zinc silver project – 100%
- El Eden copper gold silver project – 100%
- Vizcaino silver gold project – 100%
- Carina silver gold project – 100%

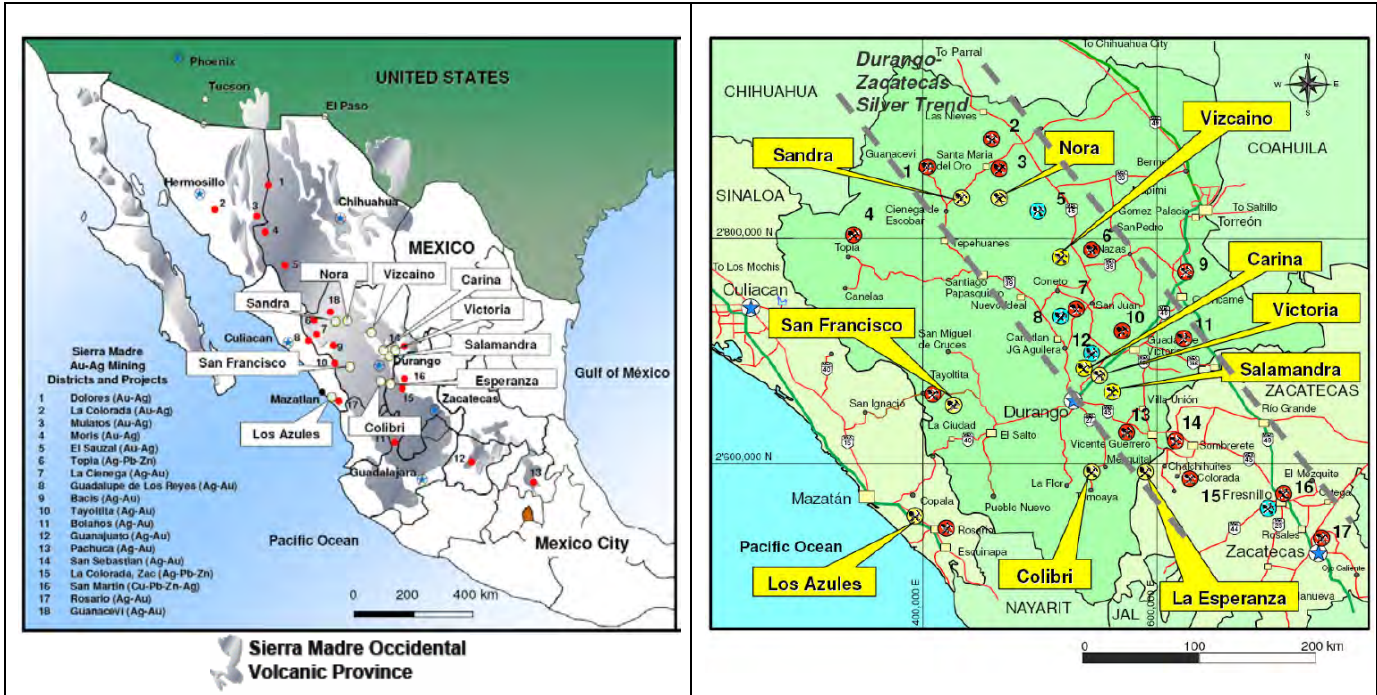
The Company holds 100% interest in the following mineral properties located in the Omineca Mining District, in North-central British Columbia, Canada:

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

Detailed information regarding the Company's mineral exploration projects is included in the MD&A for the year ended December 31, 2008. The following notes only cover the changes during the first half of 2009.



**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 1% to 1.5%, by making option payments over a period of three years totalling US\$150,000. A Phase 1 diamond drill program consisting of 9 drill holes for a total of 1,432.08 metres outlined a mineralized vein with a strike length of over 150 metres and depth of 100 metres, which is open in all directions, with a width of up to 10.30 metres carrying high-grade silver mineralization. The claim area at the La Esperanza project covers 4,787 hectares. The project is located in the state of Zacatecas, 100 km south-southeast of the city of Durango. Expenditures on the La Esperanza project during the period were \$30,117 (9 months 2008 - \$46,325).

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

The 100% owned Colibri project is 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 has completed 4,169 metres of diamond drilling in 34 holes at the Colibri project. These returned high grade mineralized intercepts from the central zone of the Linda vein carrying gold, silver, copper and zinc. The claim area at the Colibri project covers 6,021 hectares. Expenditures on the Colibri project during the period were \$11,201 (9 months 2008 - \$463,406).

**Salamandra zinc-silver project, Durango State, Mexico**

The Company has an option agreement to purchase a 100% interest in the central 900 hectares claims of the Salamandra project, subject to a Net Smelter Return royalty of 2%, by making option payments over a period of five years totalling US\$500,000. The project area was expanded through staking of additional claims to a total of 2,778 hectares, and is located in Durango State, 35 km northeast of the city of Durango, with good access via paved and gravel roads. A 3-Dimensional Induced Polarization geophysical survey, as well as a geological mapping and surface sampling programs and 3,595 metres of diamond drilling in 12 holes have been completed to date. Drilling has intersected numerous mineralized zones returning both high grade zinc-silver values within broader zones of lower grade mineralization. These zones 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 March 2008, the Company entered into an Option and Joint Venture Agreement with Blackcomb Minerals Inc. providing for Blackcomb to earn a 60% interest in the Salamandra and Victoria projects against exploration expenditures of US\$7 million and cash payments of US\$375,000 over a period of 6 years. The agreement required a minimum expenditure of US\$1 million

**CANASIL RESOURCES INC.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Period ended September 30, 2009

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in the first year. Blackcomb Minerals has not fulfilled the first year exploration expenditure requirement under the agreement, and the agreement was terminated on March 19, 2009. Total expenditures on the Salamandra project during the period were \$22,334 (9 months 2008 – \$34,730). During the period \$12,286 (9 months 2008 - \$6,396, and property option payment of \$53,989) was received from Blackcomb Minerals to cover claim maintenance taxes and surface rights payments, part of which had been paid in the last quarter of 2008.

***Victoria zinc-silver claim area, Durango, Mexico***

The Victoria project claim area surrounds the Salamandra project. The claim area covers a strategic land position on a well-recognized mineral trend running from the northwest to the southeast through Durango State. Initial regional evaluation and reconnaissance has identified a number of targets for further exploration. In March 2008 the Victoria claims were optioned to Blackcomb Minerals Inc. as part of the Option and Joint Venture Agreement covering the Salamandra project. As Blackcomb did not complete the first year exploration expenditure requirement the option terminated on March 19, 2009. The claim area has been reduced to 45,000 hectares in January 2009. Expenditures on the Victoria project during the period were \$51,281 (9 months 2008 – \$76,689). Claim maintenance taxes of \$29,014 (9 months 2008 - \$84,834, and property option payment of \$21,596) were received from Blackcomb Minerals during the period.

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

The 100% owned Sandra project covers 5,512 hectares, located 183 km north of the city of Durango in Durango State, Mexico. The Company is advancing exploration on the Sandra project together with the adjoining Escobar claims of Pan American Silver following an agreement with Pan American Silver (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 claims and the adjoining Escobar claims of Pan American Silver. 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 in a well recognized trend in Durango State. Expenditures on the Sandra project during the period were \$37,572 (9 months 2008 - \$16,213).

In August 2008 the Company signed an agreement with Pan American Silver Corp. to earn an initial 51% interest in Pan American's Escobar claims, which are contiguous with the Sandra claims. Following the earn-in Pan American may back-in to a 51% interest in the combined Sandra and Escobar claims by paying three times 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. The formal agreement was completed and signed during the period.

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

The Company holds a 100% interest in the Los Azules claims in Sinaloa State, Mexico, 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, covering 4,531 hectares. Expenditures during the period at Los Azules were \$5,682 (9 months 2008 - \$16,189).

***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. Expenditures on the San Francisco project during the period were \$1,330 (9 months 2008 - \$1,351).

***El Eden, Vizcaino and Carina Projects, Sinaloa and Durango, Mexico***

Expenditures on these projects during the period were \$26,452 ((9 months 2008 - \$62,598).

***El Eden Project, Sinaloa, Mexico***

The El Eden Project is located 78 kilometres northeast of the city of Mazatlán in Sinaloa State, Mexico, with excellent road access and infrastructure. The project encompasses a tourmaline alteration zone hosted by an intrusive body, where five channel samples returned significant copper and silver grades, and one sample from mineral dump material returned 2.95% copper and 2,140 g/t silver. However a follow up sampling program over a wider area did not return any significant mineralization. The El Eden project claims were reduced to 2,146 hectares during the period.

***Vizcaino Project, Durango, Mexico***

The Vizcaino project covers 600 hectares, located 127 kilometers north of the city of Durango, in Durango State. The project area is 38 kilometers southeast of Silver Standard Resources La Pitarrilla deposit and 42 kilometers north of 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 has been completed over the claim area with 99 samples covering the vein outcrops and surrounding area. Surface sampling returned anomalous gold values between 32 ppb and 141 ppb in 20 samples taken from vein outcrops at the higher elevations (2,300 m to 2,350m) on the flank of the hills on the SE end of the Pamplona vein over strike distance of 1,000 m. Sampling at the NW end, where the vein outcrops from the farmer's fields at a lower elevation (2,250 m), returned consistently higher anomalous gold values between 161 ppb to 667 ppb in 9 samples over a strike distance of approximately 400 m. This indicates increasing gold values with depth, consistent with the textures observed in the vein outcrops characteristic of the higher elevations of an epithermal system. Further exploration work consisting of trench sampling, fluid inclusion studies and possibly 3D-IP geophysics and Magnetic surveys would provide additional data to define drill targets for future exploration.

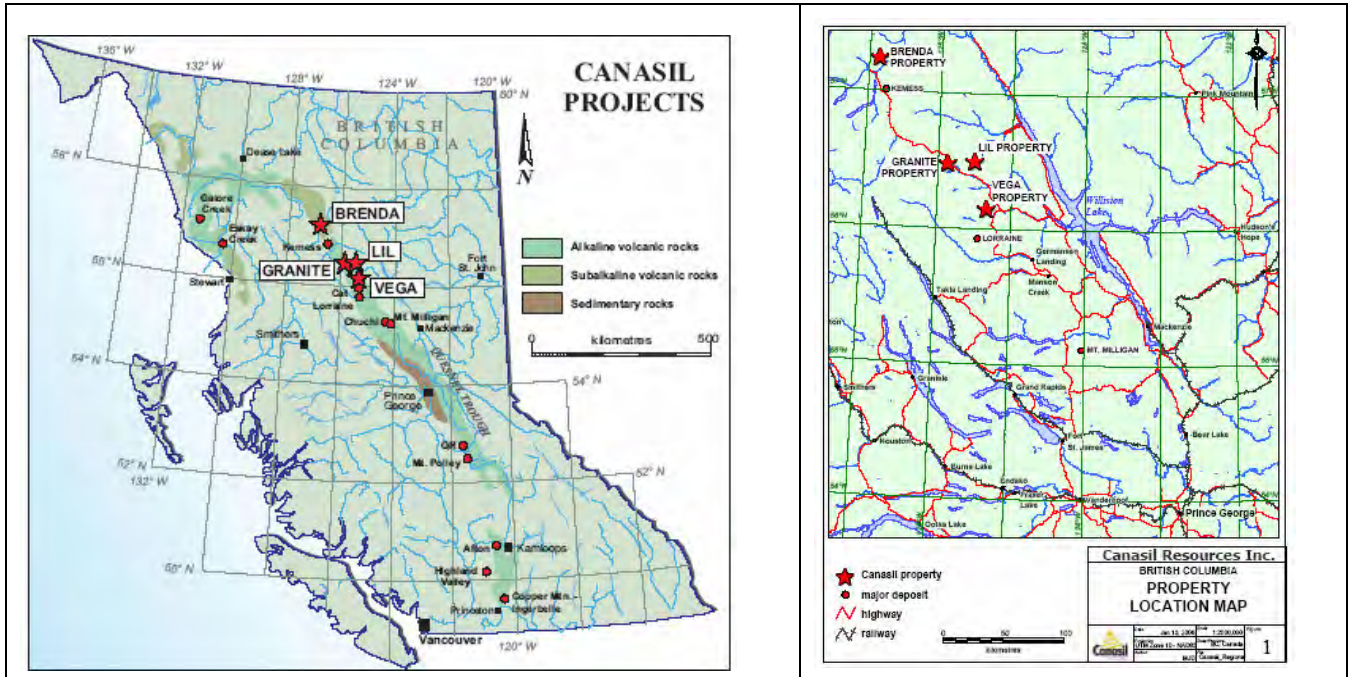
***Carina Project, Durango, Mexico***

The Carina project covers 2,939 hectares, 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 Orko Silver, another major recent discovery. The area has excellent road access and infrastructure.

A number of quartz veins, breccias and stockwork zones are observed in the project area, hosted by rhyolites, andesites and sediments. The main vein system strikes NW-SE and is 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 hosted by tuffaceous rhyolites is observed over an area of 100 metres by 300 metres.

A surface sampling and geological mapping program has been completed over an area of 500m by 800m covering the veins and stockwork zone with a total of 170 samples. The surface sampling program has shown consistently anomalous gold and silver values. The results are characteristic of a high level epithermal system with potential that extends beyond the outcropping mineralization. Further exploration work consisting of trench sampling, fluid inclusion studies and 3D-IP geophysics and Magnetic surveys would provide significant additional data regarding potential mineralization at depth and define drill targets for future exploration.

**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 Kemsess-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 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 Brenda mineral claims are valid to May 30, 2018. There were no significant expenditures on the Brenda project during the period (9 months 2008 - \$42,456). During the period the Company received a Mineral Exploration Tax Credit of \$189,001 related to 2006 and 2007 exploration expenditures on the Brenda project.

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

The 100% owned Vega claims covering 6,716 hectares and the 100% owned LIL claims covering 875 hectares are located in the Omineca Mining Division of British Columbia, 300 km and 350 km respectively northwest of Prince George. The 100% owned Granite gold-silver claim covers 500 hectares located in the Johansson Lake area in the Omineca Mining Division of British Columbia, 360 km northwest of Prince George. Access to the properties is via the Omineca Mines Access Road and logging roads. There were no significant exploration expenditures on the properties during the period. Expenditures consisted of claim maintenance costs during the period amounting to \$3,374 (9 months 2008 - \$12,730).

## **Results of Operations**

### ***Results of Operations for the period ended September 30, 2009***

Operating expenses for the period were \$297,785 (9 months 2008 - \$577,537) and the Company earned interest income of \$701 (9 months 2008 - \$4,401). The operating expenses for the period include non-cash Stock-Based Compensation of \$8,640 (9 months 2008 - \$147,220). Management and Directors fees were \$85,500 (9 months 2008 - \$85,500). Expenditures on Investor Relations and Conferences and Conventions were reduced to \$3,084 (9 months 2008 - \$94,441). Accounting and audit fees were \$26,197 (9 months 2008 - \$38,462), office services and supplies were \$47,315 (9 months 2008 - \$52,861). Travel and accommodation expenses were \$nil (9 months 2008 - \$13,678). During the period, the Company recorded a foreign exchange loss of \$17,461 (9 months 2008 - gain of \$4,577) resulting from exchange rate fluctuations between the Canadian Dollar, the U.S. Dollar, and the Mexican Peso, and recorded general exploration expenditures of \$40,528 (9 months 2008 - \$58,976) related to operations in Mexico.

Cash used for operating activities, before changes to non-cash working capital, during the period was \$277,511 (9 months 2008 - \$411,213). The Company had a positive net cash flow from operating activities of 78,067 (9 months 2008 - cash used \$365,630). This was a result of a decrease in accounts receivables of \$235,944 (9 months 2008 \$2,422) from the collection of Mineral Exploration Tax Credit in British Columbia and IVA taxes receivable in Mexico, increase in accounts payable of \$74,758 (9 months 2008 \$14,019) and increase in amounts due to a related party of \$45,000 (9 months 2008 - \$30,000).. Cash used for investing activities decreased to \$209,139 with \$41,300 in cost recoveries received (9 months 2008 - \$774,205 with \$166,816 in cost recoveries) reflecting the continued lower level of exploration expenditures. Net cash flow from financing activities was \$142,500 (9 months 2008 - \$655,000) from the proceeds of warrants exercised in 2009 (\$12,500) and receipt of subscriptions in advance of \$130,000.

### ***Results of Operations for the quarter ended September 30, 2009***

Operating expenses for the quarter ending September 30, 2009 were \$79,668 (3<sup>rd</sup> quarter 2008 - \$191,083) and the Company earned interest income of \$36 (3<sup>rd</sup> quarter 2008 - \$1,064). The operating expenses for the quarter include non-cash Stock-Based Compensation of \$Nil (3<sup>rd</sup> quarter 2008 - \$58,155). Management and Directors fees were \$28,500 (3<sup>rd</sup> quarter 2008 - \$28,500). Expenditures on Investor Relations and Conferences and Conventions were reduced to \$568 (3<sup>rd</sup> quarter 2008 - \$5,976). Accounting and audit fees were \$9,127 (3<sup>rd</sup> quarter 2008 - \$20,802), office services and supplies were \$15,742 (3<sup>rd</sup> quarter 2008 - \$16,258). Travel and accommodation expenses were \$Nil (3<sup>rd</sup> quarter 2008 - \$2,664). During the quarter, the Company recorded a foreign exchange gain of \$5,857 (3<sup>rd</sup> quarter 2008 - loss of \$2,677) resulting from exchange rate fluctuations between the Canadian Dollar, the U.S. Dollar, and the Mexican Peso, and recorded general exploration expenditures of \$1,895 (3<sup>rd</sup> quarter 2008 - \$36,495) related to operations in Mexico.

Cash used for operating activities, before changes to non-cash working capital, during the quarter was \$75,988 (3<sup>rd</sup> quarter 2008 - \$133,864). Net cash used in operating activities was \$19 (3<sup>rd</sup> quarter 2008 - cash used \$76,802). This was a result of a decrease in accounts receivables of \$4,213 (3<sup>rd</sup> quarter 2008 \$5,058), and increase in accounts payable and accrued liabilities of \$53,670 (3<sup>rd</sup> quarter 2008 \$30,999) and increase in amounts due to a related party of \$20,000 (3<sup>rd</sup> quarter 2008 - \$30,000). Cash used for investing activities was \$79,346 (3<sup>rd</sup> quarter 2008 - \$139,478) reflecting the continued lower level of exploration expenditures. Net cash flow from financing activities was \$70,000 from the receipt of subscriptions in advance (3<sup>rd</sup> quarter 2008 - \$153,750 from share issuance and subscriptions receivable). These changes resulted in a decrease in the cash position over the quarter of \$9,365 (3<sup>rd</sup> quarter 2008 - \$62,530) to a cash position of \$60,994 at the end of the quarter (3<sup>rd</sup> quarter 2008 - \$33,350).

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**Summary of Quarterly Information**

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

Year	2009			2008			2007	
Quarter ended:	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar 31	Dec. 31
Loss before other items	(79,668)	(80,637)	(132,866)	(102,007)	(138,765)	(154,586)	(132,565)	(170,918)
Stock-based compensation	-	(4,320)	(4,320)	(33,567)	(58,155)	(35,231)	(53,834)	(35,230)
Write-off of resource properties	-	-	-	(249,908)	-	-	-	(413,012)
Loss for the quarter	(79,632)	(80,266)	(137,186)	(385,482)	(196,920)	(189,817)	(186,399)	(619,160)
Loss per share: basic and diluted	(0.002)	(0.002)	(0.004)	(0.011)	(0.006)	(0.006)	(0.006)	(0.019)
Weighted-average shares	35,202,592	35,202,592	34,955,370	34,004,368	34,347,157	33,531,438	33,377,592	31,642,614

*Discussion of Quarterly Information*

The Company has progressively reduced the level of exploration activity through 2008 and into 2009 due to the difficult economic and industry conditions. This is reflected in progressively lower general and administrative expenses and operating losses through 2008 and 2009, in particular due to lower expenditures on Investor Relations, Conferences and Travel. The loss for the quarter ending March 31, 2009 was increased due to a foreign exchange loss of \$12,264 and General exploration expenditures of \$38,586.

**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 deficiency at September 30, 2009 of \$281,592 (December 31, 2008 – positive working capital of \$2,036). Included in current liabilities is \$177,351 payable to related parties for Management and Directors Fees and \$155,000 for advances received from a company controlled by a director.

The Company had no material income from operations. As at September 30, 2009, the Company had no long-term debt. In 2008 the Company received an advance of \$110,000 from a related party, which was increased to \$155,000 during the period, without interest or specific terms of repayment. During the period the Company experienced a positive cash flow of \$52,728 (9 months 2008 – negative \$324,973) from operating, investing and financing activities. This included net cash generated from operating activities of \$78,067 (9 months 2008 – cash used \$365,630), net cash used in investing activities of \$167,839 (9 months 2008 - \$614,343), and net cash provided by financing activities of \$142,500 (9 months 2008 – \$655,000).

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 will require additional funding for exploration and operating expenditures through 2009. Given the recent downturn in the financial and metals markets, the Company has identified certain conditions that cast considerable doubt upon its ability to continue as a going concern (see note 1 to September 30, 2009 interim consolidated financial statements). Subsequent to the end of the quarter, the Company closed a private placement of \$315,000 on October 13, 2009. Management believes that the Company will be able to continue as a going concern and to increase the level of exploration expenditures on its mineral properties through raising additional equity funds and through option and joint venture agreements with third parties given the recent improvements in the economic conditions and higher precious and base metal prices. .

## **Other Information and Disclosures**

### ***Related Party Transactions***

During the period the Company paid or accrued a total of \$124,856 (9 months 2008 - \$134,395) to related parties covering directors' and management fees and legal services as listed below. The Company relies heavily on its directors and officers for many of its administrative and professional services.

- a) Paid or accrued \$72,000 (9 months 2008 - \$72,000) for management fees to a company controlled by a director;
- b) Paid or accrued \$9,356 (9 months 2008 - \$18,895) for legal services and share issue costs to a law firm in which an officer of the Company is a partner;
- c) Paid or accrued \$30,000 (9 months 2008 - \$30,000) in director fees to a director and to three companies, each controlled by a director;
- d) Paid or accrued \$13,500 (9 months 2008 - \$13,500) in management fees to an officer.

Included in accounts payable at September 30, 2009 is \$177,351 (December 31, 2008 - \$15,807) due to these related parties. As at September 30, 2009, a company controlled by a director had advanced a total of \$155,000 (December 31, 2008 - \$110,000) to the Company. The advance is unsecured, due on demand, and has no fixed terms of repayment.

### ***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 Canadian generally accepted accounting principles 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 carrying value of its mineral property assets and accounting for stock-based compensation. The Company's accounting policies are set out in full in note 2 to the December 31, 2008 audited consolidated financial statements.

### ***Mineral Property Costs***

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

In the event that reserves are determined, the carrying values of mineral interests, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

The Company's Management regularly reviews the carrying value of each mineral property. Where information and conditions suggest that there has been impairment in their carrying value, management assesses the project for impairment and records a write-down to the estimated fair value in the statement of operations. During 2008, the Company recorded write-downs of \$249,908 relating to certain small projects in Canada and Mexico that the Company has no current plans to advance.

Given that the financial and metals markets have improved during 2009, management does not consider there to be any triggering events that would require management to test its mineral properties for impairment at September 30, 2009. Management is satisfied that all of its properties are of merit and warrant further exploration. Despite the difficulty that junior exploration companies have raising equity finances in the current market, the Company is optimistic that it will be able to raise sufficient funds to advance the properties in due course.

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*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.

***Changes in Accounting Policies***

There have been no changes in accounting policies or adoptions of new standards during the current quarter.

***Financial Instruments***

The Company's financial instruments consist of cash, receivables, reclamation bond, accounts payable and accrued liabilities, and due to related party. Cash is classified under Assets Held-For-Trading and carried at fair value. All of the Company's other financial instruments are carried at amortized cost. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash is held in an interest bearing account 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 it uses to fund its foreign projects. The cash balances 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 expenditures. Accounts payable are settled in a timely manner. At September 30, 2009, the Company held the equivalent of \$60,994 in cash, \$44,995 in accounts receivable, and \$59,429 in accounts payable.

It is management's opinion that the Company is not exposed to any 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.

***International Financial Reporting Standards***

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-orientated enterprises for interim and annual financial statements effective January 1, 2011. Accordingly, the Company will prepare its financial statements for fiscal 2010 using Canadian GAAP. In 2011, the Company will present its fiscal 2011 financial statements, with comparatives for fiscal 2010, using IFRS.

The company is currently in the initial assessment and scoping phase of its IFRS change-over process. In this phase, the Company is identifying significant differences between existing Canadian GAAP and IFRS; identifying policy choices and changes required to the Company's current accounting policies; and assessing the impact of such choices and changes, including the impact of adopting IFRS 1 – *First Time Adoption of IFRS*. At the end of this phase, the Company will make specific accounting policy changes. Such choices will be made in consultation with the audit committee and will be based on improving the overall usefulness of our financial statements and comparability with our industry peers.

Upon completion of this phase, the Company will move into the implementation phase, in which it will update its significant accounting policies, adjust its accounting systems, and design tools and processes for the preparation of IFRS information, including comparative and opening balance sheet information. The Company will also design model IFRS financial statements. These tools and the model IFRS financial statements will be tested and run parallel during 2010 to ensure a smooth and accurate change-over in 2011.

The Company expects to complete the initial assessment and scoping phase during 2009. Although its impact assessment activities are underway, continued analysis and discussion is required before the Company can prudently disclose change-over accounting policy differences. Due to the small and simple organizational, administrative and accounting structure of the Company, management is confident that once the policy choices are finalized, the implementation phase could be completed by late 2009 or early 2010.

***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 un-audited financial statements for the quarter ended September 30, 2009, provide a breakdown of the general and administrative expenses for the period under review and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties.



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***Outstanding Share Data***

**Shares**

The Company's authorized share capital consists of an unlimited number of common shares. As at September 30, 2009, the Company had 35,202,592 common shares issued and outstanding (diluted – 37,136,342) compared to 34,952,592 common shares issued and outstanding (diluted – 39,636,342) as at December 31, 2008. The change in the number of fully diluted shares outstanding reflects the exercise of 250,000 warrants and expiry of 2,150,000 warrants and 350,000 options during the period.

From December 31, 2008 to the date of this report the Company issued 250,000 shares against the exercise of 250,000 warrants, and 1,750,000 warrants not exercised expired on March 31, 2009. An additional 400,000 warrants expired on August 8, 2009. This increased the number of common shares issued and outstanding to 35,202,592 and decreased the number of diluted shares to 37,136,342 at the date of this report.

**Options**

As at September 30, 2009, a total of 1,933,750 incentive stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
743,750	\$ 0.20	March 16, 2011
150,000	\$ 0.20	October 27, 2011
75,000	\$ 0.20	November 21, 2011
865,000	\$ 0.50	March 20, 2012
100,000	\$ 0.25	July 10, 2013
1,933,750		

**Warrants**

As at September 30, 2009, there were no share purchase warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
400,000	\$ 0.35	August 8, 2009

During the period, the expiry date of 2,000,000 warrants was extended to March 31, 2009 and the exercise price reduced to \$0.05; 250,000 warrants were exercised and the remaining 1,750,000 warrants expired on March 31, 2009, and 400,000 warrants expired on August 8, 2009.

**Escrow**

There are no shares subject to escrow or pooling arrangements.

***Investor Relations***

The Company maintains a website, [www.canasil.com](http://www.canasil.com), with detailed corporate information and information covering its mineral exploration projects and operations. During the quarter the Company exhibited at the Vancouver Mineral Exploration Roundup in January 2009. The Company had no Investor Relations contracts.

***Recent developments***

Subsequent to September 30, 2009, the Company closed a non-brokered private placement of 6,300,000 units at \$0.05 per unit, consisting of one common share and one-half share purchase warrant with each warrant allowing the purchase of one common share at \$0.15 within 12 months of closing. The Company received gross proceeds of \$315,000 from the placement. The Company reviewed certain projects and started to add additional claims to cover prospective ground additional to existing claims.

### ***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. This 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, with a very negative impact on the share prices and liquidity of mineral producers and explorers, as well as for funding of mineral exploration companies and projects. During 2009, and in particular in the most recent quarter, these conditions have shown significant improvement, with marked increases in the price of gold and silver, as well as for copper lead and zinc. This has had a positive impact on the share price of companies in the resource sector, and an improvement in the prospects of financing for smaller exploration companies and earlier stage exploration projects.

#### *Competitive Conditions*

The outlook for acquisition and development of natural resource projects has deteriorated due to the global financial crisis. As a result the Company may be unable to maintain and advance its mineral exploration projects as planned. 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 September 30, 2009, the Company had no employees. All administrative and certain geological services are provided to the Company by consultants or companies controlled by related parties.

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

During the period, all mineral claims in Mexico were reviewed and where appropriate extended and outlying claim blocks were reduced in order to reduce the carrying cost of the Mexico project portfolio. Subsequent to the end of the quarter the Company reviewed its exploration projects, and where appropriate started adding mineral claims to cover prospective ground adjacent to existing 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

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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 four mineral properties, through staking, and has option agreements to acquire interests in three other mineral properties. The Company is currently engaged in exploration activities on these properties. Subsequent to the end of the fiscal year, the Company has acquired two additional claim areas surrounding the existing mineral 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.

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*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 September 30, 2009, the Company's accumulated deficit was \$6,839,647.

*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 \$0.04 to a high of \$0.07 per share. There can be no assurance that continued fluctuations in price will not occur.

*Shares Reserved for Future Issuance - Dilution*

As at September 30, 2009, a total of 35,202,592 common shares of the Company were issued and outstanding. There were 1,933,750 stock options 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.

**Corporate Disclosures**

The Board of Directors has responsibility for developing and implementing the Company's approach to governance issues. Committees of the Board presently consist of an Audit Committee and a Management Compensation Committee. The Audit Committee consists of two unrelated, outside directors and one related director. The role of the audit committee is to oversee the Company's financial reporting obligations, systems and disclosure and to act as a liaison between the Board and the Company's auditors. The Board has also appointed a Management Compensation Committee that consists of three unrelated outside directors. The role of the Management Compensation Committee is to determine the remuneration of executive officers and to administer the Company's Stock Option Plan.

**Approval**

The Board of Directors of the Company has approved the disclosure contained in this quarterly 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](http://www.sedar.com), and on the Company's website at [www.canasil.com](http://www.canasil.com)