2007

ANNUAL REPORT

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Directors' Letter to Shareholders

April 08, 2008

Dear Shareholders,

2007 was a very active year for Canasil with significantly increased financing and exploration programs on our projects in Mexico and British Columbia, Canada. The Company continued to implement comprehensive exploration programs to advance our projects. In Mexico, a total of 5,883 metres of diamond drilling was completed on two projects during the year. We also continued to acquire new projects with the addition of approximately 110,000 hectares of new claims within our area of interest in central Mexico. In British Columbia, Canada, the Company completed 1,708 metres of diamond drilling and a geophysical survey on the Brenda gold-copper project. Total deferred exploration expenditures in 2007 were $2,143,752 compared to $847,816 in 2006.

During 2007, the Company closed two private placements for a total of $2,076,400, and received $1,330,794 from the exercise of warrants and options, providing $3,407,194, to fund the increased exploration and operational expenditures. During the first half of 2007, the positive results from our exploration programs and stronger financial position resulted in a marked improvement in our share price to $0.85, as well as significantly higher trading volumes. During the second half of the year, uncertainties in the U.S and global financial markets had a negative impact on share prices and liquidity of junior explorers, in spite of the continued strength of precious and base metal prices.

Our focus in Mexico in 2007 was to implement diamond drill programs at the Salamandra zinc-silver project and the Colibri silver-copper-lead project, both in Durango State. The drill program at Salamandra confirmed significant mineralized intercepts and the potential for this project to host a large mineralized system. We expanded the area of interest around the Salamandra project with the staking of 100,000 hectares of prospective ground, called the Victoria project. At the Colibri project, diamond drilling continued to confirm silver-copper intercepts on the Linda vein, and additional surface sampling identified further silver veins and drill targets.

In 2007 there were several important silver, gold and base metal discoveries in the Durango-Zacatecas region of central Mexico. This region continued to develop as a destination of choice for mineral explorers and producers, due to continuing high prices of base and precious metals, relative economic and political stability and excellent infrastructure, providing an attractive operating environment. We continue to control multiple projects in this mineral-rich region, covering over 133,000 hectares, which present multiple exploration targets with significant opportunities for discovery and creating value.

In British Columbia, Canada, we completed a 3-D IP ground geophysical survey at the Brenda gold-copper project, which highlighted strong anomalies to a depth of 500 metres. We also completed 1,708 metres of diamond drilling in five drill holes. Two of these holes intersected significant gold-copper mineralization to a depth of over 500 metres, with increasing gold and copper grades at depth. These programs indicate the potential for a large deep seated gold-copper porphyry mineralized system at the Brenda project.

During 2007 we completed two private placements, one for 4,000,000 units at $0.40 per share and the second for 1,588,000 units at $0.30 per share, for gross proceeds of $2,074,400, and received $1,330,794 from the exercise of 3,904,250 warrants and options. These funds covered exploration and operating expenditures for 2007, and resulted in year-end working capital of $686,088. The working capital is sufficient to cover currently planned exploration and operating expenditures during the first half of 2008. Further funding will be required for an expanded exploration program during 2008. We plan to strengthen the Company's financial position and working capital through additional placements, if possible taking advantage of higher share prices based on improving market conditions and positive exploration results, in order to maintain as low a level of shareholder dilution as possible while funding the Company's future programs and operations.

Directors' Letter to Shareholders April 8, 2008, (contd.)

Our objectives in Mexico for 2008 are to complete further diamond drill programs at the Colibri, Salamandra and La Esperanza projects, for a total of over 8,000 metres (contingent on funding), as well as further evaluation of our project portfolio in Mexico. We have started drilling at the Colibri project in March 2008, and completed 512 metres in six drill holes. Exploration at the Salamandra and Victoria projects will be carried out under the joint venture agreement with Blackcomb Minerals Inc. This program will include plans to extend the coverage of the geophysical survey and drilling at Salamandra, and geophysical surveys and reconnaissance of the Victoria project.

The option and joint venture agreement with Blackcomb Minerals Inc. signed in March 2008 provides for Blackcomb to earn a 60% interest in the Salamandra and Victoria projects through exploration expenditures of $7 million over 6 years and $375,000 cash payments, with minimum annual exploration expenditures of $1 million. Blackcomb's principals and management operate Orko Silver Corp., which has been very successful with the discovery of the La Preciosa deposit, immediately to the northwest of the Salamandra and Victoria projects. This agreement is a very positive development, as it brings in a well-funded and well-qualified partner with a strong technical and operating team familiar with the area, and provides for significant future exploration expenditures on these projects. The successful implementation of the planned exploration programs in Mexico will provide multiple opportunities for discovery and added value on our mineral exploration projects, which should provide the potential for increased shareholder value.

In British Columbia we will evaluate possibilities for further drilling at the Brenda gold-copper project to test the deeper zones below the 2007 drilling. This will depend on financing and market developments, as the valuation of mineral exploration projects in British Columbia has suffered from the negative decision on the North Kemess development application, and the decision to suspend the Galore Creek project development due to cost overruns.

During 2007 we continued an active investor relations program and exhibited and attended a number of industry conferences in Vancouver, Toronto, Calgary, and San Francisco. We also entered into Investor Relations contracts with consultants in Calgary and Toronto in May and June 2007 respectively. However our increased investor relations efforts have coincided with a general downturn in the financial markets during the second half of the year. As a result we have not achieved the expected results in terms of share price and liquidity from our increased investor relations activities. The investor relations program and agreements will be reviewed in 2008 and modified based on market conditions and the Company's requirements. Our share price improved from $0.40 in January 2007 to $0.85 in May 2007, with significantly increased trading volumes during the first half of 2007. During the second half the share price dropped to a low of $0.25 in December 2007, with lower trading volume. The shares currently trade in the range of $0.30 to $0.35. We anticipate that the active exploration programs in Mexico will result in higher share prices, and provide opportunities for financing under favourable conditions during 2008.

We look forward to the implementation of our 2008 exploration programs, both directly by Canasil and under the joint venture with Blackcomb Minerals, which will provide the Company with important opportunities for creating shareholder value during 2008. Your Company continues to offer significant exposure to exploration and discovery potential for gold, silver, copper, zinc and lead in Mexico and British Columbia, Canada, two politically and economically stable environments with proven mineral and mining potential. All these metals continue to trade at high historical price levels. We look forward to the results from our exploration programs during 2008 and their impact on our share price and trading volumes.

We thank all our shareholders for their continued support,

On behalf of the Board,

"Bahman Yamini"

Bahman Yamini, President, CEO & Director

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the consolidated balance sheets of Canasil Resources Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 11, 2008

NEXIA INTERNATIONAL
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CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2007	2006
ASSETS		
Current		
Cash	$ 358,323	$ 211,763
Receivables	128,193	144,254
Subscriptions receivable (Note 6)	330,000	-
Prepaid expenses	8,728	13,592
	825,244	369,609
Property and equipment (Note 4)	93,205	34,283
Resource properties (Note 5)	4,660,914	2,674,816
Reclamation bond	20,000	20,000
	$ 5,599,363	$ 3,098,708
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 139,156	$ 192,426
Shareholders' equity		
Share capital (Note 6)	10,471,289	6,572,265
Subscriptions received in advance (Note 6)	-	335,000
Contributed surplus (Note 6)	732,761	496,413
Deficit	(5,743,843)	(4,497,396)
	5,460,207	2,906,282
	$ 5,599,363	$ 3,098,708

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

On behalf of the Board:

"Alvin Jackson" Director *"Michael McInnis"* Director

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

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2007	2006
EXPENSES		
Accounting and audit	$ 47,174	$ 23,923
Amortization	17,252	7,066
Conferences and conventions	40,532	30,490
Directors fees	37,500	25,500
Foreign exchange loss	74,425	1,337
General exploration	24,734	24,004
Investor relations and promotions	128,390	25,626
Legal fees	19,294	11,587
Listing and filing fees	12,161	16,219
Management fees	114,000	85,000
Office services and supplies	65,111	30,381
Shareholder communications	19,668	15,830
Stock-based compensation (Note 7)	218,286	47,332
Transfer agent fees	15,659	6,083
Travel and accommodation	30,480	13,864
Loss before other items	(864,666)	(364,242)
OTHER ITEMS		
Write-off of resource property (Note 5)	(413,012)	-
Interest income	31,231	7,235
Loss and comprehensive loss for the year	(1,246,447)	(357,007)
Deficit, beginning of year	(4,497,396)	(4,140,389)
Deficit, end of year	$ (5,743,843)	$ (4,497,396)
Basic and diluted loss per share	$ (0.04)	$ (0.02)
Weighted average number of shares outstanding	29,436,182	20,242,205

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

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,246,447)	$ (357,007)
Items not affecting cash:		
Amortization	17,252	7,066
Stock-based compensation	218,286	47,332
Write-off of resource property	413,012	-
	(597,897)	(302,609)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	16,061	(84,556)
Decrease (increase) in prepaid expenses	4,864	(9,245)
Increase in accounts payable and accrued liabilities	19,585	58,847
Net cash used in operating activities	(557,387)	(337,563)
CASH FLOWS FROM INVESTING ACTIVITIES		
Resource properties	(2,216,607)	(759,154)
Reclamation deposits	-	(7,000)
Property and equipment	(76,174)	(34,657)
Net cash used in investing activities	(2,292,781)	(800,811)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share capital issued	3,106,950	825,750
Share issuance costs	(110,222)	(15,533)
Subscriptions received in advance	-	335,000
Net cash provided by financing activities	2,996,728	1,145,217
Increase in cash during the year	146,560	6,843
Cash, beginning of year	211,763	204,920
Cash, end of year	$ 358,323	$ 211,763

Supplemental disclosure with respect to cash flows (Note 9)

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

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 necessary financing to successfully complete its exploration and development and upon 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. The 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.

	2007	2006
Deficit	$ (5,743,843)	$ (4,497,396)
Working capital	$ 686,088	$ 177,183

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.

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 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. Significant accounts that require estimates relate to the impairment of resource property interests, estimated useful lives for property and equipment, valuation allowances for future income tax assets, stock-based compensation and valuation of warrants in private placements.

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral properties and furniture and equipment 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued...)

Resource properties

All costs related to the acquisition, exploration and development of resource properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

From time to time, the Company may acquire or dispose of properties 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 as resource property costs or recoveries when the payments are made or received.

Asset retirement obligations

Asset retirement obligations are legal obligations associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of liabilities for asset retirement obligations in the year in which they occur or in the year in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. The Company has determined that it has no asset retirement obligations as at December 31, 2007 and 2006.

Foreign currency translation

The Company's subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. 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. Income and expense items are translated at rates approximating those in effect at the time of the transactions. Translation gains and losses are reflected in the statement of operations for the year.

Income taxes

Income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

2. SIGNIFICANT ACCOUNTING POLICIES (continued...)

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 recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

Stock-based compensation

The Company uses the fair value method whereby the Company recognizes 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 stock-based compensation.

Comparative figures

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

Recent accounting pronouncements

The Canadian Institute of Chartered Accountants (“CICA”) has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the interim period ended March 31, 2008 and is currently considering the impact this will have on the Company’s financial statements.

Assessing Going Concern

The Canadian Accounting Standards Board (“AcSB”) amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

Financial Instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges.*

2. SIGNIFICANT ACCOUNTING POLICIES (continued...)

Recent accounting pronouncements (continued...)

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Capital Disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed.

International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

Financial Instruments – Recognition and Measurement (Section 3855)

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after January 1, 2007. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations or accumulated other comprehensive income, depending on the classification of the related instruments.

3. CHANGE IN ACCOUNTING POLICY (continued...)

Financial Instruments – Recognition and Measurement (Section 3855) (continued...)

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to January 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

- Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income until the gain or loss is recognized in income.

- Held for trading financial instruments are measured at fair value. All changes in fair value are included in net earnings in the period in which they arise.

- All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized in other comprehensive income.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash is classified as held-for-trading.

- Receivables and subscriptions receivable are classified as loans and receivables.

- Accounts payable and accrued liabilities are classified as other liabilities.

Hedging (Section 3865)

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any financial instruments which qualify for hedge accounting.

3. CHANGE IN ACCOUNTING POLICY (continued...)

Comprehensive Income (Section 1530)

Comprehensive income is the change in the Company's shareholder equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income" until it is considered appropriate to recognize into net earnings.

This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity. The presentation of "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated balance sheet is not required since there is no comprehensive income for the current fiscal year.

Accounting Changes

The AcSB issued CICA Handbook Section 1506. The main features of this new standard are (a) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (b) changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the section); (c) prior period errors are corrected retrospectively; and (d) new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard is effective for fiscal years beginning on or after January 1, 2007.

4. PROPERTY AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 31,686	$ -	$ 31,686	$ -	$ -	$ -
Automobile	27,730	11,230	16,500	27,730	4,159	23,571
Computer	10,395	4,286	6,109	5,583	1,255	4,328
Field equipment	29,350	4,403	24,947	-	-	-
Furniture and equipment	25,544	11,907	13,637	15,871	9,709	6,162
Software	1,097	771	326	444	222	222
	$ 125,802	$ 32,597	$ 93,205	$ 49,628	$ 15,345	$ 34,283

5. RESOURCE PROPERTIES

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous 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.

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. As the Company had no plans to continue with exploration under this option agreement, it wrote off $413,012 of accumulated costs during the year ended December 31, 2007.

La Esperanza project, Mexico

During 2005, the Company entered into an option agreement to purchase a 100% interest in the La Esperanza project, subject to a NSR of up to 1.5%. The claims are located in Zacatecas State, Mexico. Under the terms of a subsequent definitive agreement, the Company has the right to acquire these claims by making option payments over a period of three years totaling US$150,000.

Colibri project, Mexico

During 2005, the Company staked claims located in Durango State, Mexico. During fiscal 2007, the Company acquired 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 shares purchase warrants valued at $8,358 (Note 6). A former officer of the Company is also a director of Oremex.

Salamandra project, Mexico

During 2006, the Company entered into an option agreement to purchase a 100% interest in the Salamandra project, subject to a NSR of 2%. In accordance with the terms of the agreement, the Company has the right to acquire these claims, by making option payments over a period of five years totalling US$500,000. The Salamandra project is located in Durango State, Mexico. The Company has also staked additional claims, known as the Victoria claims, which are contiguous with the Salamandra claims.

Other projects

The Company has staked other claims located in Durango and Sinaloa States, Mexico which include the Sandra and Nora project, the Los Azules project, and the San Francisco 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.

5. **RESOURCE PROPERTIES** (continued...)

	Brenda Claims Canada	Lil Claim Canada	Vega Claims Canada	Tres Marias & Cebollas Mexico	Los Azules Mexico	Sandra and Nora Mexico	San Francisco Mexico	Esperanza Mexico	Colibri Mexico	Salamandra Mexico	Victoria Mexico	Other Mexico	Total
Total December 31, 2005	$1,313,705	$ 441	$ 1,441	$410,477	$ 18,078	$ 38,996	$ 2,497	$ 25,024	$ 16,341	$ -	$ -	$ -	$1,827,000
Administration	-	-	-	-	832	2,395	-	7,473	2,259	1,874	-	2,369	17,202
Assays	441	-	-	35	2,731	12,922	-	11,568	13,293	6,293	-	301	47,584
Drilling	-	-	-	-	-	-	-	184,353	41,246	-	-	-	225,599
Geological and field costs	96,463	348	-	315	25,350	43,027	223	120,254	68,155	75,303	-	7,872	437,310
Land holding costs	-	-	9,242	-	12,271	3,022	994	2,802	4,794	6,184	-	9,209	48,518
Mapping and surveying	7,898	-	4,980	-	-	-	-	-	-	-	-	-	12,878
Road building	12,080	-	-	-	-	-	-	8,236	-	-	-	-	20,316
Storage	-	-	-	-	-	573	-	2,450	573	156	-	-	3,752
Transportation and rentals	-	-	-	-	3,656	5,511	-	13,388	4,854	7,248	-	-	34,657
Total expenditures	116,882	348	14,222	350	44,840	67,450	1,217	350,524	135,174	97,058	-	19,751	847,816
Total December 31, 2006	$1,430,587	$ 789	$15,663	$410,827	$ 62,918	$106,446	$ 3,714	$ 375,548	$151,515	$ 97,058	$ -	$19,751	$2,674,816

Continued...

5. RESOURCE PROPERTIES (continued...)

	Brenda Claims Canada	Lil Claim Canada	Vega Claims Canada	Tres Marias & Cebollas Mexico	Los Azules Mexico	Sandra and Nora Mexico	San Francisco Mexico	Esperanza, Mexico	Colibri Mexico	Salamandra Mexico	Victoria Mexico	Other Mexico	Total
Continued…													
Acquisition and option payments	-	-	-	-	-	-	-	-	272,104	14,345	-	-	286,449
Administration	-	-	-	-	105	(306)	-	825	26,408	21,891	1,191	1,480	51,594
Assays	24,810	-	-	-	-	-	-	2,827	28,829	83,239	2,237	-	141,942
Consulting	1,227	-	-	-	405	1,482	-	4,160	88,210	65,866	12,448	773	174,571
Drilling	234,809	-	-	-	-	-	-	-	336,964	413,669	-	-	985,442
Field costs	129,250	-	-	-	-	1,508	-	271	24,774	22,057	162	768	178,790
Geology	34,892	-	-	2,185	1,229	5,567	85	19,892	71,205	53,444	-	1,590	190,089
Geophysical	72,867	-	-	-	-	-	-	-	-	2,935	-	-	75,802
Land holding costs	-	4,169	35,313	-	2,581	1,171	342	15,871	39,769	2,851	-	5,943	108,010
Legal	-	-	-	-	1,450	360	156	1,362	12,917	2,551	-	509	19,305
Mapping and surveying	1,025	-	-	-	-	6	-	8,378	11,528	921	11,635	-	33,493
Road building	8,000	-	-	-	-	-	-	3,939	34,894	-	-	-	46,833
Transportation and rentals	23,757	-	-	-	-	53	-	9,473	37,132	23,708	671	139	94,933
Travel and accommodation	6,540	-	-	-	-	-	-	17	1,236	3,934	130	-	11,857
Total expenditures	537,177	4,169	35,313	2,185	5,770	9,841	583	67,015	985,970	711,411	28,474	11,202	2,399,110
Write-off	-	-	-	(413,012)	-	-	-	-	-	-	-	-	(413,012)
Total December 31, 2007	$ 1,967,764	$ 4,958	$ 50,976	$ -	$ 68,688	$116,287	$ 4,297	$ 442,563	$1,137,485	$ 808,469	$ 28,474	$30,953	$4,660,914

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of Shares	Share Capital	Contributed Surplus
Authorized			
Unlimited common shares, without par value			
Issued			
Balance, December 31, 2005	18,432,342	$ 5,762,048	$ 449,081
Private placement	3,303,000	825,750	-
Share issuance costs	-	(15,533)	-
Stock-based compensation	-	-	47,332
Balance, December 31, 2006	21,735,342	6,572,265	496,413
Private placement	7,088,000	2,451,400	-
Share issuance costs	-	(130,170)	19,948
Acquisition of resources properties	650,000	247,000	8,358
Warrants exercised	3,698,000	1,294,300	-
Stock options exercised	206,250	36,494	(10,244)
Stock-based compensation	-	-	218,286
Balance, December 31, 2007	33,377,592	$ 10,471,289	$ 732,761

Private placements

In December 2007, the Company issued 1,588,000 units at a price of $0.30 per unit for gross proceeds of $476,400. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one common share at $0.45 until December 31, 2008. Subscription proceeds of $330,000 were received subsequent to December 31, 2007. The Company paid finders fees of $28,098.

In March 2007, the Company issued 4,000,000 units at a price of $0.40 per unit for gross proceeds of $1,600,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one common share at $0.55 until March 13, 2008. The Company paid cash commissions of $51,870, and issued 114,675 broker warrants, as finders' fees. The brokers warrants expire March 13, 2008 and include 15,000 exercisable at $0.55 and 99,675 exercisable at $0.40. The broker warrants were valued at $19,948 using the Black-Scholes Option-Pricing Model with an expected volatility of 91%, a risk-free interest rate of 4.01%, an expected life of one year, and an expected dividend yield of 0%.

In January 2007, the Company issued 1,500,000 units at a price of $0.25 per unit for gross proceeds of $375,000. Each unit consisted of one common share and one share purchase warrant exercisable at $0.35 per share until January 12, 2008. Share subscriptions of $335,000 were received prior to December 31, 2006.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued...)

Private placements (continued...)

In June 2006, the Company issued 3,303,000 units at a price of $0.25 per unit for gross proceeds of $825,750. Each unit consisted of one common share and one share purchase warrant exercisable at $0.35 per share until June 21, 2007.

Shares issued in property acquisition

The Company issued 650,000 common shares and granted 75,000 share purchase warrants in consideration for the claims acquired from Oremex (Note 5). Each warrant entitled Oremex to acquire one additional common share of the Company at a price of $0.50 until January 26, 2008. The warrants were valued at $8,358 using the Black-Scholes Option-Pricing Model with an expected volatility of 95%, risk free interest rate of 4.10%, an expected life of one year, and an expected dividend yield of 0%.

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 was approved at the Company’s annual meeting in fiscal 2007, is required to be re-approved at the Company’s annual meeting in 2010 and 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 for such plans by the TSX Venture Exchange (“TSX-V”) 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 will vest in equal quarterly tranches over a period of not less than 18 months.

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, 2005	-	$	-	900,000	$	0.23
Granted	3,303,000	$	0.35	1,025,000	$	0.20
Outstanding, December 31, 2006	3,303,000	$	0.35	1,925,000	$	0.21
Granted	4,483,675	$	0.46	1,215,000	$	0.57
Exercised	(3,698,000)	$	0.35	(206,250)	$	0.13
Expired	-	$	-	(100,000)	$	0.23
Outstanding, December 31, 2007	4,088,675	$	0.47	2,833,750	$	0.37
Currently exercisable	4,088,675	$	0.47	2,170,000	$	0.32

At December 31, 2007, the Company had outstanding stock options and warrants, enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	650,000	$	0.26	November 6, 2008
	150,000		0.75	May 11, 2009
	200,000		0.75	May 15, 2009
	743,750		0.20	March 6, 2011
	150,000		0.20	October 27, 2011
	75,000		0.20	November 21, 2011
	865,000		0.20	March 20, 2012
Warrants	1,105,000	$	0.35	January 12, 2008 (expired subsequently)
	75,000		0.50	January 26, 2008 (expired subsequently)
	2,000,000		0.55	March 13, 2008 (Note 13)
	15,000		0.55	March 13, 2008 (expired subsequently)
	99,675		0.40	March 13, 2008 (expired subsequently)
	794,000		0.45	December 31, 2008

7. STOCK OPTIONS AND WARRANTS (continued…)

Stock-based compensation

During fiscal 2007, the Company granted incentive stock options to directors, officers and consultants of the Company to acquire up to 1,215,000 (2006 – 1,025,000) common shares. The weighted average fair value per option granted of $0.27 (2006 - $0.09) was estimated on the grant date using the Black-Scholes Option-Pricing Model and recognized over the vesting period. The Company recognized stock-based compensation expense of $218,286 (2006 - $47,332) as a result of stock options granted and vested.

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

	2007	2006
Risk-free interest rate	4.17%	4.01%
Expected life of options	2 years	2 years
Annualized volatility	91%	95%
Dividend rate	0.00%	0.00%

8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid or accrued $96,000 (2006 - $73,000) for management fees to a company controlled by a director.

b) Paid or accrued $32,014 (2006 - $25,790) 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 $37,500 (2006 - $25,500) in director fees to a director and to three (2006 – two) companies each controlled by a director

d) Paid or accrued $18,000 (2006 - $12,000) in management fees to an officer.

e) Paid or accrued $13,200 (2006 - $Nil) in geological fees, capitalized to resource properties, to a director.

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 December 31, 2007 is $47,652 (2006 - $54,975) due to directors or to companies controlled by directors, officers and to a law firm in which an officer of the Company is a partner.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2007	2006
Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income taxes	$ -	$ -

Significant non-cash transactions for the year ended December 31, 2007 were as follows:

a) Issuing 650,000 common shares valued at $247,000 and 75,000 warrants valued at $8,358 pursuant to the acquisition of resource property interests and issuing 114,675 broker warrants valued at $19,948 as finders' fees on private placements.

b) Accruing resource property expenditures in accounts payable and accrued liabilities of $35,129 at December 31, 2007.

c) Issuing 1,100,000 common shares through receivables of $330,000 received subsequent to December 31, 2007 and issuing 1,340,000 common shares for proceeds of $335,000 received in fiscal 2006.

The significant non-cash transaction during the year ended December 31, 2006 was the Company accruing resource property expenditures of $107,984.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, subscriptions receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted. The Company is subject to currency risk arising from fluctuations in foreign currency exchange rates. The Company does not use derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

11. INCOME TAXES

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

	2007	2006
Loss for the year	$ (1,246,447)	$ (357,007)
Expected income tax recovery	$ (428,968)	$ (121,740)
Non-deductible expenses	351,168	18,263
Unrecognized benefit of non-capital losses	77,800	103,477
Total income tax recovery	$ -	$ -

11. INCOME TAXES (continued…)

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

	2007	2006
Future income tax assets:		
Non-capital loss carryforwards	$ 262,280	$ 263,586
Resource properties	512,609	566,886
Financing costs	26,324	19,545
Equipment	15,081	10,510
	816,294	860,527
Valuation allowance	(816,294)	(860,527)
Net future income tax assets	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses of approximately $970,000. These losses, if not utilized, will expire through 2027. Subject to certain restrictions, the Company also has resource expenditures available of approximately $3,922,000 to reduce taxable income in future years in Canada. Future tax benefits which may arise as a result of these non-capital losses, resource deductions and other tax assets have been offset by a valuation allowance and have not been recognized in these financial statements.

12. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of resource properties.

The Company's capital assets are located in the following geographic locations:

	2007	2006
Canada	$ 2,056,500	$ 1,425,886
Mexico	2,697,619	1,283,213
	$ 4,754,119	$ 2,709,099

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2007 the Company:

a) Entered into a letter agreement, subject to TSX-V approval, granting Blackcomb Minerals Inc. ("Blackcomb") the right to earn a 60% interest in the Company's Salamandra and Victoria projects by incurring $7,000,000 in exploration expenditures and making $375,000 in cash or share payments over six years. As part of the agreement, Blackcomb will have the option to acquire up to 1,500,000 shares of the Company in three private placements over a period of two years.

b) Extended the expiration term of 2,000,000 share purchase warrants from March 13, 2008 to September 30, 2008.

This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("the Company") is dated April 11, 2008 and provides information on the Company's activities for the year ended December 31, 2007, and from the end of the 2007 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 audited financial statements and related notes for the year ended December 31, 2007.

Business of the Company

The Company was incorporated in 1984 and is engaged in the exploration and development of mineral properties hosting copper-gold, gold, silver, copper, zinc and lead prospects located in Durango, Sinaloa and Zacatecas States, Mexico, and in British Columbia, Canada. During 2007 the company successfully implemented an expanded exploration program, including geological mapping, surface sampling, ground geophysics and diamond drilling on its mineral projects in Mexico and in British Columbia, Canada. The Company also continued to evaluate and acquire new prospective projects in Mexico. In 2007 the Company closed three non-brokered private placements for a total of $2,451,400 with the issuance of 7,088,000 common shares. The Company also received $1,320,550 from the exercise of 3,904,250 warrants and options during the year. The Company exhibited at a number of industry conferences during the period. During the first half of 2007 the successful implementation of planned exploration programs, the stronger financial position and more active corporate communications resulted in higher share prices, share trading volumes, and market capitalisation. During the second half of the year the financial markets were impacted by the exposure of major financial institutions to write-offs due to the U.S. sub-prime mortgage lending and its negative effects on the U.S. and World economy, resulting in lower share prices and trading volumes for junior explorers, in spite of higher precious metal prices.

Overall Performance

The Company's focus in Mexico during 2007 was to implement the planned diamond drill programs at the Colibri silver-copper-zinc and Salamandra zinc-silver projects, as well as to continue with geological mapping and sampling to define additional drill targets at the Colibri project. The Company also acquired a large regional claim area surrounding the Salamandra project, named the Victoria project, and started regional evaluation and prospecting in this area to define new exploration targets. The experienced local technical and administrative team at our wholly-owned operating subsidiary, Minera Canasil S.A. de C.V. in Durango, Mexico, provided the capability to implement this active exploration and acquisition program.

During the year, the Company completed 2,630 metres of diamond drilling in 18 holes at the Colibri silver-copper-zinc project, and 3,595 metres of diamond drilling in 12 holes at the Salamandra project, both in Durango State, Mexico. Both drill programs have returned encouraging results. A wider geological mapping and surface sampling program at the Colibri project identified several new vein structures, which now cover a total surface strike length of over 14 kilometres. These veins present additional targets for drill testing. The area covered by the Company's project portfolio was increased significantly with the completion of the acquisition of the Mezquital claims, covering 161 hectares within the Colibri project area, from Oremex Resources Inc., the addition of 9,500 hectares through staking of claims to the Colibri project, and the acquisition by staking of claims covering 100,000 hectares surrounding the Salamandra project, named the Victoria project. Deferred exploration and acquisition expenditures in Mexico during 2007 amounted to $1,822,451 (2006 - $716,364).

In July and August 2007, an active exploration program was implemented on the Company's Brenda gold-copper project in British Columbia, Canada. The program included a 3-dimensional induced polarization geophysical survey covering approximately 30 line kilometres, and a diamond drill program for a total of 1,708 metres in 5 drill holes. Significant gold-copper mineralization was intersected in two drill holes down to a depth of over 500 metres. The Vega and Lil claims were maintained in good standing. Total expenditures on the B.C. projects during the period were $576,659 (2006 - $131,452).

The Company exhibited at the Vancouver Resource Investment Conference and Mineral Exploration Roundup in January 2007, at the Prospectors and Developers Association Conference in Toronto in March 2007, and at the Calgary Resource Investment Conferences in April 2007. The Company also exhibited at the Vancouver Gold, PGM and Diamond Investment Conference in June 2007, and the GCFF Conference in Markham, Ontario, and Toronto Resource Investment Conference, both in October 2007. The Company attended the San Francisco Gold Show in November 2007, continued with the investor relations contract with Kerr Consulting, and entered into investor relations contracts with Garth McTavish in Calgary, Alberta, in May 2007, and with Pro-Edge Investor Relations Consultants in Toronto in June 2007. Investor relations expenditures during the year were $128,390 (2006 – $25,626). Expenditures on conferences and conventions during the period were $40,532 (2006 - $30,490).

In January 2007 the Company closed a non-brokered private placement of 1,500,000 units at $0.25 per unit for proceeds of $375,000, for which subscriptions of $335,000 had been received by December 2006. In March 2007, the Company closed a non-brokered private placement of 4,000,000 units at $0.40 per unit for gross proceeds of $1,600,000, and in December 2007 closed a non-brokered private placement of 1,588,000 units at $0.30 for gross proceeds of $476,400. During the period the company also received $1,294,300 from the exercise of 3,698,000 warrants at $0.35 per share and $26,250 from the exercise of 206,250 options at an average price of $0.13.

In March 2007, Mr. Arthur Freeze agreed to join the Company's Board of Directors as a Director. Mr. Freeze is a well recognized figure in the mineral exploration industry and his contributions will have a significant impact on the Company's future exploration and development programs.

Financial Condition, Results of Operations and Cash Flows

The Company's working capital as at December 31, 2007, was $686,088 (December 31, 2006, $177,183). The Company will require additional funding to undertake currently planned expenditures for exploration and maintenance of its mineral property interests through 2008. Operating expenses during the period were $864,666 (2006 - $364,242) and the Company earned interest income of $31,231 (2006 - $7,235). The operating expenses for the period include non-cash Stock-Based Compensation of $218,286 (2006 - $47,332). During the year Management and Director fees increased to $151,500 (2006 - $110,500) and expenditures on Investor Relations and Conferences and Conventions increased to $168,922 (2006 - $56,116). As a result of the increased level of exploration and operating activities, accounting and audit fees increased to $47,174 (2006 – 23,923), office services and supplies increased to $65,111 (2006 - $30,381), and travel and accommodation expenses increased to $30,480 (2006 - $13,864). A foreign exchange loss of $74,425 (2006 – $1,337) was recorded during the period arising from the higher level of exploration expenditures in Mexico and the decline in the value of the U.S. Dollar. The Company recorded a write-off of the exploration expenditures on the Tres Marias and Cebollas projects of $413,012 in 2007.

Net cash used for operating activities during the year increased to $557,387 (2006 - $337,563). Accounts receivable and pre-paid expenses decreased by $20,925 (2006 increase of $93,801), and operating accounts payable and accrued liabilities increased by $19,585 (2006 increase of $58,847). Net cash used for investing activities, including resource properties, reclamation deposits, land and equipment increased to $2,292,781 (2006 - $800,811). These expenditures were incurred primarily for exploration and diamond drilling at the Colibri project of $713,866 (2006 - $135,174), diamond drilling at the Salamandra project of $711,411 (2006 – $97,058), and diamond drilling and geophysics at the Brenda project of 537,177 (2006 – $116,882). Net cash flow from financing activities during the year was $2,996,728 (2006 - $1,145,217) reflecting the issuance of 7,088,000 shares (2006 – 3,303,000) under private placements, 3,698,000 shares (2006 – nil) upon the exercise of warrants, and 206,250 shares (2006 – nil) upon the exercise of options (see *"Outstanding Share Data"*). Cash share issuance costs in 2007 were $110,222 (2006 – $15,533) reflecting commissions paid on the financings completed in February 2007 and December 2007.

Mineral Properties

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

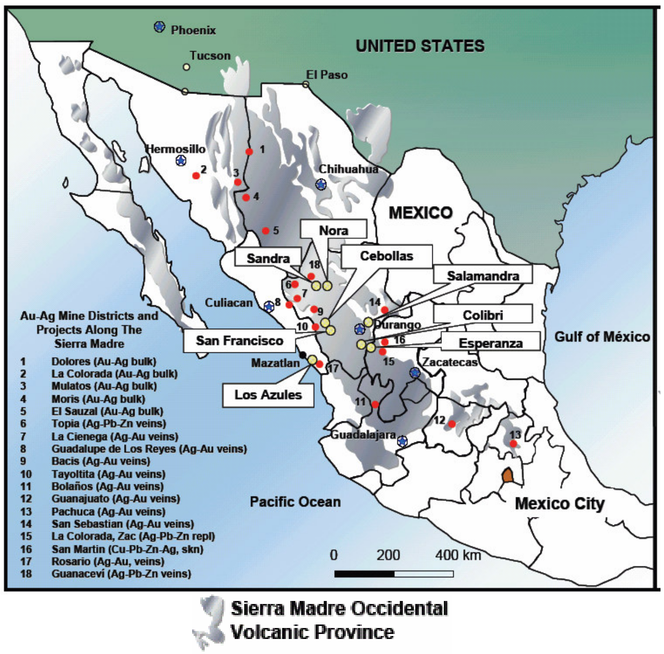
- La Esperanza silver zinc lead project – option to earn 100%
- Colibri silver zinc lead copper project – 100%
- Salamandra zinc silver project (March 2006) – option to earn 100%
- Sandra and Nora gold silver project – 100%
- Los Azules copper gold project – 100%
- San Francisco gold silver project –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

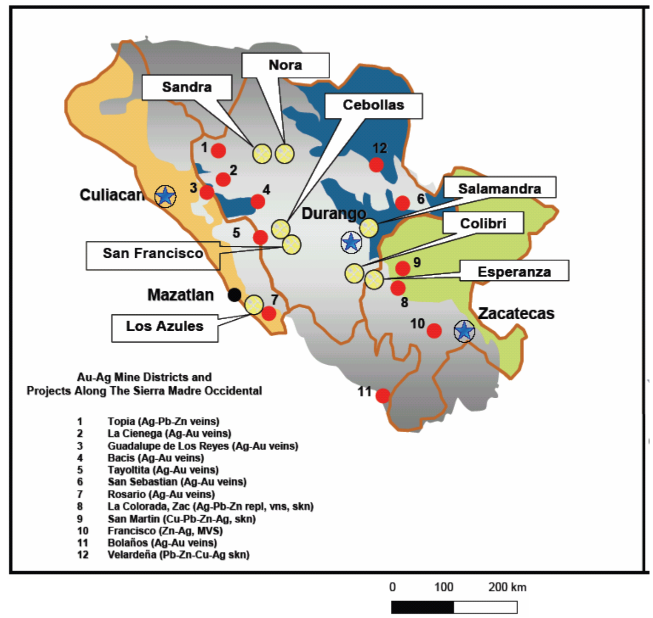
Under option and joint venture agreements signed in 2003 with Goldcorp and Luismin, the Company holds an option to earn up to a 75% interest in the Tres Marias and Cebollas silver-gold properties in the San Dimas District, Durango State, Mexico. The Company has notified Goldcorp and Luismin that it will not be continuing with this option agreement.

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 La Esperanza project, subject to a Net Smelter Return royalty of up to 1.5%. Under the terms of the agreement, the Company has the right to acquire these claims by making option payments over a period of three years totalling US$150,000. The La Esperanza project, covering 435 hectares, is located in the state of Zacatecas, 100 km south-southeast of the city of Durango.

Geological mapping, surface sampling and a Phase 1 diamond drill program consisting of 8 drill holes for a total of 1,182 metres have been completed on this project in 2005 and 2006. The drill program has outlined a mineralized panel with a strike length of over 150 metres and depth of 100 metres, which is open in all directions, with vein widths of up to 10.30 metres carrying high-grade silver mineralization. Seven drill holes intersected the main La Esperanza vein (LE) and a hanging wall vein (HW) over significant widths The weighted average grade of mineralization intersected in the La Esperanza vein is 330 g/t (9.62 oz/ton) silver, 0.93% zinc and 1.57% lead over an average width of 4.21 metres. This vein includes several intercepts with very high silver grades of up to 2,144 g/t (62.53 oz/ton) silver over 0.75 metres. Expenditures on the La Esperanza project during the year were $67,005 (2006 - $350,524).

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

The 100% owned Colibri claims cover 6,413 hectares, located 70 km southeast of the city of Durango. In January 2007, the Company completed an agreement with Oremex Resources Inc. to acquire three additional claims covering 161 hectares within the Colibri claim area with payment through the issuance of 650,000 shares at $0.38, valued at $247,000, and $8,358 for the issuance of 75,000 warrants for the purchase of 75,000 additional shares at $0.50. In April 2007, the Company added 9,500 hectares to the Colibri claim area through the staking of additional claims, making a total claim area of 16,074 hectares.

The Company has completed 18 diamond drill holes for a total of 2,630 metres at the Colibri project, of which 14 drill holes for a total of 2,288 metres were completed during 2007, and 4 drill holes for a total of 342 metres had been completed in December 2006. Expenditures on the Colibri claims during the year were $985,970 (2006 - $135,174), including $255,358 for the issuance of shares and warrants to Oremex for the acquisition of the Mezquital claims.

The Phase 1 diamond drill program returned three high-grade mineralized intercepts from the central zone of the Linda vein containing copper, silver and zinc, and a higher level intercept containing gold, silver and cobalt. Drill hole CO-07-09 cut the vein with a width of 6.50 metres (true width 4.97 metres) with an average grade of 2.04% copper, 65 g/t silver and 1.40% zinc, including 3.70 metres (true width 2.83 metres) with an average grade of 3.49% copper, 98 g/t silver and 1.96% zinc. Drill hole CO-07-08 intercepted the Linda vein 100 metres to the southeast along strike from CO-07-09 at approximately 50 metres higher elevation, and returned 1.24 g/t gold, 46 g/t silver and 0.077% cobalt over 4.35 metres (true width 3.33 metres), Drill hole CO-07-12 cut the Linda vein with a width of 3.30 metres (true width 2.70 metres) with an average grade of 2.48% copper, 63 g/t silver and 0.12% zinc, including 1.00 metre (true width 0.82 metres) with an average grade of 6.82% copper, 173 g/t silver and 0.16% zinc. Drill hole CO-07-13 intersected the Linda vein over a width of 13.16 metres (true width 9.30 metres) containing 33 g/t silver, 1.17% copper and 0.10% zinc, including 3.18 metres (true width 2.25 metres) carrying 58 g/t silver, 1.76% copper and 0.25% zinc, and 5.92 metres (true width 4.18 metres) carrying 37 g/t silver and 1.43% copper. A separate narrow hanging wall vein intersected by CO-07-13 close to the surface carried extremely high-grade copper-silver mineralization over a width of 0.25 metres (true width 0.18 metres) with 568 g/t silver and 23.10% copper.

Further geological mapping and surface sampling carried out in March and April 2007 has outlined extensions of existing veins and identified a number of new veins with combined surface strike length of over 14 kilometres. Assay results from 50 surface samples with over 150 g/t silver returned silver grades from 151 g/t to 867 g/t, gold grades from 0.01 g/t to 3.07 g/t, copper grades from 0.02% to 13.02%, zinc grades from 0.01% to 10.4%, and lead grades form 0.05% to 25.3%. A majority of the samples collected returned consistently high silver grades with varying levels of the other metals. These programs have outlined multiple targets for further drill testing at the Colibri project.

Salamandra zinc-silver project, Durango State, Mexico

In March 2006, the Company signed a letter of intent to enter into an option agreement to purchase a 100% interest in the Salamandra project, subject to a Net Smelter Return royalty of 2%, by making option payments over a period of three years totaling US$500,000. The project, covering 900 hectares in Durango State, is located 35 km northeast of the city of Durango, with good access via paved and gravel roads. The Company acquired a further 2,000 hectares by staking ground surrounding the original claims, increasing the total claim area to 2,900 hectares. A 3-Dimensional Induced Polarization geophysical survey, as well as a geological mapping and surface sampling program were completed from September to November 2006 and defined prominent drill targets for investigation.

During the year, 12 diamond drill holes for a total of 3,595 metres were completed. Results from the first 8 drill holes were announced on July 18, 2007. Seven out of the eight drill holes intersected zinc-silver mineralized zones with a total combined width of 489.07 metres. Six of the eight drill holes returned higher grade zones with a total combined width of 56.26 metres. Zinc-silver mineralization consists of higher grade sections from 5 -10 meters in width grading between 2% -12% zinc and 10 g/t - 70 g/t silver, 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 weighted average of all 489.07 metres of mineralized drill intersections is 1.09% zinc and 12.65 g/t silver, and the weighted average grade of 55.26 metres of higher grade intercepts is 4.73% zinc and 54.73 g/t silver.

Results from 4 diamond drill holes were announced in January 15, 2008, intersecting significant higher-grade zinc and silver intercepts within broader zones of lower grade mineralization and extending the area over which the zinc-silver mineralized system is observed from 500 metres to 700 metres along strike.The higher grade zinc intercepts range from 3.22% zinc and 4 g/t (grams per tonne) silver over 2.50 metres in SA-07-09, to 5.51% zinc and 5 g/t silver over 4.35 metres in SA-07-10. A higher grade silver-zinc-lead intercept was observed in SA-07-11 carrying 40 g/t silver, 1.30% zinc and 1.16% lead over 3.80 metres. The mineralized zones identified to date appear to be part of a potentially large mineralized system, which is open along strike and to depth, and only a small part of which has been explored to date.

Total expenditures on the Salamandra project in 2007 were $711,411 (2006 – $97,058).

Victoria zinc-silver claim area, Durango, Mexico

The Company has also evaluated the region surrounding the Salamandra project for other prospective areas. As a result a regional claim covering 100,000 hectares was acquired in March 2007, named the Victoria claim. During the year, the Company completed an initial regional evaluation program, including satellite imaging and on-site geological evaluation to select potential target areas within the Victoria claim region. Total expenditures during the period were $28,474 (2006 – Nil).

Sandra and Nora silver-gold project, Durango State, Mexico

The 100% owned Sandra project covers 1,200 hectares, located 183 km north of the city of Durango in Durango State, Mexico, and immediately south of claims controlled by Pan American Silver Corp. Initial surface sampling and geological mapping during the third quarter of 2005 identified a number of mineralized veins over an area of approximately 2,000 x 750 metres in the central area of the Sandra claims. Rock and chip samples from these veins returned encouraging grades of up to 9.74 g/t gold, 635 g/t silver, 2.46% copper and 20.06% lead as announced on November 2, 2005.

Trench sampling during the first quarter of 2006 confirmed silver and gold mineralization observed in earlier surface samples from the Barite, Maria Fernanda and Encino veins. Assay results returned silver grades of up to 888 g/t (25.9 oz/t) silver over 0.7 metres at the Barite vein, and up to 9.95 g/t (0.29 oz/t) gold and 365 g/t (10.65 oz/t) silver over 0.5 metres at the Maria Fernanda vein, where trench samples indicate consistent silver/gold mineralization over a strike length of approximately 300 metres. Expenditures on the Sandra and Nora project during the year were $9,841 (2006 - $67,450).

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

The Company acquired a 100% interest in the Los Azules claims in Sinaloa State, Mexico, covering 7,844 hectares, by direct staking between May and August 2005. The claims host prospects for epithermal low sulphidation vein type mineralization carrying gold, silver and copper. The Los Azules property is located 60 km southeast of the city of Mazatlan. In July and August 2006 the Company completed a prospecting and sampling program at Los Azules to identify potential mineralized structures. The program identified and outlined several mineralized veins and structures for further sampling and investigation. Expenditures during the year at Los Azules were $5,770 (2006 - $44,840).

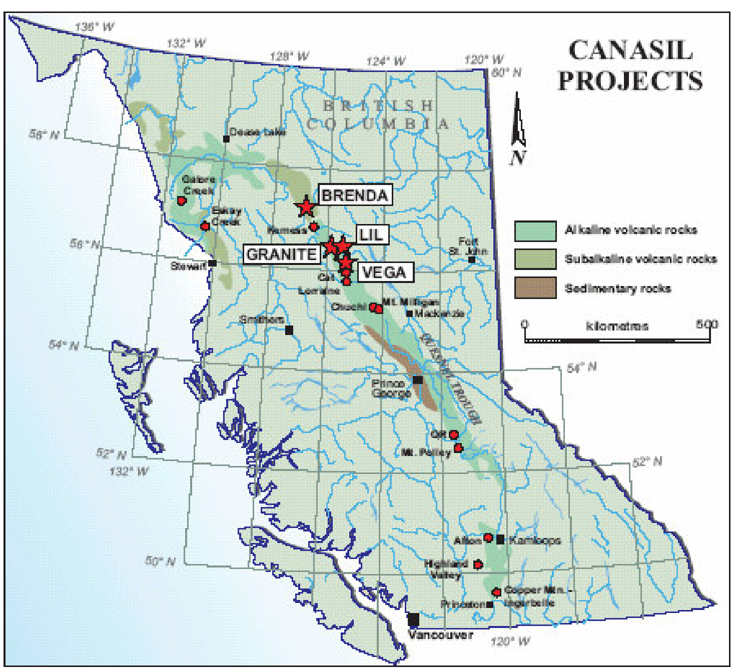
Tres Marias and Cebollas silver-gold properties, Durango State, Mexico

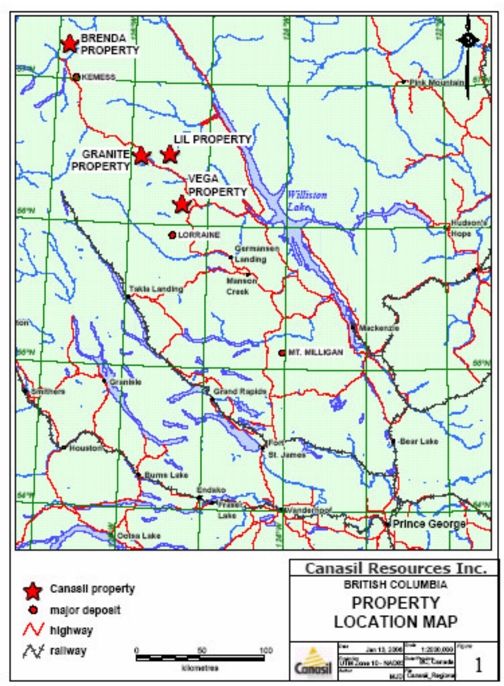
The Tres Marias and Cebollas properties, covering 3,163 hectares, are located 150 km west of the city of Durango and 14 km southeast of Luismin's San Dimas/Tayoltita mine. The Company has an option agreement with Goldcorp Inc. and Luismin to earn up to a 75% interest in these properties by issuing 50,000 shares and incurring US$1,700,000 in exploration expenditures over five years. Goldcorp/Luismin retain an option to buy back a 35% interest in the properties for US$1,700,000 after the Company has acquired a 75% interest. There was no additional exploration work on these projects during the year and the Company has notified Golcorp and Luismin that it does not intend to continue with the option agreement.

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, and approximately 12 km south of the Company's Tres Marias and Cebollas silver-gold projects, located 14 km southeast of the Tayoltita mine in the San Dimas mining district of Durango. 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. There was no exploration work on the San Francisco project during the period.

Exploration projects in British Columbia, Canada





Brenda gold-copper property, British Columbia, Canada

The Company 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. All claims are in good standing to May 30, 2015. 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. During the period the Company completed a 3-Dimensional Induced Polarization geophysical survey, covering approximately 30 line kilometers, and a diamond drill program of 5 drill holes for a total of 1,708 metres. Expenditures on the Brenda project during the year were $537,177 (2006 – $116,882).

These programs have identified a deep porphyry gold-copper system at the Brenda project. Drill holes BR-07-04 and BR-07-05, drilled to a depth of 562 metres and 530 metres respectively, both intersected broad gold-copper mineralized zones with increasing grades at depth, and which are also open to depth. The average grade of 5 intercepts from both holes above a depth of 450 metres was 0.48 g/t gold and 0.079% copper over a combined intercept width of 393.72 metres. The average grade of 3 intercepts below 450 metres was 0.68 g/t gold and 0.116% copper over a combined intercept width of 92.84 metres. A significant number of samples returned assays of over 1.0 g/t gold and 0.15% copper.

The increasing gold and copper grades at depth 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 Polarisation geophysical survey.

The geophysical survey covered approximately 30 line-kilometres over an area of 1,600 metres by 2,500 metres. The survey and interpretation models used provide chargeability and resistivity profiles down to a depth of 500 metres. The results showed significant chargeability anomalies, highlighting the pyritic and phyllic envelopes around the gold-copper mineralized zone. These signatures extend down to the extent of the survey depth of 500 metres in the sectional views. They also outline the potential gold-copper mineralized zone in the plan views at depths of 300 metres to 500 metres, with anomalies extending over a strike distance of approximately 1,000 metres. These features are a further indication of a potentially large buried mineralized structure. A deeper sensing geophysical survey, which can penetrate to 1,000 metres depth, may be used in a future program for further definition of the structure at depth.

Vega gold-copper property, 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 increased by staking in July 2006 to cover 6,716 hectares. During the period the Company maintained the claims in good standing. Expenditures on the Vega project during the year were $35,313 (2006 - $14,222).

LIL property, British Columbia, Canada

The 100% owned LIL claims, covering 875 hectares, are located in the Omineca Mining Division, 350 km northwest of Prince George, British Columbia. The LIL claims were maintained in good standing with expenditure during the year of $4,169 (2006 – $348).

Granite property, British Columbia, Canada

The 100% owned Granite gold-silver claim, covering 500 hectares in the Johansson Lake area, Omineca Mining Division of British Columbia, is located 360 km northwest of Prince George. There was no active exploration on the Granite property during the period.

A discussion of general conditions, trends, and competitive and environmental factors affecting the Company's business and operations is included following the financial and other information.

Selected Annual Information

The information in the following table provides selected audited financial information of the Company for 2007 and the two preceding financial years. This information is derived from the audited financial statements and should be read in conjunction with those statements and notes.

The loss for the year increased over the past three years reflecting the Company's increased level of exploration and operating activities in order to finance and advance exploration programs on its mineral exploration projects, which is also reflected in the increase in total assets. In 2007 the loss also included stock-based compensation and mineral property expenditure write-offs as indicated.

Year Ended December 31	2007	2006	2005
Total Revenue	Nil	Nil	Nil
Loss for the year	$(1,246,447)	$(357,007)	$ (319,859)
Loss per share – basic and diluted	$(0.04)	$(0.018)	$ (0.017)
Total Assets	$5,590,363	$3,098,708	$2,115,657
Long Term Financial Liabilities	Nil	Nil	Nil
Cash Dividends per Share	Nil	Nil	Nil
Shareholders' Equity	$5,460,207	$2,906,282	$2,070,740
Working Capital	$686,088	$177,183	$224,048
Stock-Based Compensation	$218,286	$47,332	$34,678
Write-off of Mineral Property Costs	$413,012	Nil	Nil

Selected Quarterly Information

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

Year	2007				2006			
Quarter ended:	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept . 30	Jun. 30	Mar. 31
Loss	(619,160)	(238,048)	(202,407)	(186,832)	(90,252)	(91,865)	(76,439)	(98,451)
Loss per share: basic and diluted	(0.019)	(0.008)	(0.007)	(0.008)	(0.004)	(0.004)	(0.004)	(0.005)
Weighted-average shares	31,642,614	31,555,353	30,009,802	24,447,774	21,735,342	20,255,309	18,759,012	18,432,342

The Company has experienced a higher level of exploration activity in each of the past three fiscal years. Accordingly, general and administrative expenses have increased and produced higher operating losses. In addition to this trend, the operating losses for the four quarters of fiscal 2007 are higher due to non-cash Stock-Based Compensation expense of $218,286 over the year (2006 - $47, 332) and higher Management and Director compensation of $151,500 (2006 - $110,500). There was also a higher level of Investor Relations and Conferences expenditures in 2007 of $168,922 (2006 - $56,116), accounting and audit fees of $47,174 (2006 – 23,923), office services and supplies increased of $65,111 (2006 - $30,381), and travel and conferences expenditures of $30,480 (2006 - $13,864). A foreign exchange loss of $74,425 (2006 – $1,337) was recorded in 2007 arising from the higher level of exploration expenditures in Mexico and the decline in the value of the U.S. Dollar. The $619,160 quarterly loss for the fourth quarter of 2007 includes a mineral property write-off of $413,012, resulting in an operating loss of $206,148, which is consistent with the other quarters in 2007.

Liquidity and Capital Resources

The Company is dependent upon raising funds by 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 working capital at December 31, 2007 of $686,088 (Dec. 31, 2006, $177,183). The Company had no material income from operations. As at December 31, 2007, the Company had no long-term debt.

During the year the Company experienced positive cash flow of $146,560 (2006 – positive $6,843) from operating, investing and financing activities. This included net cash used in operating activities of $557,387 (2006 – 337,563), net cash used in investing activities of $2,292,781 (2006 - $800,811), and net cash provided by financing activities of $2,996,728 (2006 – $1,145,217).

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 has sufficient working capital for current operating activities, and will require additional funding for planned exploration and operating expenditures through 2008.

Discussion of Fourth Quarter Results

The Company's loss during the fourth quarter of 2007 was $619,160 or $0.019 per share, which compares to a loss of $90,252 or $0.004 per share during the fourth quarter of 2006. After factoring out the resource property write-off of $413,012, which was not experienced in 2006, the operating loss for 2007 was $206,148. The increase in the fourth quarter loss is primarily explained by the fact that during the fourth quarter of 2007, the Company experienced higher stock-based compensation expense ($35,230 compared to $5,984 in 2006), higher foreign exchange losses ($31,348 compared to a gain of $9,918 in 2006), and higher investor relations and conference expenses ($49,764 compared to $8,868 in 2006).

Additions to the mineral properties in the fourth quarter were $160,510 compared to $353,492 in the same quarter of the prior year.

Other Information and Disclosures

Related Party Transactions

During 2007 the Company paid or accrued a total of $196,714 (2006 - $136,290) to related parties covering directors' and management fees and geological and legal services. The increase is due to the increased activity, particularly with respect to the increased levels of funding and expenditures as the Company continues to acquire and develop additional properties in Mexico and increasing exploration activities in B.C., Canada. The Company relies heavily on its directors and officers for many of its administrative and professional services.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements and does not contemplate such arrangements in the foreseeable future. There are no contingent liabilities.

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, 2007 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.

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

Effective January 1, 2007, the company adopted the recommendations of CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement,* Section 1530, *Comprehensive Income* and Section 3865, *Hedges*. These sections provide guidance on the recognition and valuation of certain types of financial instruments. There is no effect on prior periods as a result of adopting these new standards.

Effective January 1, 2007, the Company also adopted the recommendations of CICA Handbook Section 1506, *Accounting Changes*. This new standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors, replacing former CICA Handbook Section 1506.

Effective January 1, 2008, the Company will adopt CICA Handbook Section 3862, *Financial Instruments – Disclosures,* Section 3863, *Financial Instruments – Presentation,* Section 1535, *Capital Disclosures,* and amendments to Section 1400, *Going Concern.* The adoption of these new standards and amendments is not expected to have a material impact on the Company's financial statements.

Financial Instruments

The Company's financial instruments consist of cash, receivables, subscriptions receivable, and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or highly liquid nature. The Company is subject to currency risk arising from fluctuations in foreign currency exchange rates. The Company does not use derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

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 audited financial statements for the period ending December 31, 2007, 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.

Outstanding Share Data

Shares
The Company's authorized share capital consists of an unlimited number of common shares. As at December 31, 2007, the Company had 33,377,592 common shares issued and outstanding (diluted – 40,300,017). Subsequent to the year-end 1,279,675 warrants expired, resulting in fully diluted common shares of 39,020,342 as of the date of this report.

In January 2007, the Company closed a non-brokered private placement of 1,500,000 units at a price of $0.25 per unit for gross proceeds of $375,000, for which subscriptions of $335,000 had been received in December 2006. In March 2007 the Company closed a non-brokered private placement of 4,000,000 units at a price of $0.40 per unit for gross proceeds of $1,600,000. In December 2007, the Company closed a non-brokered private placement of 1,588,000 units at a price of $0.30 per unit for gross proceeds of $476,400. During 2007 the Company also received proceeds of $1,294,300 from the exercise of 3,698,000 warrants and $26,250 upon the exercise of 206,250 options. The proceeds from these private placements and funds received from the exercise of warrants and options have been used to fund the expanded exploration programs in 2007.

In March 2007, 865,000 incentive stock options were granted to directors, officers and consultants of the Company, enabling the holders to acquire 865,000 common shares of the Company at a price of $0.50 per share. In May 2007, the Company granted 350,000 options at an exercise price of $0.75 to two investor relations consultants. All options are subject to vesting requirements according to the Company's stock option plan.

Options
As at December 31, 2007, a total of 2,833,750 incentive stock options were outstanding.

Number of Shares	Exercise Price	Expiry Date
650,000	$ 0.26	November 6, 2008
150,000	$ 0.75	May 11, 2009
200,000	$ 0.75	May 14, 2009
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
2,833,750		

Warrants
As at December 31, 2007, a total of 4,088,675 share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,105,000	$ 0.35	January 12, 2008 (subsequently expired)
75,000	$ 0.50	January 26, 2008 (subsequently expired)
2,015,000	$ 0.55	March 13, 2008 (extended to Sept. 30, 2008)
99,675	$ 0.40	March 13, 2008 (subsequently expired)
794,000	$ 0.45	December 31, 2008
4,088,675		

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 Resource Investment Conference and Vancouver Mineral Exploration Roundup in January 2007, at the Prospectors and Developers Association Conference in Toronto in March 2007, and at the Calgary Resource Investment Conferences in April 2007. The Company also exhibited at the Vancouver Gold, PGM and Diamond Investment Conference in June 2007, and the GCFF Conference in Markham, Ontario, and Toronto Resource Investment Conference, both in October 2007. The Company has investor relations contracts with Kerr Consulting in Vancouver, Garth McTavish in Calgary, Alberta, and Pro-Edge Investor Relations Consultants in Toronto.

Recent developments

Subsequent to December 31, 2007, and to the date of this report the Company has announced the results from the last 4 drill holes at the Salamandra zinc-silver project in Durango State, Mexico, and 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 $7 million over 6 years and payments of $375,000. The Company is also currently implementing a diamond drill program on the Colibri 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.

There has been a trend towards improving base and precious metal prices over the past year, particularly for gold, silver and copper. The mining and minerals industry is experiencing increased demand for minerals and metals, in particular from economic growth in Asia. This has resulted in greater interest from the financial community in financing mineral exploration and development projects.

Competitive Conditions

Significant competition exists for natural resource acquisition opportunities. As a result the Company may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable.

Environmental Protection

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

Number of Employees

As of December 31, 2007, 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 year, the Company completed an agreement with Oremex Resources Inc. to acquire the Mezquital claims covering 161 hectares in the Colibri project area for 650,000 shares and 75,000 share purchase warrants providing for Oremex to acquire 75,000 shares at $0.50. The Company also acquired though staking of claims 100,000 hectares surrounding the Salamandra project area, called the Victoria project, and added 9,500 hectares to the Colibri project area through staking of additional 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 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.

Conflicts of Interest

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

Limited Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2007, the Company's accumulated deficit was $5,743, 843.

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 period ended December 31, 2007, the price of the Company's shares fluctuated from a low of $0.28 to a high of $0.85 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at December 31, 2007, a total of 33, 377,592 common shares of the Company were issued and outstanding. There were 2,833,750 stock options and 4,088,675 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. Subsequent to the year-end, 1,279,675 of the share purchase warrants expired unexercised.

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.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that, as of December 31, 2007, the disclosure controls and procedures were effective to provide reasonable assurance that material information is accumulated and communicated to management to allow timely decisions regarding disclosure required in the Company's annual filings and interim filings and other reports filed or submitted under Canadian securities laws and such material information is reported within the time periods specified by those laws.

Internal Controls and Procedures

Internal controls and procedures are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Company's generally accepted accounting principles. As at the end of the period covered by this management's discussion and analysis, management had designed and implemented internal controls and procedures as required by Canadian securities laws.

The Company has evaluated the design of its internal controls and procedures over financial reporting for the fiscal year ended December 31, 2007. No material weakness in the design has been identified. Management continues to review and refine its internal controls and procedures.

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, and on the Company's website at www.canasil.com