Canasil resources inc.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2008

## Unaudited

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

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

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

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

| | |
|---|---|
| *"Bahman Yamini"* | *"Kerry Spong"* |
| **President and Chief Executive Officer** | **Vice President, Finance & CFO** |

*November 27, 2008*


750-625 Howe Street, Vancouver, B.C. V6C 2T6

Tel: (604) 708-3788 Fax: (604) 708-3728

*Email: admin@canasil.com*

**CANASIL RESOURCES INC.**

**INTERIM CONSOLIDATED BALANCE SHEETS**

*Unaudited*

| ASSETS | | September 30 2008 | | December 31 2007 |
|---|---|---|---|---|
| **Current** | | | | |
| Cash | $ | 33,350 | $ | 358,323 |
| Receivables | | 125,771 | | 128,193 |
| Subscriptions receivable *(Note 6)* | | - | | 330,000 |
| Prepaid expenses | | 9,586 | | 8,728 |
| | | 168,707 | | 825,244 |
| **Reclamation bond** | | 20,000 | | 20,000 |
| **Resource properties** *(Note 4)* | | 5,266,786 | | 4,660,914 |
| **Property and equipment** *(Note 5)* | | 85,456 | | 93,205 |
| | $ | 5,540,949 | $ | 5,599,363 |

| LIABILITIES | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | 151,658 | $ | 139,156 |
| Due to related party *(Note 8)* | | 30,000 | | - |
| | | 181,658 | | 139,156 |

| SHAREHOLDERS' EQUITY | | | | |
|---|---|---|---|---|
| **Share capital** *(Note 6)* | | 10,796,289 | | 10,471,289 |
| **Contributed surplus** *(Note 6)* | | 879,981 | | 732,761 |
| **Deficit** | | (6,316,979) | | (5,743,843) |
| | | 5,359,291 | | 5,460,207 |
| | $ | 5,540,949 | $ | 5,599,363 |

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

ON BEHALF OF THE BOARD:

*"Michael McInnis"*
______________________________, Director

*"Alvin Jackson"*
______________________________, Director

- See Accompanying Notes -

**CANASIL RESOURCES INC.**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

*Unaudited*

| | For the Three Months Ended 30 September | | For the Nine Months Ended 30 September | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Expenses** | | | | |
| Accounting and audit | **$ 20,802** | $ 17,976 | **$ 38,462** | $ 33,705 |
| Amortization | **4,901** | 5,902 | **14,703** | 12,939 |
| Conferences and conventions | **-** | 3,363 | **29,690** | 33,220 |
| Director fees | **10,000** | 10,000 | **30,000** | 27,500 |
| Foreign exchange loss (gain) | **2,677** | 24,738 | **(4,577)** | 43,077 |
| General exploration | **36,495** | 1,598 | **58,976** | 18,095 |
| Investor relations and promotions | **5,976** | 38,289 | **64,751** | 85,938 |
| Legal fees | **7,445** | 3,031 | **18,895** | 16,714 |
| Listing and filing fees | **1,970** | 1,819 | **13,555** | 11,797 |
| Management fees | **28,500** | 28,500 | **85,500** | 85,500 |
| Office services and supplies | **16,258** | 21,755 | **52,861** | 44,524 |
| Shareholder communications | **788** | 9,719 | **7,296** | 17,945 |
| Stock-based compensation *(Note 7)* | **58,155** | 73,317 | **147,220** | 183,056 |
| Transfer agent fees | **1,353** | 1,437 | **6,527** | 14,165 |
| Travel and accommodation | **2,664** | 4,993 | **13,678** | 22,812 |
| **Loss before other items** | **(197,984)** | (246,437) | **(577,537)** | (650,987) |
| Interest income | **1,064** | 8,389 | **4,401** | 23,700 |
| **Loss and comprehensive loss for the period** | **(196,920)** | (238,048) | **(573,136)** | (627,287) |
| Deficit - beginning of period | **(6,120,059)** | (4,886,635) | **(5,743,843)** | (4,497,396) |
| **Deficit – end of period** | **$ (6,316,979)** | $ (5,124,683) | **$ (6,316,979)** | $ (5,124,683) |
| **Loss per share - basic and diluted** | **$ 0.01** | $ 0.01 | **$ 0.02** | $ 0.02 |
| **Weighted-average shares outstanding** | **34,347,157** | 31,555,353 | **33,754,234** | 28,697,011 |

**CANASIL RESOURCES INC.**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

*Unaudited*

| | For the Three Months Ended 30 September | | For the Nine Months Ended 30 September | |
|---|---|---|---|---|
| **CASH RESOURCES PROVIDED BY (USED IN)** | **2008** | 2007 | **2008** | 2007 |
| **Operating activities** | | | | |
| Loss for the period | **$ (196,920)** | $ (238,048) | **$ (573,136)** | $ (627,287) |
| Items not affecting cash | | | | |
| Amortization | **4,901** | 5,902 | **14,703** | 12,939 |
| Stock-based compensation | **58,155** | 73,317 | **147,220** | 183,056 |
| | **(133,864)** | (158,829) | **(411,213)** | (431,292) |
| Net change in non-cash working capital | | | | |
| Decrease (increase) in receivables | **5,058** | (87,651) | **2,422** | (201,749) |
| Decrease (increase) in prepaid expenses | **(8,995)** | (7,676) | **(858)** | 3,299 |
| Increase (decrease) in accounts payable and accrued liabilities | **30,999** | (15,022) | **14,019** | (53,362) |
| Due to related party | **30,000** | - | **30,000** | - |
| | **(76,802)** | (269,178) | **(365,630)** | (683,104) |
| **Investing activities** | | | | |
| Resource property costs | **(139,478)** | (1,072,955) | **(607,389)** | (2,066,335) |
| Property and equipment | **-** | (48,786) | **(6,954)** | (76,174) |
| | **(139,478)** | (1,121,741) | **(614,343)** | (2,142,509) |
| **Financing activities** | | | | |
| Share capital issued for cash | **200,000** | 3,250 | **325,000** | 3,215,050 |
| Subscriptions receivable | **(46,250)** | - | **-** | - |
| Subscriptions received in advance | **-** | - | **330,000** | (335,000) |
| Share issuance costs | **-** | - | **-** | (75,656) |
| | **153,750** | 3,250 | **655,000** | 2,804,394 |
| **Decrease in cash** | **(62,530)** | (1,387,669) | **(324,973)** | (21,219) |
| Cash position - beginning of period | **95,880** | 1,578,213 | **358,323** | 211,763 |
| **Cash position - end of period** | **$ 33,350** | $ 190,544 | **$ 33,350** | $ 190,544 |

**Supplementary disclosure of non-cash investing and financing transactions**

| | | | | |
|---|---|---|---|---|
| Shares issued for resource properties | **$ -** | $ - | **$ -** | $ 247,000 |
| Warrants issued for resource property | **$ -** | $ - | **$ -** | $ 8,358 |
| Warrants issued for finder's fee | **$ -** | $ - | **$ -** | $ 19,948 |
| Increase (decrease) in mineral property accounts payable | **$ (30,979)** | $ (90,492) | **$ (1,517)** | $ (83,093) |

- See Accompanying Notes -

## 1. NATURE AND CONTINUANCE OF OPERATIONS

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

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Several adverse conditions cast significant doubt upon the validity of this assumption. Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests.

These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

| | | September 30 2008 | | December 31 2007 |
|---|---|---|---|---|
| Deficit | $ | 6,316,979 | $ | 5,743,843 |
| Working capital (Deficiency) | $ | (12,951) | $ | 686,088 |

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

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

### Basis of Presentation

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

Except as detailed in note 3, these interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's audited financial statements including the notes thereto for the year ended December 31, 2007. All financial information presented herein is unaudited.

## 3. CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

### Capital Disclosures

Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1535 – *Capital Disclosures*. This Section requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes of managing capital.

### Financial Instruments - Disclosures

Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862 and 3863 – *Financial Instruments – Disclosures and Presentation*. These Sections require disclosure of quantitative and qualitative information that enable users to evaluate the significance of financial instruments for the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Disclosure of the measurement basis used and the criteria used to determine classification for different types of instruments is also required.

## 4. 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.

### Salamandra and Victoria projects, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the Salamandra project located in Durango State, Mexico, subject to a Net Smelter Returns royalty ("NSR") of 2%. The Company has the right to acquire these claims by making cash payments over a period of five years totalling US$500,000. The Company has also staked additional claims, known as the Victoria claims, which are contiguous with the Salamandra claims.

During the period, the Company granted an arm's length party the right to earn a 60% interest in the properties by incurring US$7,000,000 in exploration expenditures and making US$375,000 in cash or share payments to the Company over six years. The optionee also has the option to acquire up to 1,500,000 shares of the Company in three private placements over a period of two years. During the period, the company received US$75,000 in cash payments due under the agreement and completed the first private placement of 500,000 shares *(Note 6).*

### 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.

## 4. RESOURCE PROPERTIES - *continued*

### La Esperanza project, Mexico

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

### Tres Marias and Cebollas properties, Mexico

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

### 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 Fransisco project. The Company has also staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in all of these claims.

During 2008, the Company entered into a letter agreement with Pan American Silver Corp. ("Pan American") providing an option for the Company to earn a 51% interest in Pan American's Escobar claims for US$1 million in exploration expenditures over three years. Upon the Company earning in, Pan American will have the option to back-in to a 51% interest in the combined claims of Pan American's Escobar project and the Company's Sandra project by paying the Company three times its exploration expenditures on the combined claims, forming a 51% Pan American and 49% Canasil joint venture. If the Company elects not to contribute its share of joint venture expenditures, Pan American may earn an additional 14% interest by completing a feasibility study, thereby taking its interest to 65%. At the Company's option, Pan American may earn a further 15% interest for a total 80% interest by financing the Company's share of capital costs required to take the project through to production. If Pan American decides not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US$5 million in a combination of cash and shares paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims. A formal agreement, which may be subject to acceptance by the TSX Venture Exchange, will follow.

## 4. RESOURCE PROPERTIES *- continued*

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

| 2008 | Acquisition | Exploration | Total Additions | Cumulative Expenditures |
|---|---|---|---|---|
| Brenda, Canada | $ - | $ 42,456 | $ 42,456 | $ 2,010,220 |
| Lil, Canada | - | 3,851 | 3,851 | 8,809 |
| Vega, Canada | - | 8,879 | 8,879 | 59,855 |
| Los Azules, Mexico | - | 16,189 | 16,189 | 84,877 |
| Sandra and Nora, Mexico | - | 16,213 | 16,213 | 132,500 |
| San Francisco, Mexico | - | 1,351 | 1,351 | 5,648 |
| Esperanza, Mexico | - | 46,325 | 46,325 | 488,888 |
| Colibri, Mexico | - | 463,406 | 463,406 | 1,600,891 |
| Salamandra, Mexico | - | 34,730 | 34,730 | 843,199 |
| Victoria, Mexico | - | 76,689 | 76,689 | 105,163 |
| Other, Mexico | - | 62,599 | 62,599 | 93,552 |
| Option payments received | - | (75,586) | (75,586) | (75,586) |
| Expenditure recoveries received | - | (91,230) | (91,230) | (91,230) |
| | $ - | $ 605,872 | $ 605,872 | $ 5,266,786 |

| 2007 | Acquisition | Exploration | Total Additions | Cumulative Expenditures |
|---|---|---|---|---|
| Brenda, Canada | $ - | $ 504,150 | $ 504,150 | $ 1,934,737 |
| Lil, Canada | - | 4,169 | 4,169 | 4,958 |
| Vega, Canada | - | 35,313 | 35,313 | 50,976 |
| Tres Marias and Cebollas, Mexico | - | 311 | 311 | 411,138 |
| Los Azules, Mexico | - | 2,613 | 2,613 | 65,531 |
| Sandra and Nora, Mexico | - | 10,080 | 10,080 | 116,526 |
| San Francisco, Mexico | - | 598 | 598 | 4,312 |
| Esperanza, Mexico | - | 53,759 | 53,759 | 429,307 |
| Colibri, Mexico | 258,577 | 676,047 | 934,624 | 1,086,139 |
| Salamandra, Mexico | 3,679 | 652,295 | 655,974 | 753,032 |
| Victoria, Mexico | - | 28,929 | 28,929 | 28,929 |
| Other, Mexico | - | 8,080 | 8,080 | 27,831 |
| | $ 262,256 | $ 1,976,344 | $ 2,238,600 | $ 4,913,416 |

## 5. PROPERTY AND EQUIPMENT

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Land | $ 31,686 | $ - | $ 31,686 | $ 31,686 | $ - | $ 31,686 |
| Automobile | 27,730 | 14,943 | 12,787 | 27,730 | 9,463 | 18,267 |
| Computer | 14,729 | 7,079 | 7,650 | 10,396 | 3,529 | 6,867 |
| Field equipment | 31,971 | 10,310 | 21,661 | 29,350 | 3,302 | 26,048 |
| Furniture and equipment | 25,545 | 13,954 | 11,591 | 25,545 | 11,359 | 14,186 |
| Software | 1,097 | 1,016 | 81 | 1,097 | 633 | 464 |
| | $ 132,758 | $ 47,302 | $ 85,456 | $ 125,804 | $ 28,286 | $ 97,518 |

## 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

| | Number of Shares | Share Capital | Contributed Surplus |
|---|---|---|---|
| Authorized | | | |
| Unlimited common voting shares, without par value | | | |
| Issued and outstanding | | | |
| Balance, December 31, 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 property *(Note 4)* | 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 placement | 500,000 | 125,000 | - |
| Private placement | 800,000 | 200,000 | - |
| Stock-based compensation | - | - | 147,220 |
| Balance, September 30, 2008 | 34,677,592 | $ 10,796,289 | $ 879,981 |

## 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS - *continued*

### Private placements

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

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

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 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 0.00%.

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.

### 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 4)*. 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%.

## 7. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") which complies with the rules set forth by the TSX Venture Exchange in that at no time may more than 5% of the outstanding issued common shares be reserved for incentive stock options granted to any one individual. The Plan provides for the issuance of options to directors, officers, employees and consultants of the Company and its subsidiary to purchase common shares of the Company. The stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding five years. Stock options granted under the Plan vest in equal quarterly tranches over a period of not less than 18 months.

## 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, 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 |
| Granted | 400,000 | $ | 0.35 | 100,000 | $ | 0.25 |
| Exercised | - | $ | - | - | $ | - |
| Expired | (1,294,675) | $ | 0.36 | - | $ | - |
| Outstanding, September 30, 2008 | 3,194,000 | $ | 0.50 | 2,933,750 | $ | 0.37 |
| Currently exercisable | 3,194,000 | $ | 0.50 | 2,771,250 | $ | 0.36 |

At September 30, 2008, 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 | $ | 0.50 | March 20, 2012 |
| | 100,000 | $ | 0.25 | July 10, 2013 |
| | 2,933,750 | | | |
| **Warrants** | 2,000,000 | $ | 0.55 | March 12, 2009 |
| | 794,000 | $ | 0.45 | December 31, 2008 |
| | 400,000 | $ | 0.35 | August 8, 2009 |
| | 3,194,000 | | | |

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

### Stock-based compensation

The following table presents information relating to incentive stock options granted to directors, officers and consultants of the Company during the periods ended September 30. Stock-based compensation is recorded over the vesting period.

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Total options granted | | 100,000 | | 865,000 |
| Average exercise price | $ | 0.25 | $ | 0.50 |
| Estimated fair value of options granted | $ | 17,280 | $ | 215,337 |
| Estimated fair value per option | $ | 0.17 | $ | 0.25 |

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

| | 2008 | 2007 |
|---|---|---|
| Risk-free interest rate | 3.37% | 4.01% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected stock price volatility | 86% | 90% |
| Expected option life in years | 5.00 | 2.00 |

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

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Number of options vested in period | | 601,250 | | 926,250 |
| Compensation recognized in period | $ | 147,220 | $ | 183,056 |

## 8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid or accrued $72,000 (2007 - $72,000) for management fees to a company controlled by a director;

b) Paid or accrued $18,895 (2007 - $30,018) for legal services and share issue costs to a law firm in which an officer of the Company is a partner;

c) Paid or accrued $30,000 (2007 - $27,500) in director fees to a director and to three (2007 – two) companies, each controlled by a director;

d) Paid or accrued $13,500 (2007 - $13,500) in management fees to an officer.

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

Included in accounts payable at September 30, 2008 is $60,356 (December 31, 2007 - $47,652) due to these related parties.

During the period, a company controlled by a director advanced $30,000 to the Company as a temporary loan. The advance is unsecured, due on demand, and has no fixed terms of repayment.

## 9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, reclamation bond, accounts payable and accrued liabilities, and due to related party. All of the Company's financial instruments are carried at amortized cost and their fair value is considered to approximate their carrying value due to their short-term nature or capacity of prompt liquidation. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash is held in an interest bearing account at a major Canadian bank and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which it uses to fund its foreign projects. The cash balances and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration expenditures. Accounts payable are settled in a timely manner.

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

## 10. CAPITAL DISCLOSURES

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

## 11. SEGMENTED INFORMATION

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

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

| 2007 | | Canada | | Mexico | | Total |
|---|---|---|---|---|---|---|
| Revenues | $ | - | $ | - | $ | - |
| Resource properties | $ | 1,990,671 | $ | 2,922,745 | $ | 4,913,416 |
| Plant and equipment | $ | 34,716 | $ | 62,802 | $ | 97,518 |

## 12. SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the Company signed a letter agreement with Goldcorp Inc. to terminate the option agreement on the Tres Marias and Cebollas projects in Durango, Mexico. Accordingly, the Company will issue 275,000 shares to Goldcorp Inc. in full and final settlement of any obligations under the original option agreement.

This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("the Company") is dated November 27, 2008 and provides information on the Company's activities for the period ended September 30, 2008, and from the end of the period to the date of this report. The following discussion and analysis of the financial position of the Company should be read in conjunction with the MD&A and audited financial statements and related notes for the year ended December 31, 2007, as well as the un-audited financial statements and related notes for the nine months ended September 30, 2008.

**Overview**

The Company is engaged in the exploration and development of mineral properties with prospects for gold, silver, copper, zinc and lead in Durango, Sinaloa and Zacatecas States, Mexico, and in British Columbia, Canada.

During the Nine-month period the company implemented exploration programs on its mineral projects in Mexico, including diamond drilling at the Colibri project in March and April 2008, and further evaluation of the Company's mineral claims in Durango and Sinaloa in April 2008. The Company acquired three new projects, El Eden, Vizcaino and Carina projects, in Durango and Sinaloa States, Mexico, through the staking of claims and conducted surface mapping and sampling programs on these claims in July and August 2008. In March 2008 the Company entered into an Option and Joint Venture agreement with Blackcomb Minerals Inc. on its Salamandra and Victoria projects, and in August 2008 signed an agreement with Pan American Silver Corp. to advance exploration on Pan American's Escobar and the Company's Sandra projects. Deferred exploration and acquisition expenditures in Mexico during the period amounted to $717,502 (Nine months 2007 - $1,694,968).

In British Columbia, the Company completed and filed the assessment report for the 2007 exploration program on the Brenda project, and extended the validity of the Lil and Vega claims, for total expenditures of $55,186 (Nine months 2007 - $543,632).

In May 2008 the Company completed a private placement of 500,000 shares at $0.25 for proceeds of $125,000 as part of the agreement with Blackcomb Minerals, and in August 2008 completed a non-brokered private placement of 800,000 units at $0.25 per unit for total proceeds of $200,000. Each unit consists of one common share and one-half of one share purchase warrant; each warrant entitles the holder to purchase one additional common share at a price of $0.35 for a period of one year.

The Company exhibited at various industry and investment conferences during the period. Investor Relations expenditures during the period were reduced to $64,751 (Nine months 2007 - $ 85,938) and travel and conferences expenditures reduced to $43,638 (Nine months 2007 - $56,032).

Uncertainties in the financial markets and lower prices for commodities and metals continued through the period, resulting in weakness in the share prices of mining and exploration companies and in relatively low share trading volumes. The Company continued to reduce expenditures in view of the current economic and industry conditions.

***Mineral Properties***

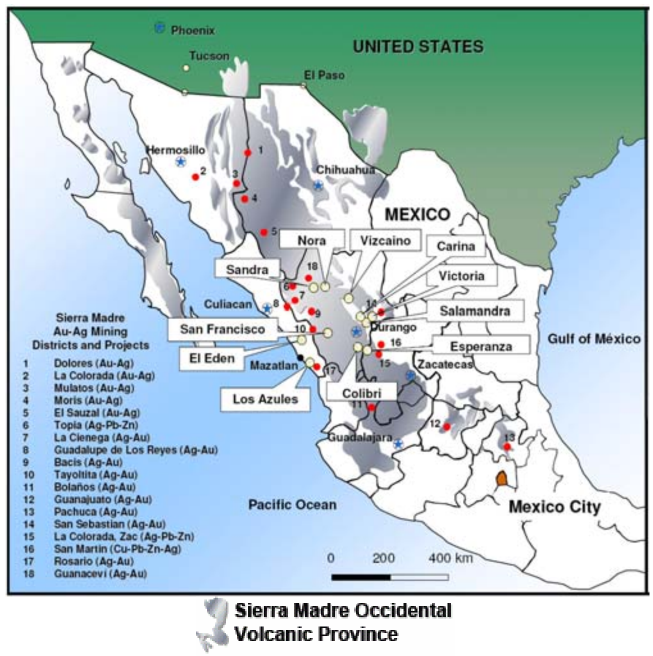
The Company has acquired the following mineral exploration projects in Mexico since 2005 and to the date of this report:

- 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 projects – 100%
- Los Azules copper gold project – 100%
- San Francisco gold silver project – 100%
- Victoria zinc silver project – 100%
- El Eden copper gold silver project – 100%
- Vizcaino silver gold project – 100%
- Carina silver project – 100%

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

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

**Exploration projects in Mexico**





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

The Company has an option agreement to purchase a 100% interest in the original La Esperanza claims covering 435 hectares, subject to a NSR royalty of up to 1.5%, by making option payments over a period of three years totalling US$150,000. The claim area at the La Esperanza project has been increased through staking claims of 9,055 hectares. The project is located in the state of Zacatecas, 100 km south-southeast of the city of Durango.

A Phase 1 diamond drill program consisting of 8 drill holes for a total of 1,182 metres was completed in 2006. Drilling outlined a mineralized vein with a strike length of over 150 metres and depth of 100 metres, which is open in all directions, with a width of up to 10.30 metres carrying high-grade silver mineralization. The mineralized intercepts have a weighted average grade of 330 g/t (9.62 oz/ton) silver, 0.93% zinc and 1.57% lead over an average width of 4.21 metres, including 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 period were $46,325 (Nine months 2007 - $53,759).

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

The 100% owned Colibri claims cover 16,075 hectares, located 70 km southeast of the city of Durango. Geological mapping and surface sampling has identified and outlined a number of mineralized veins in the project area with a combined surface strike length of over 14 kilometres, indicating multiple targets for drill testing. The Company completed 18 diamond drill holes for a total of 2,630 metres at the Colibri project in late 2006 and 2007. The drill program returned three high-grade mineralized intercepts from the central zone of the Linda vein containing copper, silver and zinc with a width of up to 3.70 metres (true width 2.83 metres) with a grade of 3.49% copper, 98 g/t silver and 1.96% zinc.

In 2008, the Company completed a further 16 diamond drill holes for a total of 1,539 metres in the southwestern area of the Colibri project. The Company has been informed of an outstanding historical claim covering 48 hectares in this area, which is subject to multiple irregularities, including non-payment of taxes for over 20 years. However the Company has been informed that the claim has been rectified and this area will be excluded from the overall Colibri project claim area of over 16,000 hectares. Expenditures on the Colibri project during the period were $463,406 (Nine months 2007 - $934,624, including $255,358 for the issuance of shares and warrants for the acquisition of claims).

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

The Company has 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 five years totaling US$500,000. The project area was expanded through staking of additional claims to a total of 2,900 hectares, and is located in Durango State, 35 km northeast of the city of Durango, with good access via paved and gravel roads. A 3-Dimensional Induced Polarization geophysical survey, as well as a geological mapping and surface sampling programs were completed from September to November 2006 and defined prominent drill targets for investigation.

In 2007, 12 diamond drill holes for a total of 3,595 metres were completed. Eleven out of the twelve drill holes intersected zinc-silver mineralized zones with higher grade silver and zinc intercepts of 2.40 metres to 11.60 metres with zinc grades between 0.55% and 12.00% and silver grades between 4 g/t and 102 g/t, within wider mineralized sections of 20 - 45 metres in width grading from 0.32% -1.08% zinc and 2 g/t – 45 g/t silver. The mineralized zones identified to date appear to be part of a potentially large mineralized system, which is open along strike and to depth, only a small part of which has been explored to date.

In March 2008, the Company entered into an Option and Joint Venture Agreement with Blackcomb Minerals Inc. providing for Blackcomb to earn a 60% interest in the Salamandra and Victoria projects against exploration expenditures of US$7 million and cash payments of US$375,000 over a period of 6 years. The agreement requires a minimum expenditure of US$1 million in the first year. Total expenditures on the Salamandra project during the period were $34,730 (Nine months 2007 – $655,974). Claim maintenance taxes of $6,396 and an option payment of $53,990 were received from Blackcomb Minerals during the period.

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

In 2007 The Company acquired the Victoria project claim area covering 100,000 hectares surrounding the Salamandra project. The claim area covers a strategic land position on a well-recognized mineral trend running from the northwest to the southeast through Durango State. In 2007 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. In March 2008 the Victoria claims were optioned to Blackcomb Minerals Inc. as part of the Option and Joint Venture Agreement covering the Salamandra project. The claims were subsequently expanded to cover 150,000 hectares. Expenditures on the Victoria project during the period were $76,689 (Nine months 2007 – $28,929). Claim registration and maintenance taxes of $84,434 and an option payment of $21,596 were received from Blackcomb Minerals during the period.

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

The 100% owned Sandra and Nora projects cover 5,912 hectares, located 183 km north of the city of Durango in Durango State, Mexico. Surface sampling and geological mapping has identified a number of mineralized veins over an area of approximately 2,000 x 750 metres in the southern 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. Trench sampling 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 period were $16,213 (Nine months 2007 - $10,080).

In August 2008 the Company signed an agreement with Pan American Silver Corp. to earn an initial 51% interest in Pan American's Escobar claims, which are contiguous with the Sandra claims. Following the earn-in Pan American may back-in to a 51% interest in the combined Sandra and Escobar claims by paying three times exploration expenditures on the combined claims forming a 51% Pan American 49% Canasil joint venture. If the Company elects not to contribute its share of joint venture expenditures, Pan American may earn an additional 14% interest by completing a feasibility study, thereby taking its interest to 65%. At the Company's option, Pan American may earn a further 15% interest for a total 80% interest by financing the Company's share of capital costs required to take the project through to production. If Pan American decides not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US$5 million in a combination of cash and shares paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims. A formal agreement, which may be subject to acceptance by the TSX Venture Exchange, will follow.

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

The Company holds a 100% interest in the Los Azules claims in Sinaloa State, Mexico, covering 7,844 hectares. The claims host prospects for epithermal vein type mineralization carrying gold, silver and copper. The Los Azules property is located 60 km southeast of the city of Mazatlan. In 2006 the Company completed a prospecting and sampling program at Los Azules to identify potential mineralized structures. This has been followed up with further mapping and evaluation in April 2008. Some of the vein structures have returned gold, silver and copper values, which require further sampling and investigation. Expenditures during the period at Los Azules were $16, 189 (Nine months 2007 - $2,613).

***San Francisco gold-silver project, Durango, Mexico***

The San Francisco property, covering 500 hectares, is located approximately 104 km west of the city of Durango in the San Dimas mining district of Durango, 14 km southeast of the Goldcorp's Tayoltita mine. The claims are within view of the community of San Francisco. The access road cuts through the centre of the property, as does the main power line supplying the Tayoltita mine. Expenditures on the San Francisco project during the period were $1,351 (Nine months 2007 - $Nil).

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

In June 2008 the Company announced the acquisition of three new projects in Mexico through the staking of claims. Expenditures on evaluation and acquisition of other Mexico projects during the period were $61,975 (Nine months 2007 - $Nil).

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

The El Eden Project covers 4,000 hectares, located 78 kilometres northeast of the city of Mazatlán in Sinaloa State, Mexico, with excellent road access and infrastructure. The project encompasses a tourmaline alteration zone hosted by an intrusive body. Five channel samples collected from trenches in this intensely altered structural zone returned significant copper and silver grades, and one sample from mineral dump material retured 2.95% copper and 2,140 g/t silver.

In April 2008, Dr. Andrejs Panteleyev conducted a field inspection and review of the El Eden project area, and identified the possibility of a larger altered zone surrounding the central area with the more intense fracturing and brecciation. A grab sample taken from this area, located 190 metres east of the higher grade trench returned 1.27 g/t gold, 0.38% copper and 45.6 g/t silver. In July and August 2008 a surface and trench sampling program was completed over the alteration zone of 500 metres by 200 metres, including 250 samples. The sampling program did not return any significant mineralization.

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

The Vizcaino project covers 600 hectares, located 127 kilometers north of the city of Durango, in Durango State. The project area is 38 kilometers southeast of Silver Standard Resources La Pitarrilla deposit and 42 kilometers north of Geologix Explorations San Augustin deposit, both major recent discoveries. The Vizcaino project hosts a prominent quartz vein, which can be traced on the surface for over 2 kilometres with widths of over 1 metre and up to 12 metres. The exposed vein is composed of fine grained chalcedonic quartz with a classic banded structure indicative of the upper levels of a strong epithermal vein system. Initial evaluation samples from the vein returned anomalous gold values ranging from 108 ppb to 180 ppb over widths of 1.1 metres to 4.8 metres, characteristic of the upper levels of mineralized epithermal veins.

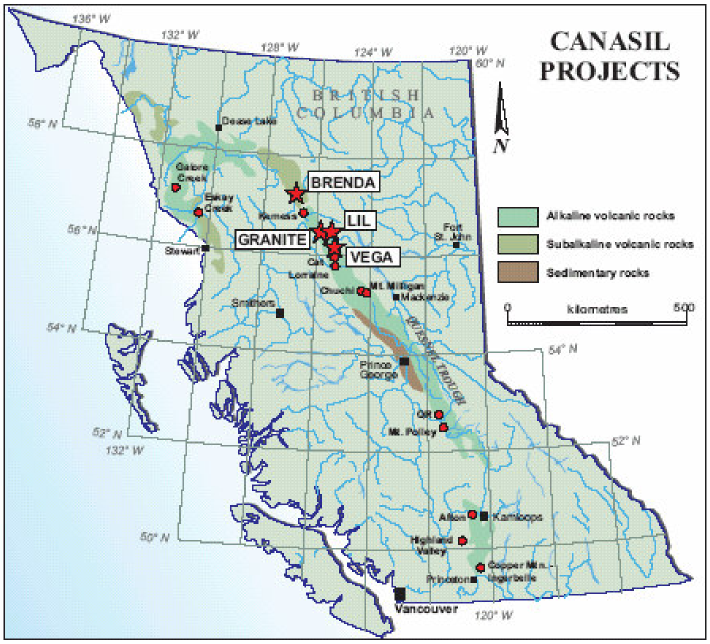
In July 2008 a systematic geological mapping and sampling program was completed on the Vizcaino project, including 99 samples from the vein structures and alteration zones. The samples confirmed significant zones with anomalous gold mineralization along the vein. A diamond drill program is warranted to test this mineralization at depth.

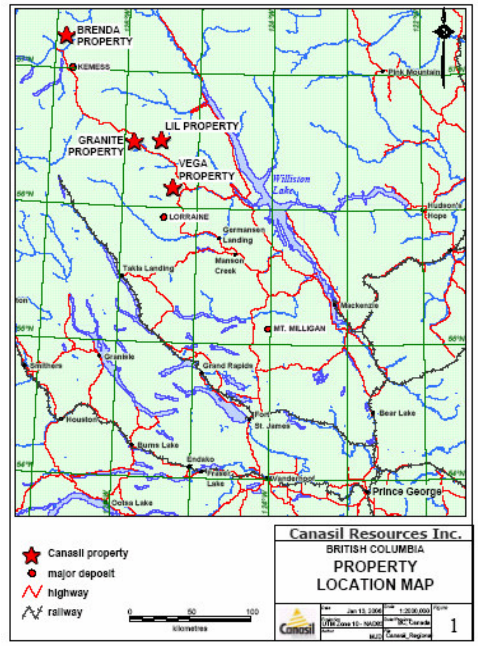
***Carina Project, Durango, Mexico***

The Carina project covers 3,100 hectares, located 45 kilometers northeast of the City of Durango, in Durango State. The project lies 6.5 kilometres southwest of the La Preciosa project of Orko Silver, another major recent discovery, and is adjacent to the northwest corner of Canasil's large Victoria project area. The area has excellent road access and infrastructure.

A number of quartz veins, breccias and stockwork zones are observed in the project area, hosted by rhyolites, andesites and sediments. The main vein system strikes NW-SE and is composed of a series of parallel quartz and fluorite veins with bladed textures and widths of 1.5 metres to 2.5 metres. A broad area of quartz stockwork and breccia structures hosted by tuffaceous rhyolites is observed over an area of 100 metres by 300 metres. In July and August 2008 a geological mapping and sampling program was completed over the main vein areas, including 170 surface samples. The samples results indicate the high levels of an epithermal system, which should be tested with diamond drilling.

**Exploration projects in British Columbia, Canada**




***Brenda gold-copper property, British Columbia, Canada***

The Company's 100% owned Brenda property consists of 178 claim units, covering 4,450 hectares. The project is located in the Kemess-Toodoggone porphyry copper-gold district, approximately 450 km northwest of Prince George, B.C. The Brenda property is an advanced gold-copper exploration project with over $3,500,000 in cumulative exploration expenditures covering geologic mapping, geochemistry, ground and airborne geophysics, satellite imaging and over 9,700 metres of drilling in 63 drill holes.

These programs have identified the potential for a deep porphyry gold-copper system at the Brenda project. The increasing gold and copper grades at depth observed in drilling to date, and the strength of the highly altered mineralized structure observed in the drill core, in conjunction with the strong anomalies observed in the geophysical survey, are highly encouraging and indicate the potential for a large deep-seated gold-copper porphyry system at the Brenda project. The mineralized system averages 300 to 400 metres in width, and has been traced along a strike length of 400 meters by drilling, with a potential strike length in excess of 1,000 metres indicated by the chargeability anomalies observed in the 3-Dimensional Induced Polarisation geophysical survey. A deeper sensing geophysical survey, which can penetrate to 1,000 metres depth, as well as deeper drilling to extend some of the existing drill holes may be used in a future program for further definition of the structure at depth. During the period the Company completed and filed the assessment reports for the 2007 exploration program and extended the validity of all the Brenda mineral claims to May 30, 2018. Expenditures on the Brenda project during the period were $42,456 (Nine months 2007 - $504,150).

***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 covers 6,716 hectares. Expenditures for maintenance of the Vega project during the period were $8,879 (Nine months 2007 - $35,313).

***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 through payment of $3,851 (Nine months 2007 $4,169).

***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 were no expenditures on the Granite property during the period.

## Results of Operations

### *Results of Operations for the three months ended September 30, 2008 and 2007*

Operating expenses for the third quarter 2008, were $197,984 (Third quarter 2007 - $246,437) and the Company earned interest income of $1,064 (Q3 2007 - $8,389). The operating expenses for the third quarter include non-cash Stock-Based Compensation of $58,158 (Q3 2007 - $78,317). During the third quarter expenditures on Investor Relations and Conferences and Conventions were reduced to $5,476 (Q3 2007 - $41,652), Office Services and Supplies reduced to $16,258 (Q3 2007 – 21,755), Foreign Exchange Loss reduced to $2,677 (Q3 2007 - $24,738), and General Exploration increased to $36,495 (Q3 2007 – 1,598). Other expense categories were relatively consistent between the two comparative quarters.

Net cash used for operating activities during the third quarter was $76,802 (Q3 2007 – 269,178). The difference was due primarily to a decrease in receivables in the third quarter 2008 of $5,058 (Q3 2007 – increase of $87,651) and increase in accounts Payable of $$30,999 (Q3 2007 – decrease of $15,822). Cash used for investing activities during the third quarter 2008 decreased to $139,478 (Q3 2007 – 1,121,741) reflecting the lower level of exploration expenditures in 2008. Net cash flow from financing activities during the quarter was $153,750 (Q3 2007 - $3,258).

### *Results of Operations for the nine months ended September 30, 2008 and 2007*

Operating expenses during the period were $577,537 (Nine months 2007 - $650,987) and the Company earned interest income of $4,401 (Nine months 2007 - $23,700). The operating expenses for the period include non-cash Stock-Based Compensation of $147,220 (Nine months 2007 - $183,056). During the period Management and Directors fees were $115,500 (Nine months 2007 - $113,000) and expenditures on Investor Relations and Conferences and Conventions were $94,441 (Nine months 2007 - $119,158). Accounting and audit fees were $38,462 (Nine months 2007 – $33,705), office services and supplies increased to $52,861 (Nine months 2007 - $44,524), and travel and accommodation expenses decreased to $13,678 (Nine months 2007 - $22,812). The Company recorded a foreign exchange gain of $4,577 (Nine months 2007 – loss of $43,077) during the period resulting from exchange rate fluctuations between the Canadian Dollar, the U.S. Dollar, and the Mexican Peso.

Net cash used for operating activities during the period was $365,630 (Nine months 2007 - $683,104). The decrease was due to the lower increase in Accounts Receivable of $2,422 (Nine months 2007 - $201,749) resulting from the collection of GST refunds due in Canada and IVA tax refunds in Mexico, and an increase in Accounts Payable of $14,019 (Nine months 2007 – decrease of $53,362). Cash used for investing activities decreased to $614,343 (Nine months 2007 - $2,142,509) reflecting the lower level of exploration expenditures in 2008. Net cash flow from financing activities was $655,000 (Nine months 2007 - $2,804,394).

## Summary of Quarterly Information

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

| **Year** | **2008** | | | **2007** | | | | **2006** |
|---|---|---|---|---|---|---|---|---|
| **Quarter ended:** | Sept. 30 | Jun. 30 | Mar 31 | Dec. 31 | Sept. 30 | Jun. 30 | Mar. 31 | Dec. 31 |
| Loss before other items | (138,765) | (154,586) | (132,565) | (170,918) | (164,731) | (169,354) | (110,146) | (85,307) |
| Stock-based compensation | (58,155) | (35,231) | (53,834) | (35,230) | (73,317) | (33,053) | (76,686) | (5,984) |
| Write-off of resource properties | - | - | - | (413,012) | - | - | - | - |
| Loss for the quarter | (196,920) | (189,817) | (186,399) | (619,160) | (238,048) | (202,407) | (186,832) | (91,291) |
| Loss per share: basic and diluted | (0.006) | (0.006) | (0.006) | (0.019) | (0.008) | (0.007) | (0.008) | (0.004) |
| Weighted-average shares | 34,347,157 | 33,531,438 | 33,377,592 | 31,642,614 | 31,555,353 | 30,009,802 | 24,447,774 | 21,735,342 |

*Discussion of Quarterly Information*

The Company experienced a significantly higher level of exploration activity in 2007 than in 2006 and 2008, reflected also in higher general and administrative expenses and operating losses in 2007. The operating losses in 2007, before stock-based compensation and property write-downs, were also higher due to higher Management and Directors compensation, and a higher level of Investor Relations and Conferences expenditures. The Company has also experienced an increase in accounting and audit fees and an increase in office services and supplies due to the higher levels of exploration activity and moving its office during 2007. Travel and accommodation expenditures were higher in 2007 as the Company increased its participation in the various industry trade shows. The loss for the quarter ending March 31, 2008 was reduced due to a foreign exchange gain of $11,530. The quarterly losses in 2008 have been lower as a result of reduced operating expenditures reflecting a response to the current negative economic and industry conditions.

**Liquidity and Capital Resources**

The Company is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sale) in order to finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in securing the required financing. The Company had a working capital deficiency at September 30, 2008 of $12,951 (December 31, 2007 - $686,088). The Company is eligible and has applied for a Mineral Exploration Tax Credit of $189,000 for expenditures in British Columbia, Canada. This amount is not included in the financial statements. The Company has been informed that processing of the application is in progress.

The Company had no material income from operations. As at September 30, 2008, the Company had no long-term debt. During the period the Company experienced negative cash flow of $324,973 (Nine months 2007 – $21,219) from operating, investing and financing activities. This included net cash used in operating activities of $411,213 (Nine months 2007 – $431,292), net cash used in investing activities of $614,343 (Nine months 2007 - $2,142,509), and net cash provided by financing activities of $655,000 (Nine months 2007 – $2,804,394).

The Company has option agreements that require certain future cash payments to maintain its interest in mineral properties, however, these payments can be made at the discretion of the Company and are not firm commitments. The Company will require additional funding for planned exploration and operating expenditures through 2008.

Given the recent downturn in the financial and metals markets, the Company has identified certain conditions that cast considerable doubt upon its ability to continue as a going concern (see note 1 to interim consolidated financial statements). However, management believes that the Company will be able to continue as a going concern through a combination of raising additional equity funds, reducing general and administrative expenses, and slowing the rate of exploration on its mineral properties.

**Other Information and Disclosures**

***Related Party Transactions***

During the period the Company paid or accrued a total of $134,395 (Nine months 2007 - $143,018) to related parties covering directors' and management fees and geological and legal services. The decrease is due to lower legal services and share issuance costs of $18,895 (Nine months 2007 $30,018). 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***

*Capital Disclosures*

Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1535 – *Capital Disclosures*. This Section requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes of managing capital.

*Financial Instruments - Disclosures*

Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862 and 3863 – *Financial Instruments – Disclosures and Presentation*. These Section requires disclosure of quantitative and qualitative information that enable users to evaluate the significance of financial instruments for the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Disclosure of the measurement basis used and the criteria used to determine classification for different types of instruments is also required.

***Financial Instruments***

The Company's financial instruments consist of cash, receivables, reclamation bonds, accounts payable and accrued liabilities and due to related parties. All of the Company's financial instruments are carried at amortized cost and their fair value is considered to approximate their carrying value due to their short-term nature or capacity of prompt liquidation. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash is held in an interest bearing account at a major Canadian bank and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which it uses to fund its foreign projects. The cash balances and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration expenditures. Accounts payable are settled in a timely manner.

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

### *Disclosure for Venture Issuers without Significant Revenue*

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's un-audited financial statements for the period ended September 30, 2008, 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 September 30, 2008, the Company had 34,677,592 common shares issued and outstanding (diluted – 40,805,342) compared to 33,377,592 common shares issued and outstanding (diluted – 40,300,017) as at December 31, 2007. In June 2008, 500,000 shares were issued at $0.25 as part of the agreement with Blackcomb Minerals. In August 2008, the Company completed private placement of 800,000 units at $0.25 per unit. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable at $0.35 per share within August 8, 2009. The change in the number of fully diluted shares outstanding also reflects the issuance of 1,300,000 common shares, expiration of 1,294,675 warrants, addition of 400,000 warrants, and granting of 100,000 options during the period.

There has been no change in the number of common shares outstanding and fully diluted from September 30, 2008 to the date of this report..

#### Options

As at September 30, 2008, a total of 2,933,750 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 |
| 100,000 | $ 0.25 | July 10, 2013 |
| 2,933,750 | | |

#### Warrants

As at September 30, 2008, a total of 3,194,000 share purchase warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|---:|---:|---|
| 2,000,000 | $ 0.55 | March 12, 2009 |
| 794,000 | $ 0.45 | December 31, 2008 |
| 400,000 | $ 0.35 | August 8, 2009 |
| 3,194,000 | | |

#### Escrow

There are no shares subject to escrow or pooling arrangements.

***Investor Relations***

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. During the period the Company exhibited at the Vancouver Resource Investment Conference and Vancouver Mineral Exploration Roundup in January 2008, at the Prospectors and Developers Association Conference in Toronto in March 2008, at the Calgary Resource Investment Conferences in April 2008, at the Vancouver Resource Investment Conference in June 2008, and at the Toronto Resource Investment Conference in October 2008. The Company has an Investor Relations contract with Kerr Consulting in Vancouver, and has terminated the agreements with Garth McTavish in Calgary, Alberta, and Pro-Edge Investor Relations Consultants in Toronto as of October 30, 2008.

***Recent developments***

Subsequent to September 30, 2008, The Company signed a letter agreement with Goldcorp Inc. to terminate the option agreement on the Tres Marias and Cebollas projects in Durango, Mexico. Accordingly, the Company will issue 275,000 shares to Goldcorp Inc. in full and final settlement of any obligations under the original agreement.

***General Conditions Affecting the Company's Operations***

*General Trends*

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

During the most recent quarter ended September 30, 2008, and to the date of this report there has been a marked deterioration in global economic conditions due to the financial and banking crisis in the U.S. and its effects on the global economy. This has resulted in a sharp decrease in the price of commodities and precious and base metals as well as sharp drops in all stock markets and loss of confidence in the investment sector. This has had very negative impact on the share prices and liquidity of mineral producers and explorers, as well as a very negative outlook for funding of mineral exploration companies and projects.

*Competitive Conditions*

The outlook for acquisition and development of natural resource projects has deteriorated due to the global fiancial crisis. As a result the Company may be unable to maintain and advance its mineral exploration projects as planned. The lower level of exploration activity has resulted in greater availability and generally lower prices for mineral exploration services.

*Environmental Protection*

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

*Number of Employees*

As of September 30, 2008, the Company had no employees. All administrative and certain geological services are provided to the Company by consultants or companies controlled by related parties.

*Acquisition and Disposition of Resource Properties*

During the period, the Company acquired though staking of claims a further 50,000 hectares at the Victoria project, 3,100 hectares at the Carina project and 600 hectares at the Vizcaino project, all in Durango State, Mexico, and 4,000 hectares at the El eden project in Sinaloa, Mexico, as described above.

***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 June 30, 2008, the Company's accumulated deficit was $5,344,306.

*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 September 30, 2008, and to the date of this report the price of the Company's shares fluctuated from a low of $0.04 to a high of $0.39 per share. There can be no assurance that continued fluctuations in price will not occur.

*Shares Reserved for Future Issuance - Dilution*

As at September 30, 2008, a total of 34,677,592 common shares of the Company were issued and outstanding. There were 2,933,750 stock options and 3,194,000 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

***Forward-Looking Statements***

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

### *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 September 30, 2008, 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.

### 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