Canasil resources inc.

2012

ANNUAL REPORT

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2012 Annual Review of Operations – April 2013

During 2012, precious, base metals and commodity prices were volatile resulting in corresponding volatility in resource markets and share prices. Gold prices touched peak values of $1800 per ounce in late February and late September 2012, and dropped to a low of $1,550 in between. Similarly silver touched highs of $37 and $35 per ounce in late February and late September 2012, and down to a low of $27 in between. These movements were reflected in Canasil's share price, with highs of $0.28 (market cap of $19 million) and $0.22 (market cap of $15 million) in late February and late September 2012 respectively, and touching a low of $0.07 (market cap of $4.75 million) in between, compared to a high of $0.58 per share and a low of $0.18 in 2011. This clearly demonstrated the very high leverage of Canasil's share price to precious metal prices, particularly silver, and resource market conditions. Base metals and oil prices showed similar fluctuations; crude oil prices started the year at $105 per barrel, and after dropping to $90 in June 2012, closed the year up at $110 per barrel and continued trading between $100 and $120 per barrel to date in 2013. Copper traded between $3.30 and $3.90 per lb., zinc between $0.80 to $1.00 per lb. and lead between $0.80 and $1.10 per lb. The volatility was caused by changing economic conditions, news and forecasts, most importantly growth forecasts for the U.S., European and Asian economies and concerns over U.S, and European debt and instability in the Eurozone economies. There has also been an undercurrent of opinion regarding potential manipulation of precious metal prices resulting in high volatility.

The overall trend has been towards generally improving economic conditions in the U.S. and generally slower growth forecasts for the Asian economies, although the recent 7.7% growth figure for the Chinese economy during the first quarter of 2013 can be considered a strong performance, particularly on a much larger economic base. Other Asian and BRIC economies such as Korea, Japan, India, Brazil, Indonesia etc. are also showing positive economic developments. The DJIA gradually rose from 12,000 to 13,000 in 2012, and on to 14,500 by April 2013 based on a more positive outlook for the U.S. economy and low interest rates. The TSX composite index fluctuated around 12,000, starting and closing the year at this level and again back at the same level in April 2013 after an increase during the first quarter of 2013. The forecast for a significant rise in the middle class population of the Asian economies from an estimated 500 million to 1.75 billion over the next 5 – 10 years is expected to provide strong consumption demand for metals and commodities and for precious metals. Therefore, while in the short term the price volatility and negative trend for the resource sector has continued in 2013 to date, the medium to longer term outlook appears more positive. Gold and silver prices collapsed in mid-April 2013, gold down from $1,575 to $1,375 per ounce, and silver from $28 to $23 per ounce. There were also corresponding drops in the prices of base metals resulting in sharp drops in the share prices of mineral producers, as well as large and small explorers.

The uncertain economic conditions and volatility in metal prices created a very difficult environment for financing in the resource sector and in particular for junior explorers in 2012 and 2013 to date. As a result direct exploration by Canasil was limited to geophysics and further surface sampling work at the Sandra-Escobar project to complete the earn-in of our interest in Pan American Silver's Escobar claims, and extensive surface sampling at the Salamandra project, both in Durango State, Mexico. Both programs continued to confirm the potential for large mineralized systems at these projects. MAG Silver completed a 3,247 metre diamond drill program in 11 drill holes under the option agreement at the La Esperanza project, in Durango and Zacatecas States, Mexico, reporting encouraging drill intercepts from the La Esperanza vein. Pan American silver completed 1,008 metres of diamond drilling in 6 drill holes under the option agreement on the Carina project, also in Durango State, Mexico, reporting only anomalous gold and silver values. In May 2012 Pan American decided to drop both option agreements, principally due to their decision to withdraw from a number of exploration projects, including the La Preciosa project with Orko Silver located adjacent to the Canasil's Carina project, following the acquisition of Minefinders valued at $1.5 billion with the Dolores operating mine.

In late 2012 MAG Silver completed the Phase-2 drill program at the La Esperanza project, with 3,049.50 metres in 12 drill holes to test two additional veins in the northwest of the project area. Most of the drill holes intercepted wide structures with relatively low silver values. However the results indicate the potential for significant silver-lead-zinc mineralization in these veins, which have only been partially tested.

Canasil's exploration expenditures in 2012 were $570,410 net of expense recoveries compared to $1,247,757 in 2011, a significant drop reflecting the negative financing environment during this period. MAG Silver spent $1,471,735 at La Esperanza compared to $518,765 in 2011, and Pan American Silver spent a total of $357,807 at the Carina project. Following an active year in 2011 with increasing direct exploration expenditures by Canasil, the drop in activity and expenditures in 2012 was disappointing. However this was more than made up for by the significantly higher exploration expenditures on our projects in 2012 by our joint venture partners. We also took steps to reduce operating expenditures at all levels down to $638,680 in 2012 compared to $1,000,632 in 2011.

Due to the negative financing environment in 2012, our objective was to raise sufficient additional capital to maintain our working capital position and fund limited direct exploration programs in order to avoid excessive dilution. Canasil completed a private placement of 3,000,000 units at $0.225 per unit in February 2012 for gross proceeds of $675,000, a private placement of 2,103,782 flow through shares at $0.185 for $389,200 in December 2012, and 4,476,999 units at $0.15 for $671,550 in January 2013. These financings were completed in difficult market conditions with relatively positive terms for the Company and strengthened our working capital for continued operations. Strengthening our working capital through less dilutive funding remains our most important priority and will have to be addressed following positive results from our projects and improving market conditions when the share prices and financial markets recover and allow larger funding without higher dilution. In the meantime our focus will be to ensure active work programs on our projects through option and joint venture cooperation with financially and technically strong partners.

To date in 2013, we have been engaged in active negotiations for further option agreements on our projects in Mexico. We have also completed additional surface sampling programs at the Sandra-Escobar project, and completed a remote sensing survey on our Vega, Lil and Granite projects in British Columbia in anticipation of further work this summer. We are optimistic about concluding further option and joint venture agreements to generate active programs and results on our projects in 2013 and 2014. In spite of the current depressed resource market conditions and very low share prices, Canasil's continued success will be based on our highly prospective gold-silver-copper-lead-zinc projects portfolio in Mexico and British Columbia, Canada, which include several drill-ready projects located on well-recognized mineral trends with a history of discoveries and hosting large mineral deposits. Together with our strong operating team in Mexico, these projects continue to present multiple opportunities for positive results, leading to improving share prices, trading volumes and further financing opportunities as resource market conditions improve.

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

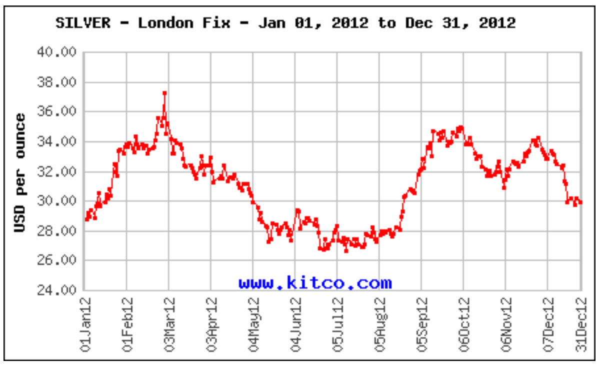
"Bahman Yamini"

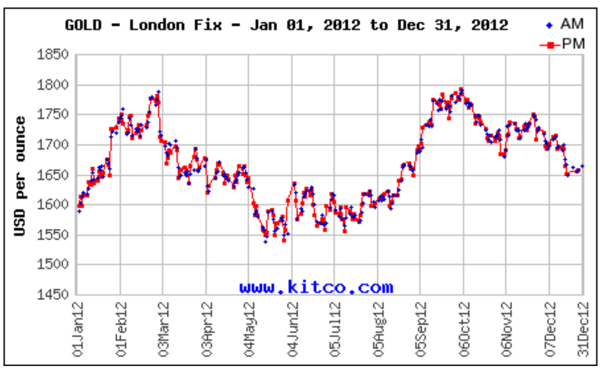
Bahman Yamini, President, CEO & Director

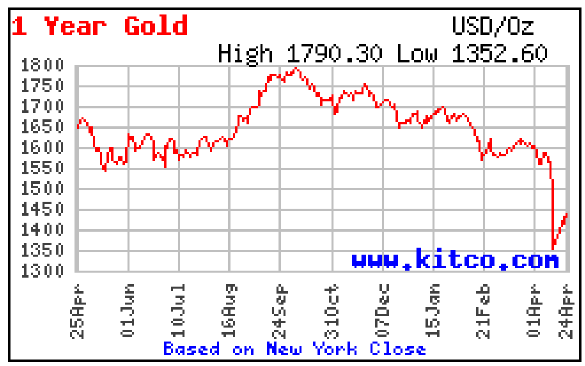
2012 Annual Review of Operations – April 2013 (contd.)

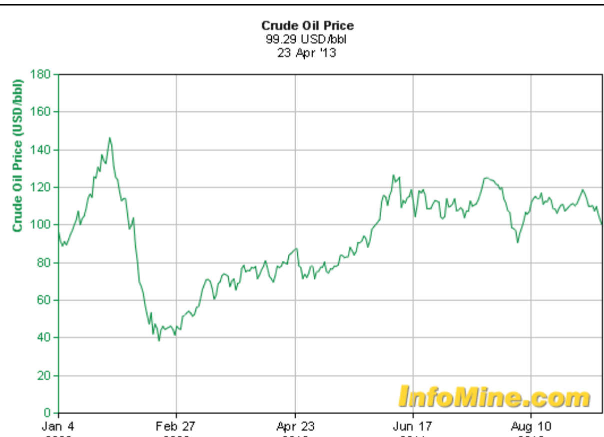
Canasil 2012 share price chart

Canasil share price chart April 2012 – April 2013









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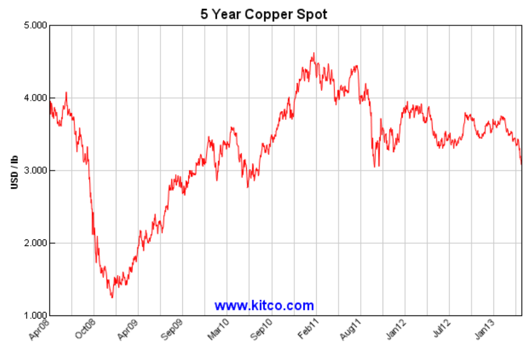

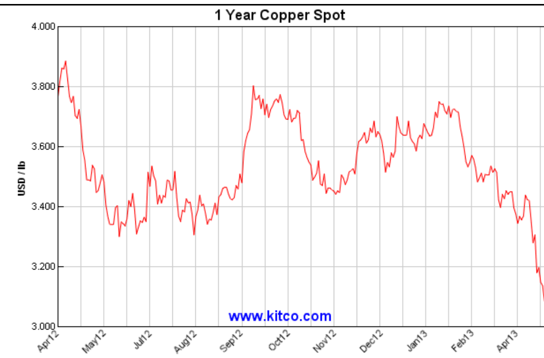

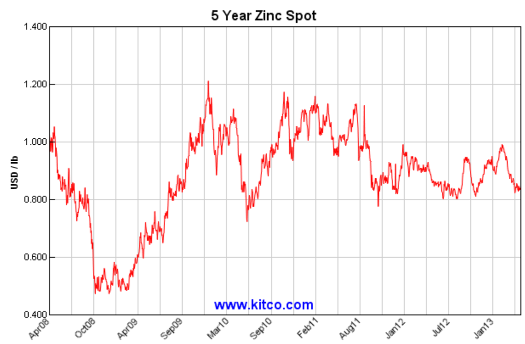

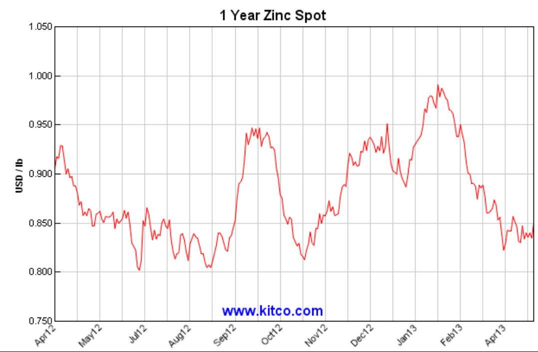

DJIA 5-year Chart April 2008-2013

TSX Composite 5-year Chart April 2008-2013

Precious and Base Metal Charts from Kitco
Exchange Charts from Yahoo Finance

This Annual Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated April 24, 2013, and provides information on the Company's activities for the year ended December 31, 2012, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the audited annual consolidated financial statements and related notes for the years ended December 31, 2012 and 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2011.

Overview and Outlook

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

In Mexico, during the year, at the Sandra-Escobar project the Company completed an ASTER satellite alteration survey, 11.8 line-kilometre ground IP survey as well as surface sampling programs to complete the balance of earn-in expenditures required on Pan American's Escobar claims. Following completion of the earn-in, Pan American advised Canasil that it would not exercise its back-in right for a 51% interest in the combined Sandra-Escobar project claims, and as a result Canasil retains 100% interest in its Sandra claims and 40% interest in Pan American's Escobar claims. At the Salamandra project, extensive surface sampling was undertaken to follow up on the anomalies identified in the ZTEM airborne geophysical survey completed in 2011, identifying a large zone with silver-copper-zinc-lead and arsenic-antimony anomalies, further indicators of a potentially large mineralized system. At the La Esperanza project, MAG Silver Corp. ("MAG") continued the diamond drill program started in December 2011, and completed 3247 metres of drilling in eleven drill holes on extensions of the La Esperanza vein, reporting encouraging drill intercepts from the first three drill holes. In late 2012, MAG started the Phase-2 drill program at La Esperanza and completed 12 diamond drill holes for a total of 3,049.50 metres on the Fatima and San Pascual veins in the northwest of the project area – nine drill holes to test the Fatima vein and three drill holes to test the San Pascual vein. At the Fatima vein, the drill holes consistently intercepted the vein over significant widths, however with relatively low silver values, and one of the drill holes at the San Pascual vein returned good silver and high lead and zinc values. The results indicate potential for significant silver-lead-zinc mineralization associated with these veins. MAG reported total qualifying expenditures of $2,468,380 at La Esperanza as at December 31, 2012, of which $1,471,735 was spent during the current year. At the Carina project, Pan American Silver ("Pan American") completed a diamond drill program of 1,008 metres in six drill holes, reporting anomalous silver and gold values. During the year, Pan American withdrew from the Carina project option agreement following their decision to withdraw from the adjacent La Preciosa project agreement with Orko Silver Corp. Pan American reported total expenditures of $357,807 at the Carina project under the agreement fulfilling the minimum $200,000 expenditure obligation. All the mineral claims in Mexico were maintained in good standing. Total Canasil expenditures during the year in Mexico, net of expense recoveries, were $570,410 (2011 - $1,247,757). During 2012, the Company received $150,000 (2011 – $175,375) in option payments on the Mexican properties. Total expenditure by joint venture partners in 2012 on the La Esperanza and Carina projects was $1,829,542 (2011 - $518,765).

There was no significant activity in British Columbia, Canada, during the period other than maintaining all claims in good standing. Total expenditures during the year in Canada were $20,673 (2011 - $110,658). During 2012, the Company received BC Mineral Exploration Tax Credit refunds totalling $19,172 in respect of the Canadian properties.

Gary Nordin, P. Geo. British Columbia and Director of Canasil, is the Company's designated Qualified Person in relation to data provided with regards to the Company's exploration projects in accordance with National Instrument 43-101.

In February 2012, the Company completed a private placement of 3,000,000 units at $0.225 per unit to raise gross cash proceeds of $675,000 (see *"Outstanding Share Data"*). In August 2012, the Company received from MAG the second anniversary option payment of $150,000 on the La Esperanza option agreement as well as an additional $69,307 in expenditure recoveries. On November 20, 2012, the Company announced its intention to complete a non-brokered private placement of up to 5,000,000 units at a price of $0.20 per unit for gross proceeds of up to $1,000,000. The Company closed the flow-through portion of this private placement in December 2012 by issuing 2,103,782 shares at $0.185 per share to raise gross cash proceeds of $389,200 (see *"Outstanding Share Data"*). Subsequent to December 31, 2012, the Company closed the balance of this private placement by issuing 4,476,999 units at a price of $0.15 per unit for gross cash proceeds of $671,550 (see *"Subsequent Event"*), of which $397,500 had been received at year-end, and the balance of $274,050 received subsequent to the year-end. .

As at December 31, 2012, the Company had working capital of $838,765, which includes $389,200 in proceeds from the issuance of flow-through shares. The Company must expend the flow-through funds on qualifying expenditures on its British Columbia projects during 2013.

Due to the current uncertainties in the financial markets and low share prices, the Company will endeavour to preserve its financial position and will not undertake direct high cost exploration expenditures such as drilling, which would be highly dilutive if financed at current share prices. The Company has a very strong project portfolio with seven drill ready projects in Mexico and BC, Canada, providing opportunities for further cooperation agreements and non-dilutive sources of funding to advance its mineral exploration projects. Consequently the Company's focus is to attract additional high quality joint venture partners on its drill ready projects allowing for further work and results without additional dilution. Discussions are currently in progress with a number of potential partners.

Mineral Properties

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

Durango, Zacatecas and Sinaloa, Mexico:	British Columbia, Canada
• La Esperanza silver zinc lead project – 100%, subject to option agreement with MAG • Sandra gold silver project – 100% in part, plus option to earn 100% • Escobar gold silver claims – 40% • Salamandra zinc silver project – 100% in part, plus option to earn 100% • Carina silver project – 100% • Colibri silver zinc lead copper project – 100% • Vizcaino silver gold project – 100% • Victoria zinc silver project – 100% • Nora silver gold copper project – 100% in part, plus option to earn 100% • Los Azules copper silver gold project – 100% • San Francisco gold silver project – 100% • Buenavista gold, copper, silver project – 100%	• Brenda, gold-copper property – 100% • Vega, gold-copper property – 100% • Granite, gold property – 100% • LIL, silver property – 100%

Exploration projects in Mexico

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

The Company holds a 100% interest in the La Esperanza project claims covering 18,954 hectares. The project is located on the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. A Phase 1 diamond drill program consisting of nine drill holes for a total of 1,432 metres was completed in 2006 confirming a wide high grade silver-lead-zinc mineralized vein which is open in all directions. In 2010 the Company completed geological mapping and surface sampling to investigate four high-grade silver vein occurrences in newly acquired claim areas, all returning encouraging silver values.

In August 2010, the Company signed an option agreement with MAG Silver Corp. (MAG) providing for MAG to earn a 60% interest in the La Esperanza project for expenditures of $5,000,000 and cash payments to Canasil of $500,000 over a period of four years, as well as subscribing for private placements of up to $350,000 in Canasil shares. All required cash payments, share placements and expenditure commitments to date have been fulfilled by MAG.

In October 2010, MAG completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey at La Esperanza. During 2011, MAG actively worked on the interpretation of the ZTEM airborne survey and the upgrading of 30 kilometres of access roads on the north and south sides of the project area, as well as geological mapping and surface sampling on four vein systems to define drill targets. The Phase-1 drill program started in December 2011 and continued through the first quarter of 2012, completing a total of 3,247 metres of drilling in 11 drill holes. MAG reported encouraging drill intercepts from the first three drill holes, drilled on a blind section 100 metres northwest along strike from previous drilling completed by Canasil. All three holes intersected the La Esperanza vein with increasing widths and grades with depth. The deepest hole, ES12-03, intersected a 10.28 metres (8.22 metres true width) section of quartz vein and breccia assaying 97 grams per tonne ("g/t") silver (2.8 ounces per ton ("opt")), 1.1% lead and 2.3% zinc. Within this zone there is a higher grade interval reporting 278 g/t (8.1 opt) silver, 2.8% lead and 5.8% zinc over 2.42 metres. MAG commented that: "The wide intercepts of quartz vein and breccia intercepted in the early drilling at La Esperanza appear to reflect a NW plunging mineralized zone, supporting the premise that the structure may host significant mineralization over favourable widths."

The Phase-2 drill program started in October 2012 and completed 12 diamond drill holes for a total of 3,049.50 metres – 9 drill holes on 5 sections along a total strike length of 835 metres to test the Fatima vein and 3 drill holes on 2 sections 350 metres apart to test the San Pascual vein, both located in the northwest of the project area. At the Fatima vein, the drill holes consistently intercepted the vein over significant widths, however with relatively low silver values. The best intercept from the Fatima vein was from drill hole FA12-05 at a core depth of 155.55 metres with 4.15 metres (true width 2.76 metres) of 0.07 g/t gold, 92.4 g/t silver, 0.98% lead and 0.11% zinc, including 2.76 metres (true width 1.84 metres) of 0.07 g/t gold, 111.5 g/t silver, 1.04% lead and 0.14% zinc. The best intercept from the San Pascual vein was from drill hole SP12-01 at a core depth of 79.00 metres with 4.93 metres (true width 2.19 metres) of 0.19 g/t gold, 104.2 g/t silver, 2.57% lead and 7.88% zinc, including 2.77 metres (true width 1.23 metres) of 0.23 g/t gold, 162.2 g/t silver, 3.91% lead and 13.39% zinc. The results indicate potential for significant silver-lead-zinc mineralization associated with these veins.

MAG reported expenditures of $1,471,735 during the year, in addition to $996,645 in total qualifying exploration expenditures reported up to December 31, 2011, for a total of $2,468,380 to December 31, 2012.

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

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

During 2011, the Company completed a 420 line-kilometre ZTEM airborne geophysical survey over the project area, petrographic analysis of 23 surface samples, a high resolution satellite imaging survey to prepare detailed contour maps, and a 1,848-metre diamond drill program in eleven drill holes. These programs have confirmed evidence of a large hydrothermal system centred on an intrusive source with the potential for hosting both high-grade vein style and disseminated mineralization. The mineralized zones observed at surface with veins and outcrops consistently return high silver, gold, copper, lead and zinc mineralization (silver grades up to 1,465 g/t, gold grades up to 19.95 g/t, copper grades up to 3.75% in surface samples). An initial shallow drill hole to test the Maria Fernanda vein, with a strike length of over 1.5 km and which is open along strike and at depth, returned 0.40 metres with 2.58 g/t Au, 429 g/t Ag, 0.53% Cu. This is typical of the narrow high-grade vein systems in the Guanacevi district being successfully mined by Endeavour Silver Corp. and Great Panther Silver Corp.

During 2011, the Company entered into an option agreement that provides the Company the right to earn a 100% interest in certain claims within the area of interest of the Sandra and Escobar project. The agreement calls for payments of US$300,000 and exploration expenditures of US$150,000 over 42 months and provides for a 2% NSR that the Company can purchase for US$200,000. To date, the Company has made payments of US$40,000. In addition, the Company has entered into a further agreement to purchase various additional claims in the area for approximately $25,000.

During the year, the Company completed an ASTER satellite alteration imaging survey, extensive surface sampling and mapping programs over the areas of ZTEM anomaly and surrounding the vein targets as well as an 11.8 line-kilometre ground IP survey to test these areas and define further drill targets. Expenditures during the year amounted to $201,541 (2011 - $692,836). The 2011 and 2012 exploration programs have outlined seven significant silver-gold targets over an area of 25 square km for future drilling. The results to date indicate a similar geologic setting to some major silver and gold deposits in northern Durango State such as Silver Standard Resources' La Pitarrilla deposit, with Measured and Indicated Resources of 643 million ounces, and a recently completed positive feasibility study for a 32-year mining operation based on Probable Reserves of 479 million ounces silver.

The agreement with Pan American provided for the Company to earn an initial 51% interest in Pan American's Escobar claims by completing $1,000,000 in exploration expenditures within three years. During the year, the Company completed this earn-in and notified Pan American accordingly. Following the earn-in, Pan American had the option to back-in to a 51% interest in the combined Sandra and Escobar claims by paying three times Canasil's exploration expenditures on the combined claims, forming a 51% Pan American 49% Canasil joint venture. The agreement provided that should Pan American decide not to exercise its back-in right, it could sell its 49% interest in the Escobar claims to the Company for US$5 million in a combination of cash and shares to be paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims. Should Canasil decide not to purchase Pan American's 49% interest, the Company would retain a 40% interest in the Escobar claims. Total qualifying expenditures to June 24, 2012, under the option agreement with Pan American, amounted to over $1,100,000. During the year, Pan American advised the Company that it did not intend to exercise its back-in right for a 51% interest in the combined Sandra-Escobar project claims, and the Company advised Pan American that it did not intend to purchase the 49% interest in the Escobar claims. As a result Canasil retains 100% interest in its Sandra claims and 40% interest in Pan American's Escobar claims.

Salamandra zinc-silver project, Durango State, Mexico

The Salamandra project is located in Durango State, 35 km northeast of the City of Durango, with excellent access via paved and gravel roads. The project area covers 14,719 hectares, acquired through staking of claims and an option to purchase a 100% interest in the central 900 hectares of claims, subject to an NSR of 2%, by making option payments over a period of five years totaling US$500,000. The Company has made payments of US$50,000 and in May 2012, exercised its option to extend the payment schedule over an additional five years. Subsequent to December 31, 2012, the Company and the optionor amended the payment schedule to provide the Company with a further option to extend the final payment over a period of eight years based on a specific schedule of payments that total $600,000.

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

In February 2011, the Company completed a 617 line-kilometre ZTEM airborne geophysical survey. Interpretation of the survey results show a large electromagnetic signature over an area of 3.5 kilometres by 2.5 kilometres extending towards the east from the area of previous drilling, confirming the potential for a significantly larger mineralized system in the project area. Surface sampling in the area of the ZTEM geophysical anomaly identified old workings with a 0.90 metre sample returning 2,150 g/t silver, 5.39% copper and 1.89% zinc. During the year, the Company continued with the surface sampling and mapping program over the area of ZTEM anomaly, for a total of 949 surface samples from this area. This program returned significant silver-copper-zinc-lead as well as arsenic-antimony geochemical anomalies providing further indications of the potential for a buried intrusive hosted mineralized system. The Company is continuing with this program and also plans a surface geophysical survey to define drill targets. The geology and style of mineralization observed at Salamandra are similar to the San Martin silver-base-metal mine of Grupo Mexico, located 80 kilometres southeast of the project, and the largest underground mining operation in Mexico. Expenditures during the year at Salamandra amounted to $129,617 (2011 - $220,490).

Carina Project, Durango State, Mexico

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

In November, 2010, the Company signed an option agreement with Pan American providing for Pan American to earn a 55% interest in the Carina project for expenditures of US$3,650,000 and cash payments to Canasil of US$365,000 over a period of four years. Pan American completed the required cash payments and exploration commitments under the agreement by conducting geological mapping and surface sampling and a drill program of 1,008 metres in six drill holes returning anomalous silver and gold values. In April 2012, Pan American withdrew from the agreement following their decision to withdraw from the neighbouring La Preciosa project agreement with Orko Silver Corp. Total expenditures reported by Pan American under the agreement were $357,807.

Other projects, Mexico

There was no significant activity on these projects during the year. All project claims were maintained in good standing and all required claim taxes were paid. Expenditures on the Company's other projects in Mexico during the year totalled $179,171 (2011-$293,083).

Exploration projects in British Columbia, Canada

There was no significant activity on the Company's projects in British Columbia, Canada, during the year. All mineral claims remained in good standing. Expenditures on the Company's BC projects during the year totaled $20,673 (2011 - $110,658). During 2012, the Company received BC Mineral Exploration Tax Credit refunds totaling $19,172 in respect of the BC properties.

Mineral Properties – Exploration and Evaluation Expenditures

A summary of the Company's exploration and evaluation expenditures for the years ended December 31 follows:

	2012	2011
Canada		
Brenda Property		
Environmental and permits	$ -	$ 663
Geological	4,782	780
Mapping and surveying	-	260
Expenditure recoveries	(511)	-
	4,271	1,703
Other Properties		
Acquisition and option payments	2,000	-
Assays	34	2,323
Consulting	-	1,040
Environmental and permits	-	345
Field costs	-	727
Geological	1,395	22,345
Land holding costs	10,977	46,751
Mapping and surveying	1,485	831
Transportation and rentals	-	23,048
Travel and accommodation	-	11,545
Expenditure recoveries	(18,661)	-
	(2,770)	108,955
Mexico		
Sandra and Escobar Properties		
Acquisition and option payments	20,177	30,254
Administration	30,087	50,530
Assays	11,012	28,123
Consulting	3,831	8,985
Drilling	-	261,726
Field costs	17,855	37,452
Geological	54,721	93,438
Geophysical	29,790	111,755
Land holding costs	24,847	11,362
Legal	3,399	571
Mapping and surveying	4,335	29,046
Roadwork	-	34,240
Transportation and rentals	1,487	(5,131)
Travel and accommodation	-	485
	201,541	692,836
La Esperanza Property		
Acquisition and option payments	-	84,196
Administration	17,471	11,835
Assays	854	-
Field costs	5,424	1,358
Geological	18,806	2,568
Land holding costs	56,870	41,095
Legal	7,719	5,981
Mapping and surveying	-	712
Transportation and rentals	1,430	-
Option payments received	(150,000)	(100,000)
Expenditure recoveries	(69,307)	(123,817)
	$ (110,733)	$ (76,072)

Exploration and evaluation expenditures for the years ended December 31 – *continued*

	2012	2011
Mexico – *continued*		
Salamandra Property		
Administration	$ 18,654	$ 8,348
Assays	10,781	6,896
Consulting	3,831	-
Field costs	9,601	4,937
Geological	37,660	42,586
Geophysical	-	124,529
Land holding costs	46,697	30,087
Mapping and surveying	2,381	1,758
Transportation and rentals	12	864
Travel and accommodation	-	485
	129,617	220,490
Carina Property		
Administration	6,208	1,562
Field costs	450	164
Geological	2,596	633
Land holding costs	28,621	15,061
Transportation and rentals	437	-
Expenditure recoveries	(17,498)	(75,375)
	20,814	(57,955)
Victoria Property		
Administration	7,754	2,618
Assays	-	3,095
Consulting	-	1,591
Field costs	167	6,093
Geological	2,410	12,048
Geophysical	-	119,593
Land holding costs	37,232	295
Mapping and surveying	-	681
Transportation and rentals	-	1,686
Travel and accommodation	-	485
	47,563	148,185
Colibri Property		
Administration	6,463	1,918
Field costs	415	812
Geological	2,485	1,027
Land holding costs	30,068	15,476
Transportation and rentals	-	73
	39,431	19,306
Other Properties		
Acquisition and option payments	5,089	39,369
Acquisition - share-based compensation	-	35,765
Administration	14,113	5,079
Field costs	70	583
Geological	5,732	6,901
Land holding costs	66,919	37,895
Transportation and rentals	254	-
	92,177	125,592
Total costs for period	$ 421,911	$ 1,183,040

Results of Operations

Operating expenses during the year were $1,302,713 (2011 - $2,438,550) and include $421,911 (2011 - $1,183,040) in Exploration and Evaluation expenditures (net of recoveries and option payments received). The operating expenses also include non-cash Share-Based Compensation of $225,623 (2011 - $241,029) related to the granting and vesting of options during the year. Management fees decreased to $57,500 (2011 - $164,500) as a result of bonus payments to the Chief Executive Officer and Chief Financial Officer in 2011 and also due to the fact that on April 1, 2011, the Chief Executive Officer began drawing a salary instead of charging management fees, therefore, salaries and wages increased to $215,160 (2011 - $145,659). A one-time loan bonus of $150,000 was paid in 2011 in recognition of unsecured loans advanced to the Company from September 2008 to December 2010. Investor Relations and Conferences and Conventions expenses decreased to $107,850 (2011 - $236,435) reflecting a significantly less active program in 2012 than the one initiated in 2011, which included participation in industry investment conferences and the dissemination of Company information in the German speaking markets in Europe.

Net cash used for operating activities during the year, before changes in non-cash working capital items, was $1,060,591 (2011 - $2,147,907), which includes $421,911 (2011 - $1,183,040) in Exploration and Evaluation expenditures, reflecting the Company's more active exploration programs in 2011 as compared to 2012. Cash used for investing activities was $549 (2011 - $51,694); in 2011, the Company purchased equipment and reclamation bonds that were not purchased in 2012. Net cash flow from financing activities was $1,432,506; the Company completed a private placement in February 2012, issued the first tranche of, and received subscriptions in respect of, a private placement that completed in January 2013 (2011 - $1,148,040 resulting from the completion of a private placement and the exercising of options and warrants).

Selected Annual Information

The information in the following table provides selected financial information of the Company for 2012 and the two preceding years. This information is derived from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information is presented in accordance with IFRS.

Year Ended December 31	**2012**	**2011**	**2010**
Total Revenue	$Nil	$Nil	$Nil
Share-Based Compensation Expense	$225,623	$241,029	$341,054
Exploration and Evaluation Expense	$421,911	$1,183,040	$449,116
Loss and Comprehensive Loss for the Year	$1,302,713	$2,438,550	$1,234,789
Loss per Share – Basic and Diluted	$0.02	$0.04	$0.03
Total Assets	$1,104,199	$822,204	$1,785,418
Working Capital	$838,765	$572,167	$1,623,728
Long-Term Liabilities	$Nil	$Nil	$Nil
Dividends per Share	$Nil	$Nil	$Nil
Shareholders' Equity	$936,668	$686,020	$1,699,736

In 2011, the Company was very active with the improved market conditions and, therefore, the loss increased significantly due to the Company's more active exploration and administrative operations, and due to other factors as discussed below. With deteriorating market conditions in 2012, the Company moved to reduce expenses and conserve resources wherever possible.

Summary of Quarterly Information

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

Year	**2012**				**2011**			
Quarter ended:	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**
Revenue	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Exploration and evaluation expense	$70,214	$(19,067)	$128,125	$242,639	$59,407	$106,453	$482,208	$534,972
Share-based compensation expense	$44,142	$-	$1,359	$180,122	$26,250	$38,361	$61,240	$115,178
Loss and comprehensive loss	$281,144	$106,826	$298,366	$616,377	$225,712	$411,883	$793,741	$1,007,214
Loss per share: basic and diluted	$0.00	$0.00	$0.00	$0.01	$0.00	$0.01	$0.01	$0.02
Weighted-average shares	66,941,428	66,827,092	66,827,094	65,178,740	63,245,516	63,078,940	61,397,394	58,778,039

Discussion of Quarterly Information

During the first and second quarters of 2011, the Company had a very active exploration and operating program, which is reflected in the higher quarterly expenditures and losses. Exploration and evaluation expenditures for the first and second quarters of 2011 were significantly higher than for the previous and subsequent quarters as the Company completed an exploration program, including drilling, on its Sandra-Escobar project. In addition, during the first quarter of 2011, the Company made bonus payments to management in recognition of their commitment to and sacrifices made for the Company, and a loan bonus payment in recognition of unsecured advances made to the Company, during the period that the Company had limited cash resources and market support. Losses for the third and fourth quarters of 2011 were lower due to the Company being less active in the field on its 100%-owned mineral properties due to the negative market conditions in the resource sector arising from the U.S. and European debt concerns and lower precious and base metal prices. In addition, during the third quarter of 2011, the Company received an option payment of $100,000 from Mag.

During the first quarter of 2012, the Company granted and vested 1,250,000 incentive stock options and recognized $180,122 in share-based compensation. In addition, during this quarter, the Company incurred exploration and evaluation expenditures of $242,639, which included field programs and increased land holding costs on its Mexican properties. During the second quarter of 2012, due to deteriorating economic and market conditions, the exploration and evaluation expenditures were limited to $128,125, primarily focused on completing the required expenditures under the Sandra-Escobar option agreement and field work at the Salamandra project. In order to conserve cash resources, expenditures for the third quarter of 2012 were reduced to a minimum, which included land holding costs on its Mexican properties. During this quarter, the Company also received an option payment of $150,000 from MAG, producing a net exploration and evaluation expense recovery for this quarter. The Company continued to minimize its expenses and expenditures in the fourth quarter of 2012 and granted 450,000 stock options, recognizing $44,142 in share-based compensation.

Discussion of Fourth Quarter

Operating expenses during the current quarter were $281,144 (2011 - $225,712) and include $70,214 (2011 - $59,407) for Exploration and Evaluation expenditures. The operating expenses also include non-cash Share-Based Compensation of $44,142 (2011 - $26,250) related to the granting and vesting of options during the quarter. Management fees increased to $15,000 (2011 - $7,500) as a result of an increase in time spent by the Chief Executive Officer. Investor Relations and Conferences and Conventions expenses decreased to $29,003 (2011 - $42,544) reflecting a significantly less active program in 2012 than the one initiated in 2011, which included participation in industry investment conferences and the dissemination of Company information in the German speaking markets in Europe.

Net cash used for operating activities during the quarter, before changes in non-cash working capital items, was $232,877 (2011 - $193,364). Cash used for investing activities was $nil (2011 - $2,362); the Company purchased equipment in 2011 that was not purchased in 2012. Net cash flow from financing activities was $786,700 during the quarter resulting from the Company closing the first tranche of a subsequently closed private placement and receiving subscriptions on tranches closed in fiscal 2013 (2011 - $130,500 resulting from the exercising of options and warrants).

Liquidity and Capital Resources

The Company has no material income from operations and is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sales) in order to finance further acquisitions, undertake exploration and development of mineral properties, and meet general and administrative expenses. Accordingly, management has identified certain conditions that cast significant doubt upon the Company's ability to continue as a going concern (see Note 1 to the December 31, 2012 consolidated financial statements). There can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

The Company had working capital at December 31, 2012 of $838,765 (December 31, 2011 - $572,167). The Company had cash on hand of $772,600 as at December 31, 2012 (December 31, 2011 - $498,853). During 2012, the Company issued shares under flow-through agreements that require the Company to incur qualifying exploration expenditures of $389,200 on its British Columbia projects in 2013. As at December 31, 2012, the Company had no long- or short-term debt.

The Company has option agreements that require certain future cash payments to maintain its interest in mineral properties, however, these payments can be made at the discretion of the Company and are not firm commitments. The Company currently does not have sufficient resources to fund its planned exploration and operating expenditures over the next twelve months and management recognizes that it will have to raise additional equity capital in the coming year (see *"Subsequent Event"*).

Given the strong prices of precious and base metals, the level of interest in high quality exploration projects, and the Company's large portfolio of prospective projects, management believes that the Company is well positioned to enter into further option and joint venture agreements to advance its exploration projects through 2013.

Related Party Transactions and Key Management Compensation

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

Accounts payable includes $nil (2011 – $70,000) in accrued director fees due to non-executive directors and $3,796 (2011 - $nil) in accrued legal fees due to a law firm in which an officer of the Company is a partner;

During 2011, the Company paid a loan bonus of $150,000 to a company with a director in common with the Company;

Key management includes executive and non-executive directors and executive officers. The compensation paid or payable to key management is as follows:

		2012		2011
Salaries and wages	$	150,000	$	112,500
Management fees		57,500		164,500
Director fees		-		40,000
Administrative consulting fees		5,600		14,400
Geological consulting fees		1,750		5,600
Legal fees		18,304		17,627
Share-based compensation *(i)*		157,977		155,557
	$	391,131	$	510,184

(i) Calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 7 to the December 31, 2012 consolidated financial statements.

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

Changes in Accounting Policies

There were no changes in accounting policies during the year. The Company's accounting policies are set out in full in Note 2 to the December 31, 2012 audited annual consolidated financial statements.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. The Company's most significant accounting judgements relate to the recognition of deferred tax assets, the estimation of share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. The Company inputs such assumptions in a consistent manner following accepted industry practice. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiary is the Canadian dollar. While transactions conducted outside of Canada are denominated in either the Mexican peso or the U.S. dollar, the subsidy has no revenues from operations and it is entirely dependent upon the Company for financing of its operations and exploration activities, which are largely determined in Canada.

Financial Instruments

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

All of the Company's Canadian cash and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which is held in a major bank in Mexico and used to fund its foreign projects. The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner. At December 31, 2012, the Company held the equivalent of $6,463 in cash, $143,588 in receivables, and $16,952 in accounts payable, all of which are denominated in pesos.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate, liquidity or market risks in respect of these financial instruments. The Company is exposed to credit risk due to the increasing delay in receiving its IVA refunds from the government of Mexico. The Company continues to use its best efforts to obtain such refunds. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Disclosure for Venture Issuers without Significant Revenue

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's consolidated financial statements for the year ended December 31, 2012 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common voting shares without par value. As at December 31, 2012, the Company had 68,930,874 common shares issued and outstanding (diluted – 75,355,874) compared to 63,827,092 common shares issued and outstanding (diluted – 68,417,092) as at December 31, 2011.

During the year, the Company granted 1,700,000 options to directors, officers, employees, and consultants; 755,000 stock options and 610,000 warrants expired unexercised. In February 2012, the Company completed a private placement that consisted of 3,000,000 shares and 1,500,000 warrants and in December 2012, completed the flow-through portion of a private placement that consisted of 2,103,782 flow-through shares. Notes 6 and 7 to the Company's December 31, 2012 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

Options

As at December 31, 2012, a total of 4,925,000 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
150,000	$ 0.35	January 13, 2013 (i)
100,000	$ 0.25	July 10, 2013
150,000	$ 0.30	July 15, 2013
75,000	$ 0.20	January 20, 2014
150,000	$ 0.18	October 29, 2014
875,000	$ 0.10	January 27, 2015
1,750,000	$ 0.28	November 23, 2015
200,000	$ 0.35	January 13, 2016
1,175,000	$ 0.20	January 20, 2017
300,000	$ 0.18	October 29, 2017
4,925,000		

(i) Subsequent to December 31, 2012, these options expired unexercised.

Warrants

As at December 31, 2012, a total of 1,500,000 share purchase warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
1,500,000	$ 0.35	February 20, 2013

The warrants are subject to an accelerated exercise clause such that the Company has the right to accelerate the expiry date of the warrants upon 30 days written notice should the trading price of the Company's shares, for a period of ten consecutive trading days, exceed $0.60. Subsequent to December 31, 2012, the Company reduced the exercise price of the warrants to $0.225 and extended the expiry date to November 20, 2013.

As at the date hereof, the Company had 73,407,873 common shares issued and outstanding (diluted – 84,159,872) with the changes since December 31, 2012 resulting from the issuance of 4,476,999 shares and 4,476,999 warrants under a private placement that closed in January 2013 (see *"Subsequent Event"*) and the expiry of 150,000 stock options.

Subsequent Event

Subsequent to December 31, 2012, the Company completed the second tranche of a private placement by issuing 4,476,999 units at price of $0.15 per unit for gross proceeds of $671,550. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share of the Company at a price of $0.225 within one year of closing.

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 Mineral Exploration Round-Up and the Vancouver Resource Investment Conference in January 2012, presented at the Toronto Investment Summit and attended the 2012 Prospectors and Developers Association Conference in Toronto in March 2012, presented at the Calgary Energy and Resource Investment Conference in April 2012, and the Vancouver World Resource Investment Conference in June 2012. The Company also presented at the Swiss Mining Institute Conference and the Silver Summit in Spokane in October 2011, and the San Francisco Hard Assets Investment Conference in November 2012. The Company also entered into a three-month contract with DIR GmbH covering exposure to the German speaking markets in Europe.

General Conditions Affecting the Company's Operations

General Trends

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

The global financial crisis of 2008 resulted in sharp decreases in the price of commodities and precious and base metals, as well as all stock markets, and a loss of confidence in the investment sector. For the mineral exploration industry, these conditions continued through to the third and fourth quarter of 2009, when gradually improving economic conditions resulted in increasing precious and base metal prices and a renewed interest in funding mineral exploration companies through 2010. There was a positive environment for funding resource exploration companies in late 2010 and early 2011. The first quarter of 2011 saw significant increases in the prices of precious and base metals, as well as in all shares in the resource sector, accompanied by a significant increase in mineral exploration activity. However following the Japanese earthquake and tsunami in March 2011, and concerns over debt problems in Europe and the USA, precious and base metal prices showed a gradual decline for the balance of 2011. This resulted in a general decline in the share prices of resource companies, both major producers and explorers, as well as constraints on funding exploration companies and programs. After an improvement in January and February 2012, market uncertainty has continued due to concerns over the European economy and austerity programs aimed at reducing high debt levels resulting in a marked decline in the share prices in the resources sector affecting both major producers as well as large and small explorers. Following a brief improvement during the third quarter of 2012, the decline in metal prices and share prices of resource companies has continued to date due to continued uncertainty in the financial markets and generally lower global economic growth forecasts, particularly in Europe and Asia.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects had deteriorated since early March 2011 due to lower metal prices and slowing growth rates, particularly in Europe and Asia. The general forecast is for these conditions and market instability to continue, although the longer term outlook is more positive with higher forecasted demand for resources and commodities driven by a growing middle class in the Asian economies.

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, 2012, the Company had three employees. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants, or companies controlled by related parties. The Company, through its wholly-owned Mexican subsidiary Minera Canasil SA de CV, maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the year ended December 31, 2012, the Company did not acquire or dispose of any mineral properties.

Risk Factors relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

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

Environmental Factors

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

Title to Assets

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

Foreign Operations

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

Management and Directors

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

Conflicts of Interest

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

Limited Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2012, the Company's accumulated deficit was $17,212,088.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the year, and to the date of this report, the price of the Company's shares fluctuated from a low of $0.07 to a high of $0.29 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date hereof, a total of 73,407,873 common shares of the Company are issued and outstanding. There are 4,775,000 stock options and 5,976,999 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

Forward Looking Statements

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

Approval

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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Expressed in Canadian Dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the accompanying consolidated financial statements of Canasil Resources Inc., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canasil Resources Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada　　Chartered Accountants

April 24, 2013

CANASIL RESOURCES INC.

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

Expressed in Canadian Dollars

ASSETS		2012		2011
Current				
Cash and cash equivalents	$	772,600	$	498,853
Receivables		202,854		189,688
Prepaid expenses		30,842		19,810
		1,006,296		708,351
Reclamation bonds		28,000		28,000
Property and equipment *(Note 5)*		69,903		85,853
	$	1,104,199	$	822,204

LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	93,899	$	136,184
Flow-through premium liability *(Note 6)*		73,632		-
		167,531		136,184
SHAREHOLDERS' EQUITY				
Share capital *(Note 6)*		16,128,607		15,198,369
Subscriptions received in advance *(Note 6)*		397,500		-
Contributed surplus *(Note 7)*		1,622,649		1,397,026
Deficit		(17,212,088)		(15,909,375)
		936,668		686,020
	$	1,104,199	$	822,204

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

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	Number of Shares		Share Capital *(Notes 6,7)*		Contributed Surplus *(Note 7)*		Subscriptions Received in Advance *(Note 6)*		Deficit		Total
Balance – December 31, 2010	58,579,592	$	13,971,204	$	1,199,357	$	-	$	(13,470,825)	$	1,699,736
Private placement	1,220,000		488,000		-		-		-		488,000
Share issuance costs	-		(15,960)		-		-		-		(15,960)
Warrants exercised	3,142,500		519,000		-		-		-		519,000
Options exercised	885,000		157,000		-		-		-		157,000
Fair value of options exercised	-		79,125		(79,125)		-		-		-
Share-based compensation	-		-		276,794		-		-		276,794
Comprehensive loss for the year	-		-		-		-		(2,438,550)		(2,438,550)
Balance – December 31, 2011	63,827,092		15,198,369		1,397,026		-		(15,909,375)		686,020
Private placement	3,000,000		675,000		-		-		-		675,000
Share issuance costs	-		(29,194)		-		-		-		(29,194)
Private placement	2,103,782		389,200		-		-		-		389,200
Share issuance costs	-		(31,136)		-		-		-		(31,136)
Flow-through premium liability	-		(73,632)		-		-		-		(73,632)
Share-based compensation	-		-		225,623		-		-		225,623
Comprehensive loss for the year	-		-		-		-		(1,302,713)		(1,302,713)
Subscriptions received in advance	-		-		-		397,500		-		397,500
Balance – December 31, 2012	68,930,874	$	16,128,607	$	1,622,649	$	397,500	$	(17,212,088)	$	936,668

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	2012	2011
Expenses		
Accounting and audit	$ 52,098	$ 43,797
Conferences and conventions	25,294	41,812
Consulting	7,600	14,400
Depreciation *(Note 5)*	16,499	13,849
Director fees	-	40,000
Exploration and evaluation *(Note 4)*	421,911	1,183,040
Foreign exchange loss	375	11,245
General exploration	9,012	3,245
Investor relations and promotions	82,556	194,623
Legal fees	18,304	17,627
Listing and filing fees	19,090	17,050
Loan bonus *(Note 8)*	-	150,000
Management fees	57,500	164,500
Office services and supplies	97,743	85,512
Salaries and wages	215,160	145,659
Shareholder communications	19,044	24,954
Share-based compensation *(Note 7)*	225,623	241,029
Transfer agent fees	9,950	12,022
Travel and accommodation	24,954	34,186
Loss and comprehensive loss for the year	$ 1,302,713	$ 2,438,550
Loss per share – basic and diluted	$ 0.02	$ 0.04
Weighted-average number of shares Outstanding – basic and diluted	66,445,996	61,645,756

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)		2012		2011
Operating activities				
Loss for the year	$	(1,302,713)	$	(2,438,550)
Items not involving cash				
Depreciation		16,499		13,849
Share-based compensation *(Note 7)*		225,623		276,794
		(1,060,591)		(2,147,907)
Changes in non-cash working capital				
Increase in receivables		(13,166)		(85,590)
Decrease (increase) in prepaid expenses		(11,032)		1,960
Increase (decrease) in accounts payable and accrued liabilities		(73,421)		50,502
		(1,158,210)		(2,181,035)
Investing activities				
Increase in reclamation bonds		-		(8,000)
Purchase of equipment		(549)		(43,694)
		(549)		(51,694)
Financing activities				
Share capital issued for cash		1,064,200		1,164,000
Share issuance costs		(29,194)		(15,960)
Share subscriptions received in advance		397,500		-
		1,432,506		1,148,040
Change in cash and cash equivalents for the year		273,747		(1,084,689)
Cash and cash equivalents - beginning of year		498,853		1,583,542
Cash and cash equivalents - end of year	$	772,600	$	498,853

Supplemental schedule of non-cash investing and financing transactions				
Fair value of stock options exercised	$	-	$	79,125
Finder's fee included in accounts payable	$	31,136	$	-

Supplemental cash flow information				
Interest received	$	3,150	$	9,105
Interest paid	$	-	$	-
Taxes paid	$	-	$	-

- See Accompanying Notes -

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (the "Company") is a mineral exploration company incorporated in British Columbia with its head office located at 915 – 700 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interest in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The Company's continuing operation is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

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

These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future. Subsequent to December 31, 2012, the Company completed an equity financing *(Note 12)*.

		2012		2011
Deficit	$	17,212,088	$	15,909,375
Working capital	$	838,765	$	572,167

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") using those standards in effect for the reporting year ended December 31, 2012. The Company's board of directors approved these consolidated financial statements for issue on April 24, 2012.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for those items classified as fair value through profit and loss, using the accrual basis of accounting, except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES *- continued*

Principles of consolidation

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

Foreign currency translation

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

Cash and cash equivalents

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

Financial instruments

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

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

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 45% per annum.

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Exploration and evaluation

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

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

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

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities known as flow-through shares, through which the investor can claim the tax deductions arising from the renunciation of the related resource expenditures incurred by the Company. Proceeds from the issuance of flow-through shares are allocated between the offering of the flow-through share and the premium paid for the implied tax benefit received by the investors as a result of acquiring the flow-through shares. The calculated tax benefit is recognized as a liability until the Company incurs the qualifying expenditures, at which point the liability is reversed and recorded as other income on the statement of loss and comprehensive loss.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at December 31, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share-based compensation

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

Loss per share

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

Income taxes

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period.

The Company's most significant accounting judgements relate to the recognition of deferred tax assets, the estimation of share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. The Company inputs such assumptions in a consistent manner following accepted industry practice. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiary is the Canadian dollar. While transactions conducted outside of Canada are denominated in either the Mexican peso or the U.S. dollar, the subsidiary has no revenues from operations and it is entirely dependent upon the Company for financing of its operations and exploration activities, which are largely determined in Canada.

New accounting pronouncements

The IASB has issued the following standards which have not yet been adopted by the Company. Except for IFRS 9, each of the new standards is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. A brief summary of these new standards follows:

IFRS 9 – *Financial Instruments*

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

New accounting pronouncements – *continued*

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The Company has completed an analysis of IFRS 10 and does not expect any significant effect on its financial statements as a result of adopting this standard.

IFRS 11 - *Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The Company has completed an analysis of IFRS 11 and does not expect any significant effect on its financial statements as a result of adopting this standard.

IFRS 12 – *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company has completed an analysis of IFRS 12 and does not expect any significant effect on its financial statements as a result of adopting this standard.

IFRS 13 - *Fair Value Measurement*

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

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

		2012		2011
Cash and cash equivalents				
Cash on deposit	$	772,600	$	196,897
Guaranteed investment certificates		-		301,956
	$	772,600	$	498,853
Receivables				
Value-added taxes	$	202,854	$	187,049
Other		-		2,639
	$	202,854	$	189,688
Reclamation bonds	$	28,000	$	28,000
Accounts payable and accrued liabilities				
Accounts payable	$	63,899	$	36,184
Accrued audit, director, and management fees		30,000		100,000
	$	93,899	$	136,184

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

All of the Company's Canadian cash and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which is held in a major bank in Mexico and used to fund its foreign projects. The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner. At December 31, 2012, the Company held the equivalent of $6,463 in cash, $143,588 in receivables, and $16,952 in accounts payable, all of which are denominated in pesos.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate, liquidity or market risks in respect of these financial instruments. The Company is exposed to credit risk due to the increasing delay in receiving its IVA refunds from the government of Mexico. The Company continues to use its best efforts to obtain such refunds. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

4. EXPLORATION AND EVALUATION

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

La Esperanza project, Mexico

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

In August 2010, the Company signed an agreement with MAG Silver Corp. ("MAG") providing MAG the option to earn a 60% interest in the La Esperanza project by making cash payments of $500,000 to the Company and completing $5,000,000 in exploration expenditures over a period of four years. As at December 31, 2012, the first three cash payments totalling $300,000 have been received in accordance with the agreement. The agreement also required MAG to subscribe for private placements totalling $350,000 over two years. In May 2011, MAG subscribed for a private placement of 500,000 units of the Company at a price of $0.40 per unit for gross proceeds of $200,000 *(Note 6)*, which completed their obligation under the option agreement to subscribe for shares of the Company.

Sandra and Escobar projects, Mexico

The Company has staked the Sandra claims located in Durango State, Mexico. In 2008, the Company entered into an agreement with Pan American Silver Corp. ("Pan American") providing an option for the Company to earn a 51% interest in Pan American's Escobar claims for US$1,000,000 in exploration expenditures over three years. Upon the Company earning in, Pan American will have the option to back-in to a 51% interest in the combined claims of Pan American's Escobar project and the Company's Sandra project by paying the Company three times its exploration expenditures on the combined claims, forming a 51% Pan American and 49% Canasil joint venture.

During 2012, the Company provided Pan American with notice that it had earned its interest in the Escobar claims. The agreement provided that should Pan American decide not to exercise its back-in right, it could sell its 49% interest in the Escobar claims to the Company for US$5,000,000 in a combination of cash and shares to be paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims. If the Company decided not to purchase Pan American's 49% interest, then the Company's 51% interest in the Escobar claims would revert to a 40% interest. Pan American advised the Company that it did not intend to exercise its back-in right and the Company advised Pan American that it did not intend to purchase the 49% interest in the Escobar claims, thereby reducing its interest in the Escobar claims to 40%.

During 2011, the Company entered into an option agreement granting the Company the right to earn a 100% interest in certain claims within the area of interest of the Sandra and Escobar project. The agreement calls for payments of US$300,000 and exploration expenditures of US$150,000 over 42 months and provides for a 2% NSR that the Company can purchase for US$200,000. To December 31, 2012, the Company has made payments of US$40,000. The Company paid an additional US$15,000 subsequent to December 31, 2012.

4. EXPLORATION AND EVALUATION - *continued*

Carina project, Mexico

During 2010, the Company signed an agreement providing Pan American the option to earn a 55% interest in the Carina project by making cash payments of US$365,000 to the Company and completing US$3,650,000 in exploration expenditures over a period of four years. The Company received the first two cash payments, totalling US$109,500, and Pan American fulfilled the minimum $200,000 required exploration expenditures in accordance with the agreement. In April 2012, Pan American terminated the option agreement and returned the property to the Company.

Salamandra and Victoria projects, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the Salamandra project located in Durango State, Mexico, subject to an NSR of 2%. The Company can purchase one-half of the NSR for US$1,000,000. The Company has the right to acquire these claims by making cash payments over a period of five years totalling US$500,000. The Company has completed payments of US$50,000. The agreement required a final payment of US$450,000 by May 23, 2012 and also provided for an option to extend the final payment over an additional three or five years. The Company has exercised its option to extend the final payment over a period of five years based on a specific schedule of payments that total US$550,000. Subsequent to December 31, 2012, the Company and the optionor amended the payment schedule to provide the Company with a further option to extend the final payment over a period of eight years based on a specific schedule of payments that total $600,000. The Company has also staked additional claims to significantly increase the project area.

Other projects

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

In January 2011, the Company signed an agreement to acquire a 100% interest in the Candelaria claims that now form part of the Nora project. Upon signing, the Company paid US$30,000 and issued 200,000 stock options at $0.35 to the optionors. The agreement provides for a 1% NSR and calls for semi-annual lease payments starting at US$5,000 in 2011 and gradually increasing to US$20,000 by 2014 and thereafter. All such lease payments made will be credited towards the Company's purchase of the NSR for an agreed price of US$3,000,000. To December 31, 2012, the Company has made semi-annual lease payments totalling US$10,000. During 2012, the Company and the optionor amended the agreement to suspend further semi-annual lease payments until such time as the Company either enters into an option or joint venture agreement with a third party, or commences active exploration activities, including drilling, on the Candelaria property.

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION - *continued*

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

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

2012	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 4,782	$ 4,782	$ 2,018,452
- Expenditure recoveries	-	(511)	(511)	(203,180)
Other, Canada	2,000	13,891	15,891	145,862
- Expenditure recoveries	-	(18,661)	(18,661)	(18,661)
Sandra and Escobar, Mexico	20,177	181,364	201,541	1,211,681
La Esperanza, Mexico	-	108,574	108,574	1,025,395
- Expenditure recoveries	-	(69,307)	(69,307)	(235,782)
- Option payments received	(150,000)	-	(150,000)	(300,000)
Colibri, Mexico	-	39,431	39,431	1,706,749
Salamandra, Mexico	-	129,617	129,617	1,325,186
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	47,563	47,563	385,496
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	38,312	38,312	118,705
- Expenditure recoveries	-	(17,498)	(17,498)	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	5,089	87,088	92,177	377,391
	$ (122,734)	$ 544,645	$ 421,911	$ 7,219,806

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

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION - *continued*

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

	2012	2011
Acquisition and option payments	$ 27,266	$ 189,583
Administration and legal	111,870	89,877
Assays	22,681	40,437
Consulting	7,640	11,616
Drilling	-	261,726
Environmental and permits	-	1,008
Field costs	34,001	50,767
Geology	130,588	182,327
Geophysical	29,790	355,877
Land holding costs	302,232	198,018
Mapping and surveying	8,201	33,289
Roadwork	-	34,240
Transportation and rentals	3,619	20,467
Travel and accommodation	-	13,000
Expenditure recoveries	(105,977)	(123,817)
Option payments received	(150,000)	(175,375)
	$ 421,911	$ 1,183,040

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
December 31, 2010	$ 31,686	$ 27,730	$ 14,729	$ 31,971	$ 25,545	$ 131,661
Additions	-	35,445	6,436	-	1,813	43,694
December 31, 2011	31,686	63,175	21,165	31,971	27,358	175,355
Additions	-	-	-	-	549	549
December 31, 2012	31,686	63,175	21,165	31,971	27,907	175,904
Accumulated Depreciation						
December 31, 2010	-	22,071	12,696	22,322	18,564	75,653
Additions	-	7,013	2,363	2,895	1,578	13,849
December 31, 2011	-	29,084	15,059	25,217	20,142	89,502
Additions	-	10,228	2,747	2,026	1,498	16,499
December 31, 2012	-	39,312	17,806	27,243	21,640	106,001
Net Book Value						
December 31, 2010	$ 31,686	$ 5,659	$ 2,033	$ 9,649	$ 6,981	$ 56,008
December 31, 2011	$ 31,686	$ 34,091	$ 6,106	$ 6,754	$ 7,216	$ 85,853
December 31, 2012	$ 31,686	$ 23,863	$ 3,359	$ 4,728	$ 6,267	$ 69,903

6. SHARE CAPITAL

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

Private placements

In May 2011, the Company issued 1,220,000 units at a price of $0.40 per unit for gross proceeds of $488,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling the holder to purchase one common share at a price of $0.60 until May 6, 2012. The Company paid commissions and finder's fees of $15,960. Under the terms of its option agreement on the La Esperanza project *(Note 4)*, MAG subscribed for 500,000 units of this placement. The exercise price of the warrants was reduced from $0.60 to $0.21 per share on April 19, 2012.

In February 2012, the Company issued 3,000,000 units at a price of $0.225 per unit for gross proceeds of $675,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling the holder to purchase one common share at a price of $0.35 until February 20, 2013. The warrants are subject to an accelerated exercise provision. The Company paid commissions and finder's fees of $29,194.

In December 2012, the Company issued 2,103,782 flow-through shares at a price of $0.185 per share for gross proceeds of $389,200 and accrued a finder's fee of $31,136. The flow-through feature of the shares was valued at $0.035 per share, resulting in a flow-through premium liability of $73,632. This issuance formed part of a non-brokered private placement that was completed subsequent to December 31, 2012 *(Note 12)*. The Company received subscriptions totalling $397,500 during December 2012 in respect of shares issued after year end.

Shareholder rights plan

On October 4, 2012, the Company adopted a shareholder rights plan that has been approved by the TSX Venture exchange and is subject to ratification by the Company's shareholders. The plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Pursuant to the terms of the plan, any bids that meet certain criteria intended to protect the interests of all shareholders are deemed to be "Permitted Bids". In the event that a bid, other than a Permitted Bid, to acquire 20% or more of the common shares is made, shareholders other than those involved in the take-over bid will be entitled to exercise rights to acquire common shares of the Company at a discount to the market price. The shareholders rights plan expires on October 4, 2015.

7. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") which complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares, and providing that at no time may more than 5% of the outstanding issued common shares be reserved for incentive stock options granted to any one individual. The Plan provides for the issuance of options to directors, officers, employees and consultants of the Company and its subsidiary to purchase common shares of the Company. The stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

Expressed in Canadian Dollars

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, 2010	6,583,500	$	0.28	4,673,750	$	0.26
Issued/granted	610,000	$	0.60	500,000	$	0.34
Exercised	(3,142,500)	$	0.17	(885,000)	$	0.18
Expired	(3,441,000)	$	0.22	(308,750)	$	0.21
Outstanding, December 31, 2011	610,000	$	0.60	3,980,000	$	0.29
Issued/granted	1,500,000	$	0.35	1,700,000	$	0.19
Expired	(610,000)	$	0.21	(755,000)	$	0.50
Outstanding, December 31, 2012	1,500,000	$	0.35	4,925,000	$	0.22
Exercisable, December 31, 2012	1,500,000	$	0.35	4,775,000	$	0.22

At December 31, 2012, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	150,000	$	0.35	January 13, 2013 (i)
	100,000	$	0.25	July 10, 2013
	150,000	$	0.30	July 15, 2013
	75,000	$	0.20	January 20, 2014
	150,000	$	0.18	October 29, 2014
	875,000	$	0.10	January 27, 2015
	1,750,000	$	0.28	November 23, 2015
	200,000	$	0.35	January 13, 2016
	1,175,000	$	0.20	January 20, 2017
	300,000	$	0.18	October 29, 2017
	4,925,000			
Warrants	1,500,000	$	0.35	February 20, 2013

(i) These options expired unexercised subsequent to December 31, 2012.

The warrants are subject to an accelerated exercise clause such that the Company has the right to accelerate the expiry date of the warrants upon 30 days written notice should the trading price of the Company's shares, for a period of ten consecutive trading days, exceed $0.60. Subsequent to December 31, 2012, the Company reduced the exercise price of the warrants to $0.225 and extended the expiry date to November 20, 2013

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS – *continued*

Share-based compensation

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

	2012	2011
Total options granted	1,700,000	500,000
Average exercise price	$ 0.19	$ 0.34
Estimated fair value of options granted	$ 228,830	$ 84,319
Estimated fair value per option	$ 0.13	$ 0.17

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

	2012	2011
Risk-free interest rate	1.35%	1.88%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	94%	93%
Expected forfeiture rate	0.00%	0.00%
Expected option life in years	4.60	2.00

The Company has recorded share-based compensation during the year as follows:

	2012	2011
Number of options vested in year	1,625,000	1,637,500
General and administrative	$ 225,623	$ 241,029
Exploration and evaluation	-	35,765
Compensation recognized in year	$ 225,623	$ 276,794

During 2011, 885,000 stock options were exercised and the related fair value of $79,125 was recorded as share capital.

Expressed in Canadian Dollars

8. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

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

- accounts payable includes $nil (2011 – $70,000) in accrued director fees due to non-executive directors and $3,796 (2011 - $nil) in accrued legal fees due to a law firm in which an officer of the Company is a partner;
- the Company paid a loan bonus of $150,000 in 2011 to a company with a director in common with the Company;
- key management includes executive and non-executive directors and officers. The compensation paid or payable to key management is as follows:

	2012	2011
Salaries and wages	$ 150,000	$ 112,500
Management fees	57,500	164,500
Director fees	-	40,000
Administrative consulting fees	5,600	14,400
Geological consulting fees	1,750	5,600
Legal fees	18,304	17,627
Share-based compensation *(i)*	157,977	155,557
	$ 391,131	$ 510,184

(i) Calculated using the Black-Scholes Option-Pricing Model using the assumptions detailed in Note 7.

9. CAPITAL DISCLOSURES

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

Expressed in Canadian Dollars

10. INCOME TAXES

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

	2012	2011
Loss before income taxes for accounting purposes	$ (1,302,713)	(2,438,550)
Expected tax recovery for the year	(326,000)	(646,000)
Change in statutory, foreign tax, foreign exchange rates and other	(25,000)	(37,000)
Impact of future income tax rates applied versus current statutory rate	10,000	61,000
Permanent differences	92,000	(275,000)
Share issuance costs	(7,000)	(4,000)
Adjustment to prior years' provision versus statutory tax returns and expiry of non-capital losses	-	(62,000)
Change in unrecognized deductible temporary differences and other	256,000	963,000
Tax recovery for the year	$ -	$ -

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

	2012	2011
Deferred Tax Assets		
Non-capital loss carry-forwards	$ 1,908,000	$ 1,680,000
Exploration expenditures	2,587,000	2,558,000
Equipment	29,000	18,000
Share issuance costs	21,000	23,000
Unrecognized Deferred Tax Assets	$ 4,545,000	$ 4,279,000

The Company's deferred tax assets expire as follows:

	2012	Expiry Date Range	2011
Share issuance costs	$ 84,000	2032 to 2035	$ 90,000
Non-capital losses	$ 7,246,000	2014 to 2031	$ 6,333,000
Equipment	$ 114,000	Not applicable	$ 69,000
Exploration expenditures	$ 9,531,000	Not applicable	$ 9,451,000
Investment tax credits	$ 54,000	2027 to 2031	$ 58,000

Expressed in Canadian Dollars

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 locations:

2012	Canada	Mexico	Total
Plant and equipment	$ 8,670	$ 61,233	$ 69,903

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

12. SUBSEQUENT EVENT

Subsequent to December 31, 2012, the Company completed the second tranche of a private placement by issuing 4,476,999 units at price of $0.15 per unit for gross proceeds of $671,550. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share of the Company at a price of $0.225 within one year of closing.