Canasil resources inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

Expressed in Canadian Dollars

Unaudited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

August 24, 2012

750-625 Howe Street, Vancouver, B.C. V6C 2T6
Tel: (604) 708-3788 Fax: (604) 708-3728
Email: admin@canasil.com

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Expressed in Canadian Dollars
Unaudited

ASSETS		June 30, 2012		December 31, 2011
Current				
Cash and cash equivalents	$	443,348	$	498,853
Receivables		162,882		189,688
Prepaid expenses		28,474		19,810
		634,704		708,351
Reclamation bonds		28,000		28,000
Property and equipment *(Note 5)*		77,631		85,853
	$	740,335	$	822,204

LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	141,771	$	136,184

SHAREHOLDERS' EQUITY				
Share capital		15,844,175		15,198,369
Contributed surplus		1,578,507		1,397,026
Deficit		(16,824,118)		(15,909,375)
		598,564		686,020
	$	740,335	$	822,204

Nature and continuance of operations *(Note 1)*
Subsequent Event *(Note 10)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Expressed in Canadian Dollars
Unaudited

	Number of Shares	Share Capital *(Notes 6,7)*	Contributed Surplus *(Note 7)*	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	2,415,000	369,750	-	-	369,750
Options exercised	785,000	147,000	-	-	147,000
Fair value of options exercised	-	72,927	(72,927)	-	-
Share-based compensation	-	-	204,731	-	204,731
Comprehensive loss for the period	-	-	-	(1,800,955)	(1,800,955)
Balance – June 30, 2011	62,999,592	15,032,921	1,331,161	(15,271,780)	1,092,302
Warrants exercised	727,500	149,250	-	-	149,250
Options exercised	100,000	10,000	-	-	10,000
Fair value of options exercised	-	6,198	(6,198)	-	-
Share-based compensation	-	-	72,063	-	72,063
Comprehensive loss for the period	-	-	-	(637,595)	(637,595)
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)
Share-based compensation	-	-	181,481	-	181,481
Comprehensive loss for the period	-	-	-	(914,743)	(914,743)
Balance – June 30, 2012	66,827,092	$ 15,844,175	$ 1,578,507	$ (16,824,118)	$ 598,564

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian Dollars

Unaudited

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
Expenses				
Accounting and audit	$ 20,503	$ 8,512	$ 34,573	$ 16,437
Amortization	4,111	3,338	8,222	6,522
Conferences and conventions	1,435	18,068	19,258	22,167
Consulting	5,600	-	7,600	14,400
Director fees	-	10,000	-	20,000
Exploration and evaluation *(Note 4)*	128,125	482,208	370,764	1,017,180
Foreign exchange loss	4,424	6,974	382	11,932
General exploration	3,978	6,492	5,149	12,682
Investor relations and promotions	8,109	49,594	48,967	84,059
Legal fees	2,122	7,700	10,920	13,334
Listing and filing fees	3,245	2,990	15,070	13,035
Loan bonus *(Note 8)*	-	-	-	150,000
Management fees	15,000	38,000	27,500	99,500
Office services and supplies	26,512	24,932	50,395	43,908
Salaries and wages	56,346	48,609	102,281	53,569
Shareholder communications	10,362	11,765	13,446	18,392
Share-based compensation *(Note 7)*	1,359	61,240	181,481	176,418
Transfer agent fees	3,586	5,192	6,538	9,562
Travel and accommodation	3,549	8,127	12,197	17,858
Loss and comprehensive loss for the period	$ (298,366)	$ (793,741)	$ (914,743)	$ (1,800,955)
Loss per share - basic and diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.03)
Weighted-average shares Outstanding – basic and diluted	66,827,094	61,397,394	66,002,916	60,095,310

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30

Expressed in Canadian Dollars
Unaudited

CASH RESOURCES PROVIDED BY (USED IN)	2012	2011
Operating activities		
Loss for the period	$ (914,743)	$ (1,800,955)
Items not involving cash		
Depreciation	8,222	6,522
Share-based compensation	181,481	204,731
Operating loss before working capital changes	(725,040)	(1,589,702)
Changes in non-cash working capital		
Decrease (increase) in receivables	26,806	(28,259)
Increase in prepaid expenses	(8,664)	(19,866)
Increase in accounts payable and accrued liabilities	5,587	157,737
	(701,311)	(1,480,090)
Investing activities		
Purchase of equipment	-	(40,123)
Financing activities		
Share capital issued for cash	675,000	988,790
Share issuance costs	(29,194)	-
	645,806	988,790
Change in cash and cash equivalents for the period	(55,505)	(531,423)
Cash and cash equivalents - beginning of period	498,853	1,583,542
Cash and cash equivalents - end of period	$ 443,348	$ 1,052,119

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

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 750 – 625 Howe 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 condensed interim 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.

		June 30, 2012		December 31, 2011
Deficit	$	15,844,175	$	15,909,375
Working capital	$	492,933	$	572,167

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These statements do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments and information considered necessary for fair presentation have been included in these financial statements.

These condensed interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2011. All financial information presented herein is unaudited. The Company's board of directors approved these condensed interim consolidated financial statements for issue on August 24, 2012.

3. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

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. To date, the first two cash payments totalling $150,000 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 the period, the Company provided Pan American with notice that it had earned its interest in the Escobar claims. Should Pan American decide not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US$5,000,000 in a combination of cash and shares to be paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims. If the Company decides not to purchase Pan American's 49% interest, then the Company's 51% interest in the Escobar claims will revert to a 40% interest.

Subsequent to June 30, 2012, 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%.

4. EXPLORATION AND EVALUATION *- continued*

Sandra and Escobar projects, Mexico *- continued*

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 date, the Company has made payments of US$35,000.

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. To date, the first two cash payments totalling US$109,500 have been received in accordance with the agreement.

Upon initial earn-in, the agreement provided for the Company and Pan American to form a joint venture to further develop the property and allowed Pan American to increase its interest to 70% by funding to full feasibility within three years and to 80% by financing the project through to production. 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. The Company has also staked additional claims, known as the Victoria claims, which are contiguous with the Salamandra claims.

Colibri project, Mexico

Since 2005, the Company has staked and acquired claims located in Durango State, Mexico.

Other projects

The Company has staked other claims located in Durango and Sinaloa States, Mexico which include the Vizcaino, Nora, 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 June 30, 2012, the Company has made semi-annual lease payments totalling US$5,000.

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION *- continued*

Title risk

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 period and cumulative expenditures as at June 30 are as follows:

2012	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ -	$ -	$ 2,013,670
- Expenditure recoveries	-	-	-	(202,669)
Other, Canada	2,000	3,861	5,861	135,832
Sandra and Escobar, Mexico	7,944	128,248	136,192	1,146,332
La Esperanza, Mexico	-	63,777	63,777	980,598
- Expenditure recoveries	-	-	-	(166,475)
- Option payments received	-	-	-	(150,000)
Colibri, Mexico	-	19,938	19,938	1,687,256
Salamandra, Mexico	-	48,064	48,064	1,243,633
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	47,963	47,963	385,896
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	20,668	20,668	101,061
- Expenditure recoveries	-	(17,498)	(17,498)	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	45,799	45,799	331,013
	$ 9,944	$ 360,820	$ 370,764	$ 7,168,659

2011	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 1,703	$ 1,703	$ 2,013,670
- Expenditure recoveries	-	-	-	(202,669)
Other, Canada	-	29,834	29,834	50,850
Sandra and Escobar, Mexico	-	581,602	581,602	898,906
La Esperanza, Mexico	84,196	33,456	117,652	844,070
- Expenditure recoveries	(84,196)	(18,013)	(102,209)	(102,209)
- Option payments received	-	-	-	(50,000)
Colibri, Mexico	-	8,063	8,063	1,656,075
Salamandra, Mexico	-	148,625	148,625	1,123,704
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	151,313	151,313	341,061
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	1,999	1,999	64,972
- Option payments received	-	-	-	(36,500)
Other, Mexico	57,938	20,660	78,598	238,220
	$ 57,938	$ 959,242	$ 1,017,180	$ 6,632,035

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION *- continued*

Expenditures for the period ending June 30, by activity, are as follows:

	2012	2011
Acquisition and option payments	$ 9,944	$ 142,134
Administration and legal	60,791	10,130
Assays	11,258	9,484
Consulting	1,680	8,816
Drilling	-	262,291
Environmental and permits	-	1,008
Field costs	28,946	42,558
Geology	72,007	95,227
Geophysical	-	350,629
Land holding costs	178,458	128,893
Mapping and surveying	23,150	26,039
Roadwork	-	35,372
Transportation and rentals	2,028	1,940
Travel and accommodation	-	4,868
Expenditure recoveries	(17,498)	(102,209)
	$ 370,764	$ 1,017,180

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	-	-	-	-	-	-
June 30, 2012	31,686	63,175	21,165	31,971	27,358	175,355
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	-	5,114	1,374	1,013	721	8,222
June 30, 2012	-	34,198	16,433	26,230	20,863	97,724
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
June 30, 2012	$ 31,686	$ 28,977	$ 4,732	$ 5,741	$ 6,495	$ 77,631

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.

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. Exercise price and vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange, and the life of any option cannot exceed ten years.

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	1,250,000	$	0.20
Expired	(610,000)	$	0.21	(755,000)	$	0.50
Outstanding, June 30, 2012	1,500,000	$	0.35	4,475,000	$	0.23
Exercisable, June 30, 2012	1,500,000	$	0.35	4,475,000	$	0.23

At June 30, 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
	100,000	$	0.25	July 10, 2013
	150,000	$	0.30	July 15, 2013
	75,000	$	0.20	January 20, 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
	4,475,000			
Warrants	1,500,000	$	0.35	February 20, 2013

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS – *continued*

The warrants are subject to an accelerated exercise clause such that after six months following the closing of the placement, 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.

Share-based compensation

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

	2012	2011
Total options granted	1,250,000	350,000
Average exercise price	$ 0.20	$ 0.35
Estimated fair value of options granted	$ 176,952	$ 62,588
Estimated fair value per option	$ 0.14	$ 0.18

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

	2012	2011
Risk-free interest rate	1.38%	1.77%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	95%	97%
Expected option life in years	4.82	2.00

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

	2012	2011
Number of options vested in period	1,325,000	1,112,500
General and administrative	$ 181,481	$ 176,418
Exploration and evaluation	-	28,313
Compensation recognized in period	$ 181,481	$ 204,731

During the period, there were no stock options exercised (2011 – 785,000) and the related fair value of $nil (2011 – $72,927) 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 and were measured at the exchange amounts as follows:

Accounts payable includes $70,000 (2011 – $50,000) in accrued director fees due to non-executive directors;

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	$	75,000	$	37,500
Management fees		27,500		99,500
Director fees		-		20,000
Administrative consulting fees		-		14,400
Geological consulting fees		7,350		5,600
Legal fees		10,920		13,334
Share-based compensation *(i)*		128,114		135,268
	$	248,884	$	325,602

(i) Calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 7, and equals the aggregate of amounts relating to those portions of stock option grants that vested during the period.

9. 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	$	10,570	$	67,061	$	77,631

2011		Canada		Mexico		Total
Plant and equipment	$	13,628	$	75,981	$	89,609

10. SUBSEQUENT EVENT

Subsequent to June 30, 2012, the Company received from MAG the second anniversary option payment of $150,000 on the La Esperanza option agreement *(Note 4)* as well as an additional $69,306 in expenditure recoveries.

This Interim Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated August 24, 2012, and provides information on the Company's activities for the six-month period ended June 30, 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 unaudited condensed interim consolidated financial statements and related notes for the six months ended June 30, 2012 and the audited consolidated financial statements and related notes for the year ended December 31, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2011.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

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 period, the Company completed an ASTER satellite alteration survey, 11.8 line-kilometre ground IP survey as well as surface sampling programs at the Sandra-Escobar project to complete the balance of expenditures required to earn in to Pan American's Escobar claims. Subsequent to the end of the period, Pan American advised Canasil that it would not exercise its back-in right for a 51% interest in the combined Sandra-Escobar project, 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. MAG Silver Corp. ("MAG") continued the diamond drill program started in December 2011 at the La Esperanza project, and completed 2,714 metres of drilling in nine drill holes, reporting encouraging drill intercepts from the first three drill holes. MAG reported total qualifying expenditures of $1,624,393 at La Esperanza as at June 30, 2012, of which $711,913 was spent during the current six-month period. MAG reported progress in finalizing the permit for continued drilling to test three silver veins in the northwest of the project area at La Esperanza. 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 period, 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 period in Mexico were $364,903 (2011 - $985,643).

There was no significant activity in British Columbia, Canada, during the period other than maintaining all claims in good standing. During the period, 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"*).

The immediate focus of exploration work will be MAG's continued drilling at the La Esperanza project once the drill permit is finalized. Following Pan American's decision not to back-in to the Sandra-Escobar project the Company is now in a position to investigate other avenues for advancing this large silver-gold project, including cooperation with other high quality partners. As at June 30, 2012, the Company had working capital of $492,933. Due to the current uncertainties in the financial markets and low share prices, the Company will 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.

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% • 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 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 drill program started in December 2011 and continued through the first quarter of 2012. During the period, MAG completed 2,714 metres of drilling in nine 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 by Canasil. They all intersected the La Esperanza vein with increasing widths and grades with depth. The deepest hole, ES12-03, intersected a 10.28 metre (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." MAG reported expenditures of $711,913 (2011 - $229,110) during the period, in addition to $912,480 in total qualifying exploration expenditures reported up to December 31, 2011, for a total of $1,624,393 to June 30, 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 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. This program returned encouraging results confirming three mineralized vein targets and the potential for a fourth target area with disseminated mineralization for further exploration. Some of the mineralization observed is typical of the vein systems in the Guanacevi district being successfully mined by Endeavour Silver Corp. and Great Panther Silver Corp. The occurrence of wider intercepts with lower grade silver mineralization in some veins points to the possibility of a larger zone of disseminated silver mineralization in the project area. 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 date, the Company has made payments of US$35,000.

During the period, 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 a 11.8 line-kilometre ground IP survey to test these areas and define further drill targets. Expenditures during the period amounted to $136,192 (2011 - $581,602).

The agreement with Pan American provides 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 period, 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. 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.

Subsequent to June 30, 2012, 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 Company has an option to purchase a 100% interest in the central 900 hectares of claims comprising the Salamandra project, subject to an NSR of 2%, by making option payments over a period of five years totaling US$500,000. The 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. The Company will make future payments to the optionor of US$550,000 over the next five-year period ending in May 2017. The project area has been expanded through staking of additional claims to a total of 14,719 hectares. The project, is located in Durango State, 35 km northeast of the City of Durango, with excellent access via paved and gravel roads.

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 period, the Company continued with the surface sampling and mapping program over the area of ZTEM anomaly. This program returned significant surface 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 period at Salamandra were $48,064 (2011 - $148,625).

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 May 2012, Pan American decided to withdraw 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 period. All project claims were maintained in good standing and all required claim taxes were paid. Expenditures on all other projects in Mexico during the period totalled $45,799 (2011- $78,598).

Exploration projects in British Columbia, Canada

There were no significant activities or expenditures on the Company's projects in British Columbia, Canada, during the period. All mineral claims remained in good standing.

Mineral Properties – Exploration and Evaluation Expenditures

A summary of the Company's exploration and evaluation expenditures for the period follows:

	2012	2011
Canada		
Brenda Property		
Environmental and permits	$ -	$ 663
Geological	-	780
Mapping and surveying	-	260
	-	1,703
Other Properties		
Acquisition and option payments	2,000	-
Assays	34	-
Consulting	-	1,040
Environmental and permits	-	345
Geological	-	1,863
Land holding costs	3,827	26,290
Mapping and surveying	-	296
	5,861	29,834
Mexico		
Sandra and Escobar Properties		
Acquisition and option payments	7,944	-
Administration	18,399	2,672
Assays	11,012	6,676
Consulting	-	6,174
Drilling	-	262,291
Field costs	21,887	32,002
Geological	43,009	69,837
Geophysical	-	110,246
Land holding costs	11,588	26,962
Legal	-	576
Mapping and surveying	21,762	25,278
Roadwork	-	35,372
Transportation and rentals	591	965
Travel and accommodation	-	2,551
	136,192	581,602
La Esperanza Property		
Acquisition and option payments	-	84,196
Administration	9,654	243
Field costs	2,419	1,358
Geological	6,718	-
Land holding costs	38,583	25,831
Legal	5,656	6,024
Transportation and rentals	747	-
Expenditure recoveries	-	(102,209)
	$ 63,777	$ 15,443

Exploration and evaluation expenditures for the period – *continued*

	2012	2011
Mexico – *continued*		
Salamandra Property		
Administration	$ 6,792	$ 260
Assays	211	-
Field costs	4,279	2,105
Geological	12,178	6,440
Geophysical		122,444
Land holding costs	23,216	16,817
Mapping and surveying	1,388	-
Transportation and rentals	-	74
Travel and accommodation	-	485
	48,064	148,625
Carina Property		
Administration	3,122	-
Field costs	291	173
Geological	2,358	-
Land holding costs	14,460	1,826
Transportation and rentals	437	-
Expenditure recoveries	(17,498)	-
	3,170	1,999
Victoria Property		
Administration	7,243	91
Assays	-	2,808
Consulting	1,419	1,602
Field costs	-	5,669
Geological	2,069	15,301
Geophysical	-	117,939
Land holding costs	37,232	5,038
Mapping and surveying	-	204
Transportation and rentals	-	826
Travel and accommodation	-	1,835
	47,963	151,313
Colibri Property		
Administration	3,011	200
Consulting	261	-
Geological	1,475	-
Land holding costs	15,191	7,789
Transportation and rentals	-	74
	19,938	8,063
Other Properties		
Acquisition and option payments	-	29,625
Acquisition - share-based compensation	-	28,313
Administration	6,914	-
Field costs	70	516
Geological	4,200	1,812
Land holding costs	34,361	18,332
Transportation and rentals	254	-
	45,799	78,598
Total costs for year	$ 370,764	$ 1,017,180

Results of Operations

Operating expenses during the period were $914,743 (2011 - $1,800,955) and include $370,764 (2011 - $1,017,180) in Exploration and Evaluation expenditures. The operating expenses also include non-cash Share-Based Compensation of $181,481 (2011 - $176,418) related to the granting and vesting of options during the period. Management and Directors fees decreased to $27,500 (2011 - $119,500) 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 $102,281 (2011 - $53,569). 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 $68,225 (2011 - $106,226) 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. The Company recorded a foreign exchange loss of $382 (2011 – $11,932) resulting from exchange rate fluctuations between the Canadian Dollar, the U.S. Dollar, and the Mexican Peso.

Net cash used for operating activities during the period, before changes in non-cash working capital items, was $725,040 (2011 - $1,589,702), which includes $370,764 (2011 - $1,017,180) 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 $nil (2011 - $40,123); the Company purchased various equipment in 2011 with no such purchases made in 2012. Net cash flow from financing activities was $645,806 resulting from the completion of a private placement during the period (2011 - $988,790 resulting from the completion of a private placement and the exercising of options and warrants).

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				2010	
Quarter ended:	**Mar. 31**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**
Revenue	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Exploration and evaluation expense	$128,125	$242,639	$59,407	$106,453	$482,208	$534,972	$190,506	$69,967
Share-based compensation expense	$1,359	$180,122	$26,250	$38,361	$61,240	$115,178	$203,387	$23,704
Loss and comprehensive loss	$298,366	$616,377	$225,712	$411,883	$793,741	$1,007,214	$542,772	$203,463
Loss per share: basic and diluted	$0.00	$0.01	$0.00	$0.01	$0.01	$0.02	$0.01	$0.00
Weighted-average shares	66,827,094	65,178,740	63,245,516	63,078,940	61,397,394	58,778,039	54,175,527	45,983,896

Discussion of Quarterly Information

In 2010 the level of operating and exploration activities recovered following the financial crisis of late 2008 and 2009, particularly in the last quarter of 2010 with greater availability of funding for exploration programs, resulting in increased exploration and evaluation expenditures. The Company also granted 1,750,000 stock options in the fourth quarter of 2010, resulting in an increase in share-based compensation for that quarter, and a significantly higher quarterly loss. Due to the stronger working capital from equity financings completed in 2010, the Company had significantly increased mineral exploration activities during the fourth quarter of 2010.

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.

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 economic and market conditions, the exploration and evaluation expenditures were limited to $128,129, primarily focused on completing the required expenditures under the Sandra-Escobar option agreement and field work at the Salamandra project.

Discussion of Current Quarter

Operating expenses during the current quarter were $298,366 (2011 - $793,741) and include $128,125 (2011 - $482,208) in Exploration and Evaluation expenditures. The operating expenses also include non-cash Share-Based Compensation of $1,359 (2011 - $61,240) related to the granting and vesting of options during the period. Management and Directors fees decreased to $15,000 (2011 - $48,000) primarily as a result of a bonus payment to the Chief Executive Officer in 2011 that was not made in 2012. Investor Relations and Conferences and Conventions expenses decreased to $9,544 (2011 - $67,662) 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 $292,896 (2011 - $719,477), which includes $128,125 (2011 - $482,208) in Exploration and Evaluation expenditures, reflecting the Company's more active exploration programs and higher expenses in 2011 as compared to 2012. Cash used for investing activities was $nil (2011 - $1,364); the Company purchased various equipment in 2011 with no such purchases made in 2012. Net cash flow from financing activities was $nil during the quarter (2011 - $827,290 resulting from the completion of a private placement and 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 June 30, 2012 condensed interim 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 June 30, 2012 of $492,933 (December 31, 2011 - $572,167). The Company had cash on hand of $443,348 as at June 30, 2012 (December 31, 2011 - $498,853). As at June 30, 2012, the Company had no long- or short-term debt. In addition, the Company expects to collect approximately $50,911 in expenditure recoveries from MAG in the near future.

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.

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 2012.

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 $70,000 (2011 – $50,000) in accrued director fees due to non-executive directors;

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	$ 75,000	$ 37,500
Management fees	27,500	99,500
Director fees	-	20,000
Administrative consulting fees	-	14,400
Geological consulting fees	7,350	5,600
Legal fees	10,920	13,334
Share-based compensation *(i)*	128,114	135,268
	$ 248,884	$ 325,602

(i) Calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 7 to the June 30, 2012 condensed interim consolidated financial statements, and equals the aggregate of amounts relating to those portions of stock option grants that vested during the period.

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 period. The Company's accounting policies are set out in full in Note 2 to the December 31, 2011 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

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 estimates relate to the useful life of equipment, valuation of deferred tax assets, and estimation of share-based compensation. The Company uses industry standards in determining the useful lives of its equipment and it has not recognized any of 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.

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 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 is 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 on-going exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner. At June 30, 2012, the Company held the equivalent of $14,663 in cash, $126,165 in receivables, and $41,418 in accounts payable, all of which are denominated in pesos.

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

Disclosure for Venture Issuers without Significant Revenue

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's condensed interim consolidated financial statements for the period ended June 30, 2012 provide a breakdown of the general and administrative expenses for the period under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common voting shares without par value. As at June 30, 2012 and the date hereof, the Company had 66,827,092 common shares issued and outstanding (diluted – 72,802,092) compared to 63,827,092 common shares issued and outstanding (diluted – 68,417,092) as at December 31, 2011.

During the period, the Company granted 1,250,000 options to directors, officers, employees, and consultants; 755,000 stock options and 610,000 warrants expired unexercised. The Company completed one private placement during the period that consisted of 3,000,000 shares and 1,500,000 warrants. Notes 6 and 7 to the Company's June 30, 2012 condensed interim consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the period.

Options

As at June 30, 2012, a total of 4,475,000 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
150,000	$ 0.35	January 13, 2013
100,000	$ 0.25	July 10, 2013
150,000	$ 0.30	July 15, 2013
75,000	$ 0.20	January 20, 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
4,475,000		

Warrants

As at June 30, 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

Subsequent Events

Subsequent to June 30, 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 $69,306 in expenditure recoveries.

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.

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.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects had deteriorated since early March 2011 due to slowing growth rates, particularly in Europe. The general forecast is for these conditions and market instability to continue, particularly given political and economic uncertainties in Europe.

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 June 30, 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 period, 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 June 30, 2012, the Company's accumulated deficit was $16,824,118.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the period, and to the date of this report, the price of the Company's shares fluctuated from a low of $0.085 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 66,827,092 common shares of the Company were issued and outstanding. There were 4,475,000 stock options and 1,500,000 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

Forward Looking Statements

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

Approval

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