



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

CANASIL RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Unaudited

ASSETS	June 30, 2011	December 31, 2010
Current		
Cash and cash equivalents	\$ 1,052,119	\$ 1,583,542
Receivables	132,357	104,098
Prepaid expenses	41,636	21,770
	1,226,112	1,709,410
Reclamation bond	20,000	20,000
Property and equipment <i>(Note 5)</i>	89,609	56,008
	\$ 1,335,721	\$ 1,785,418

LIABILITIES

Current		
Accounts payable and accrued liabilities – trade	\$ 184,843	\$ 49,077
Accounts payable and accrued liabilities – related parties	58,576	36,605
	243,419	85,682

SHAREHOLDERS' EQUITY

Share capital <i>(Note 6)</i>	15,032,921	13,971,204
Contributed surplus	1,331,161	1,199,357
Deficit	(15,271,780)	(13,470,825)
	1,092,302	1,699,736
	\$ 1,335,721	\$ 1,785,418

Nature and continuance of operations *(Note 1)*

Subsequent events *(Note 12)*

ON BEHALF OF THE BOARD:

"Gary Nordin", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

Unaudited

	Number of Shares	Share Capital (Note 6)	Contributed Surplus (Note 6)	Deficit	Total
Balance – December 31, 2009	41,502,592	\$ 11,128,289	\$ 922,188	\$ (12,236,036)	\$ (185,559)
Private placement	3,620,000	362,000	-	-	362,000
Share-based compensation	-	-	113,963	-	113,963
Loss for the period	-	-	-	(488,554)	(488,554)
Balance – June 30, 2010	45,122,592	11,490,289	1,036,151	(12,724,590)	(198,150)
Private placement	1,500,000	150,000	-	-	150,000
Private placement	3,820,000	573,000	-	-	573,000
Private placement	4,267,000	1,280,100	-	-	1,280,100
Share issuance costs	-	(126,570)	-	-	(126,570)
Warrants exercised	3,070,000	460,500	-	-	460,500
Options exercised	800,000	80,000	-	-	80,000
Fair value of options exercised	-	63,885	(63,885)	-	-
Share-based compensation	-	-	227,091	-	227,091
Loss for the period	-	-	-	(746,235)	(746,235)
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
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

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Unaudited

	For the Three Months Ended 30 June		For the Six Months Ended 30 June	
	2011	2010	2011	2010
Expenses				
Accounting and audit	\$ 8,512	\$ 4,175	\$ 16,437	\$ 12,300
Amortization	3,338	2,492	6,522	4,984
Conferences and conventions	18,068	5,042	22,167	13,673
Consulting	-	-	14,400	-
Director fees	10,000	10,000	20,000	20,000
Exploration and evaluation <i>(Note 4)</i>	482,208	94,945	1,017,180	188,643
Foreign exchange loss	6,974	1,150	11,932	1,221
General exploration	6,492	3,936	12,682	4,894
Investor relations and promotions	49,594	7,663	84,059	8,976
Legal fees	7,700	8,641	13,334	11,662
Listing and filing fees	2,990	9,872	13,035	10,622
Management fees	38,000	28,500	249,500	57,000
Office services and supplies	26,847	12,465	49,359	23,794
Salaries and wages	48,609	4,323	53,569	7,709
Shareholder communications	11,765	3,049	18,392	3,429
Share-based compensation <i>(Note 7)</i>	61,240	44,297	176,418	113,963
Transfer agent fees	5,192	4,312	9,562	5,935
Travel and accommodation	8,127	-	17,858	-
Loss before other items	(795,656)	(244,862)	(1,806,406)	(488,805)
Interest income	1,915	79	5,451	251
Loss and comprehensive loss for the period	\$ (793,741)	\$ (244,783)	\$ (1,800,955)	\$ (488,554)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Weighted-average shares				
Outstanding – basic and diluted	61,397,394	43,173,361	60,095,310	42,342,592

- See Accompanying Notes -

CANASIL RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30

Unaudited

CASH RESOURCES PROVIDED BY (USED IN)	2011	2010
Operating activities		
Loss for the period	\$ (1,800,955)	\$ (488,554)
Items not involving cash		
Amortization	6,522	4,984
Share-based compensation <i>(Note 7)</i>	204,731	113,963
	<u>(1,589,702)</u>	<u>(369,607)</u>
Changes in non-cash working capital		
Decrease (increase) in receivables	(28,259)	(341)
Decrease (increase) in prepaid expenses	(19,866)	1,781
Increase (decrease) in accounts payable and accrued liabilities	157,737	(78,546)
	<u>(1,480,090)</u>	<u>(446,713)</u>
Investing activities		
Purchase of equipment	<u>(40,123)</u>	-
Financing activities		
Share capital issued for cash	988,790	362,000
Increase in due to related party	-	30,844
	<u>988,790</u>	<u>392,844</u>
Change in cash for the period	(531,423)	(53,869)
Cash position - beginning of period	<u>1,583,542</u>	<u>80,063</u>
Cash position - end of period	<u>\$ 1,052,119</u>	<u>\$ 26,194</u>

**Supplemental schedule of non-cash investing
and financing transactions**

Fair value of stock options exercised	\$ 72,927	\$ -
---------------------------------------	-----------	------

- See Accompanying Notes -

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (the "Company"), a British Columbia incorporated company with its head office located in Vancouver, British Columbia, is considered to be in the exploration stage with respect to its interest in mineral properties. 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 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, 2011	December 31, 2010
Deficit	\$ 15,271,780	\$ 13,470,825
Working capital	\$ 982,693	\$ 1,623,728

2. SIGNIFICANT ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards ("IFRS") and basis of presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants, which was revised in 2010 to incorporate IFRS. Publicly accountable enterprises are required to apply such standards effective for years beginning on or after January 1, 2011.

These condensed interim consolidated financial statements cover a portion of the first annual consolidated financial statements that will be presented in accordance with IFRS for the year ending December 31, 2011. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). In these financial statements, the term Canadian GAAP refers to Canadian GAAP prior to the adoption of IFRS.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Adoption of International Financial Reporting Standards (“IFRS”) and basis of presentation - continued

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”) using those standards issued and current as of August 26, 2011, the date that the Company’s board of directors approved these financial statements. The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. Actual results may differ from these estimates. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

The standards that will be effective as at December 31, 2011 are subject to change and additional interpretation. Any subsequent changes to IFRS may affect the Company’s annual consolidated financial statements for the year ending December 31, 2011 and could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on conversion to IFRS.

Subject to certain transition elections referenced in Note 9, the Company has applied the same accounting policies incorporated in its opening IFRS balance sheet at January 1, 2010 (“Transition Date”) and for all periods presented, as if these policies had always been in effect. The Company’s significant accounting policies are provided in Note 2 to the Company’s first IFRS condensed interim consolidated financial statements for the three months ended March 31, 2011.

Note 9 to the Company’s March 31, 2011 condensed interim consolidated financial statements discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes. Note 9 to these financial statements discloses the impact of the transition to IFRS on the Company’s shareholders’ equity and comprehensive loss for the period ended June 30, 2011.

These interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010 and the Company’s first IFRS condensed interim consolidated financial statements for the three months ended March 31, 2011. Unless otherwise stated, all amounts presented are in Canadian dollars.

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.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Estimates, risks, and uncertainties

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, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates and the differences could be material to the Company's results and financial position. Significant estimates used in the preparation of these financial statements relate to the useful lives of property and equipment, valuation allowances for deferred income tax assets, estimates of share-based compensation, and the valuation of warrants in private placements.

Comparative figures

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

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, reclamation bond, and accounts payable and accrued liabilities. All of the Company's 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 a major Canadian bank 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 June 30, 2011, the Company held the equivalent of \$5,904 in cash, \$74,497 in receivables, and \$129,822 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.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

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 an 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 over a period of three years totalling US\$150,000. During 2009, the Company extended the agreement one additional year in exchange for an additional payment of US\$10,000, bringing the total payments due to the optionor to 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. The initial cash payment of \$50,000 (received) and the first-year exploration expenditure of \$750,000 are firm commitments.

In accordance with the agreement, in August 2010 MAG subscribed for a private placement of 1,500,000 units of the Company at a price of \$0.10 per unit for gross proceeds of \$150,000 (*Note 6*). In May 2011, MAG subscribed to a further 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 completes 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. If the Company elects not to contribute its share of joint venture expenditures, Pan American may earn an additional 14% interest by completing a feasibility study, thereby taking its interest to 65%.

At the Company's option, Pan American may earn a further 15% interest for a total 80% interest by financing the Company's share of capital costs required to take the project through to production. If Pan American decides not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US\$5,000,000 in a combination of cash and shares paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

4. EXPLORATION AND EVALUATION - *continued*

Carina project, Mexico

During fiscal 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 initial cash payment of US\$36,500 (received) and the first-year exploration expenditure of US\$200,000 are firm commitments.

Upon initial earn-in, the Company and Pan American will form a joint venture to further develop the property. Pan American can increase its interest to 70% by funding to full feasibility within three years and to 80% by financing the project through to production.

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 and the date for the final payment of US\$450,000 is May 23, 2012. The Company has the option to further extend the final payment of US\$450,000 over an additional three or five years based on a specific schedule of payments that includes additional amounts due to the optionor.

The Company has also staked additional claims, known as the Victoria claims, which are contiguous with the Salamandra claims. In 2009, the Victoria claims were reduced to cover the areas immediately surrounding the Salamandra and Carina projects. These blocks were incorporated with the respective projects in 2010. During 2010, the Company re-staked another separate claim to cover part of the previously held Victoria claims.

Colibri project, Mexico

During 2005, the Company staked claims located in Durango State, Mexico. During fiscal 2007, the Company acquired a 100% interest in several additional claims through the issuance of shares and warrants.

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 Cyrus 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. 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 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.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

4. EXPLORATION AND EVALUATION - continued

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

Expenditures for the period and cumulative expenditures as at June 30 are as follows:

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
Los Azules, Mexico	-	6,699	6,699	28,358
Sandra and Escobar, Mexico	-	581,602	581,602	898,906
San Francisco, Mexico	-	-	-	2,651
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	13,961	71,899	207,211
	\$ 57,938	\$ 959,242	\$ 1,017,180	\$ 6,632,035

2010	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,011,967
- Expenditure recoveries	-	-	-	(200,839)
Other, Canada	-	-	-	3,353
Los Azules, Mexico	-	5,669	5,669	14,985
Sandra and Escobar, Mexico	-	76,237	76,237	267,180
San Francisco, Mexico	-	641	641	1,971
La Esperanza, Mexico	14,453	70,556	85,009	689,152
Colibri, Mexico	-	8,855	8,855	1,623,391
Salamandra, Mexico	-	4,281	4,281	903,153
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	17	17	157,273
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	3,598	3,598	47,846
Other, Mexico	-	4,336	4,336	43,065
	\$ 14,453	\$ 174,190	\$ 188,643	\$ 5,354,382

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

4. EXPLORATION AND EVALUATION - continued

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

	2011	2010
Acquisition and option payments	\$ 142,134	\$ 14,453
Administration and legal	10,130	5,521
Assays	9,484	15,897
Consulting	8,816	7,333
Drilling	262,291	-
Environmental and permits	1,008	-
Field costs	42,558	29,649
Geology	95,227	52,577
Geophysical	350,629	-
Land holding costs	128,893	38,113
Mapping and surveying	26,039	11,572
Roadwork	35,372	7,926
Transportation and rentals	1,940	5,378
Travel and accommodation	4,868	224
Expenditure recoveries	(102,209)	-
	<u>\$ 1,017,180</u>	<u>\$ 188,643</u>

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and fixtures	Total
Cost						
January 1, 2010	\$ 31,686	\$ 27,730	\$ 14,729	\$ 31,971	\$ 25,545	\$ 131,661
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
December 31, 2010	31,686	27,730	14,729	31,971	25,545	131,661
Additions	-	35,445	2,865	-	1,813	40,123
Disposals	-	-	-	-	-	-
June 30, 2011	31,686	63,175	17,594	31,971	27,358	171,784
Accumulated Amortization						
January 1, 2010	-	19,645	11,033	18,188	16,818	65,684
Additions	-	2,426	1,663	4,134	1,746	9,969
Disposals	-	-	-	-	-	-
December 31, 2010	-	22,071	12,696	22,322	18,564	75,653
Additions	-	3,507	779	1,447	789	6,522
Disposals	-	-	-	-	-	-
June 30, 2011	-	25,578	13,475	23,769	19,353	82,175
Net Book Value						
January 31, 2010	\$ 31,686	\$ 8,085	\$ 3,696	\$ 13,783	\$ 8,727	\$ 65,977
December 31, 2010	\$ 31,686	\$ 5,659	\$ 2,033	\$ 9,649	\$ 6,981	\$ 56,008
June 30, 2011	\$ 31,686	\$ 37,597	\$ 4,119	\$ 8,202	\$ 8,005	\$ 89,609

CANASIL RESOURCES INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

Unaudited

6. SHARE CAPITAL

Private placements

In May 2010, the Company issued 3,620,000 units at a price of \$0.10 per unit for cash proceeds of \$362,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.15 until May 20, 2011.

In August 2010, the Company issued 1,500,000 units to MAG (*Note 4*) at a price of \$0.10 per unit for cash proceeds of \$150,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling MAG to purchase one common share at a price of \$0.15 until August 27, 2011.

In September 2010, the Company issued 3,820,000 units at a price of \$0.15 per unit for gross proceeds of \$573,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.25 until September 24, 2011. The warrants are subject to an accelerated exercise provision. The Company paid finders' fees of \$32,760.

In December 2010, the Company issued 4,267,000 units at a price of \$0.30 per unit for gross proceeds of \$1,280,100. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.45 until December 17, 2011. The warrants are subject to an accelerated exercise provision. The Company paid a finders' fees of \$66,990.

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 warrants are subject to an accelerated exercise provision. 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.

Shareholder rights plan

A shareholder rights plan was adopted by the shareholders during fiscal 2007. The plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Pursuant to the terms of the plan, any bids that meet certain criteria intended to protect the interests of all shareholders are deemed to be "Permitted Bids". In the event that a bid, other than a Permitted Bid, to acquire 20% or more of the common shares is made, shareholders other than those involved in the take-over bid will be entitled to exercise rights to acquire common shares of the Company at a discount to the market price. The shareholders rights plan expires in April, 2012.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

Unaudited

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 five years. Stock options granted under the Plan vest in equal quarterly tranches over a period of not less than 12 months.

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

	Warrants		Options	
	Number (i)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2009	3,150,000	\$ 0.15	1,933,750	\$ 0.34
Granted	6,603,500	\$ 0.28	3,675,000	\$ 0.19
Exercised	(3,070,000)	\$ 0.15	(800,000)	\$ 0.10
Expired	<u>(100,000)</u>	\$ 0.15	<u>(135,000)</u>	\$ 0.39
Outstanding, December 31, 2010	6,583,500	\$ 0.28	4,673,750	\$ 0.26
Granted	610,000	\$ 0.60	350,000	\$ 0.35
Exercised	(2,415,000)	\$ 0.15	(785,000)	\$ 0.19
Expired	<u>(200,000)</u>	\$ 0.15	<u>(58,750)</u>	\$ 0.20
Outstanding, June 30, 2011	4,578,500	\$ 0.39	4,180,000	\$ 0.28
Exercisable, June 30, 2011	4,578,500	\$ 0.39	3,567,500	\$ 0.28

(i) All outstanding warrants are subject to an accelerated exercise clause such that after six months following the closing of the placements, 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 the following thresholds:

As to 1,835,000 warrants – 10-day trading share price of \$0.45;
 As to 2,133,500 warrants – 10-day trading share price of \$0.90;
 As to 610,000 warrants – 10-day trading share price of \$1.40.

CANASIL RESOURCES INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

Unaudited

7. STOCK OPTIONS AND WARRANTS – continued

At June 30, 2011, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	100,000	\$ 0.20	October 27, 2011
	75,000	\$ 0.20	November 21, 2011
	780,000	\$ 0.50	March 20, 2012
	100,000	\$ 0.25	July 10, 2013
	875,000	\$ 0.10	January 27, 2015
	150,000	\$ 0.10	May 13, 2012
	1,750,000	\$ 0.28	November 23, 2015
	<u>350,000</u>	\$ 0.35	January 13, 2013
	4,180,000		
Warrants	1,835,000	\$ 0.25	September 24, 2011
	2,133,500	\$ 0.45	December 17, 2011
	<u>610,000</u>	\$ 0.60	May 6, 2012
	4,578,500		

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.

	2011	2010
Total options granted	<u>350,000</u>	<u>1,925,000</u>
Average exercise price	\$ 0.35	\$ 0.10
Estimated fair value of options granted	\$ 62,588	\$ 149,255
Estimated fair value per option	\$ 0.18	\$ 0.08

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:

	2011	2010
Risk-free interest rate	1.77%	2.39%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	97%	113%
Expected option life in years	<u>2.00</u>	<u>4.61</u>

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2011***Unaudited***7. STOCK OPTIONS AND WARRANTS – continued**

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

	2011	2010
Number of options vested in period	1,112,500	900,000
General and administrative	\$ 176,418	\$ 113,963
Exploration and evaluation	28,313	-
Compensation recognized in period	\$ 204,731	\$ 113,963

Of the total share-based compensation recognized in the period, \$135,268 (2010 - \$77,443) relates to options granted to directors, officers, and key management personnel.

During the period, 785,000 stock options (2010 – nil) were exercised and the related fair value of \$72,927 (2010 – \$nil) was recorded as share capital.

8. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence are as follows:

- a) Paid or accrued \$24,000 (2010 - \$48,000) for management fees to Essec Enterprises Ltd., a company of which the Chief Executive Officer is a director;
- b) Paid management salaries of \$37,500 (2010 - \$nil) to the Chief Executive Officer;
- c) Incurred an aggregate total of \$20,000 (2010 - \$20,000) in director fees by paying or accruing \$5,000 (2010 - \$5,000) to each of the following:
 - Stillwater Enterprises Ltd. – a company controlled by a director of the Company
 - Discovery Resource Corp. – a company controlled by a director of the Company
 - Greenspot Enterprise Ltd. – a company controlled by a director of the Companya director of the Company;
- d) Paid or accrued \$13,334 (2010 - \$11,662) for legal services to Vector Corporate Lawyers Inc., a firm in which an officer of the Company is a partner;
- e) Paid or accrued \$20,500 (2010 - \$9,000) in management fees to the Chief Financial Officer;
- f) Paid management fee bonuses of \$175,000 (2010 - \$nil) and \$30,000 (2010 - \$nil) to Essec Enterprises Ltd. and the Chief Financial Officer, respectively;
- g) Paid geological and administrative consulting fees of \$20,000 (2010 - \$nil) to Discovery Resource Corp.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available for similar services, to management personnel on an arm's length basis.

During the year ended December 31, 2010, directors, officers, and companies with directors in common made advances totalling \$140,844 to the Company. The advances were non-interest bearing, unsecured, due on demand, with no fixed terms of repayment. All advances were repaid during the 2010 fiscal year.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2011***Unaudited***9. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The accounting policies in Note 2 to the Company's first IFRS condensed interim consolidated financial statements for the three months ended March 31, 2011 have been applied in preparing these condensed interim consolidated financial statements for the six months ended June 30, 2011, the comparative information for the six months ended June 30, 2010, and the balance sheet as December 31, 2010.

In preparing the comparative information for the six months ended June 30, 2010 and the financial statements for the year ended December 31, 2010, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP.

IFRS 1 provides certain mandatory exceptions and optional exemptions to full retrospective application for first time adopters of IFRS. Details of the elections made by the Company in preparing these condensed interim financial statements are included in Note 9 to the Company's March 31, 2011 condensed interim consolidated financial statements, which also include reconciliations of the assets, liabilities, shareholders' equity, comprehensive loss, and cash flows of the Company from those reported under Canadian GAAP to IFRS for January 1, 2010, December 31, 2010, and March 31, 2011.

A reconciliation of the Company's shareholders' equity and comprehensive loss, from those amounts previously reported under Canadian GAAP to IFRS, for the six months ended June 30, 2010 follows:

SHAREHOLDERS' EQUITY (DEFICIENCY)	June 30, 2010
Total equity under Canadian GAAP	\$ 5,156,232
Effect of transition to IFRS:	
Deficit: Retrospective expensing of exploration and evaluation costs (i)	<u>(5,354,382)</u>
Total equity (deficiency) under IFRS	<u>\$ (198,150)</u>
COMPREHENSIVE LOSS	Six Months Ended June 30, 2010
Comprehensive loss under Canadian GAAP	\$ 299,911
Effect of transition to IFRS:	
Retrospective expensing of exploration and evaluation costs (i)	<u>188,643</u>
Comprehensive loss under IFRS	<u>\$ 488,554</u>

(i) Exploration and evaluation assets – where IFRS permits the capitalization of certain exploration and evaluation expenditures under IFRS 6, *Exploration and Evaluation of Mineral Properties*, the Company has elected to expense its exploration and evaluation costs in the period incurred. Consequently, the Company has retrospectively expensed such costs previously capitalized under Canadian GAAP on the Transition Date with an adjustment to its opening deficit.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2011***Unaudited*

10. 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 period.

11. SEGMENTED INFORMATION

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

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

2010	Canada	Mexico	Total
Plant and equipment	\$ 15,101	\$ 45,892	\$ 60,993

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the Company issued 100,000 shares from treasury upon the exercise of stock options for cash proceeds of \$10,000, and subject to regulatory approval granted 150,000 two-year stock options at an exercise price of \$0.30 per share to a consultant.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("the Company") is dated August 26, 2011, and provides information on the Company's activities for the period ended June 30, 2011, and from the end of the 2010 fiscal year to the date of this report. The following discussion and analysis of the financial position of the Company should be read in conjunction with the un-audited condensed interim consolidated financial statements for the six months ended June 30, 2011, prepared in accordance with International Financial Reporting Standards, and the annual audited consolidated financial statements and related notes, prepared in accordance with Canadian Generally Accepted Accounting Principles, and the MD&A for the year ended December 31, 2010.

Overview

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

The Company's stronger working capital position at year-end 2010, and the option and joint venture agreements with MAG Silver Corp. on the La Esperanza project and Pan American Silver Corp. on the Carina project, provided opportunities for a more active exploration program and operating activities in 2011. In Mexico the Company completed ZTEM airborne geophysical surveys for a total of 1,718 line kilometres on the Victoria, Salamandra and Sandra Escobar projects in February and March 2011. MAG Silver actively worked on the interpretation of the 1,330 line-kilometre ZTEM airborne survey completed at La Esperanza in October 2010, and 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 4 vein systems to define drill targets. MAG Silver reported expenditures of \$619,870 at La Esperanza as at June 30, 2011, of which \$348,513 was spent during the period. Total planned 2011 expenditures by MAG at La Esperanza are \$1,125,000 with plans to start a drill program in the third quarter. Pan American Silver undertook geological mapping and surface sampling at the Carina project to define drill targets for a planned drill program of 2,910 metres in 14 holes. At the Sandra-Escobar project petrographic analysis of surface samples and high resolution satellite imaging was completed, and a diamond drill program started. The drill program for 11 drill holes for a total of 1,848 was completed subsequent to the end of the period. Assay results to date have confirmed three vein targets with confirmed silver/gold and silver intercepts for further drill testing. At the Nora project, the Company entered into an agreement with La Cuesta International for an option to acquire 100% interest in 7,200 hectares claims surrounding the Nora project claims, expanding the project area to 7,708 hectares. All the mineral claims in Mexico were maintained in good standing.

In British Columbia, Canada, the Company completed internal evaluation reports on the Lil silver project, Vega copper-gold project and the Granite gold project, and prepared and submitted applications for multi-year exploration permits, including drill programs, at the Brenda gold-copper project and the Lil silver project. Subsequent to the end of the period the Brenda project permit was received. The Lil silver project claims were expanded by a further 2,680 hectares during the period. All BC claims were maintained in good standing.

During the period the Company received \$369,750 from the exercise of 2,415,000 warrants and \$147,000 through the exercise of 785,000 options, and in May 2011 completed a private placement of \$488,000 through the issuance of 1,220,000 units at \$0.40, each unit including a half warrant with each whole warrant entitling the holder to purchase an additional common share at \$0.60 within 12 months. The Company issued 350,000 incentive stock options with an exercise price of \$0.35 in January 2011, and 150,000 options at \$0.30 in July 2011.

The Company exhibited at the Vancouver Mineral Exploration Roundup and the Vancouver Resource Investment Conference in January 2011, attended the 2011 Prospectors and Developers Association Conference in Toronto in March 2011, and the Calgary Resource Investment conference in April 2011, the New York Hard assets conference in May 2011, and the Vancouver World Resource Investment Conference in June 2011.

Mineral Properties

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

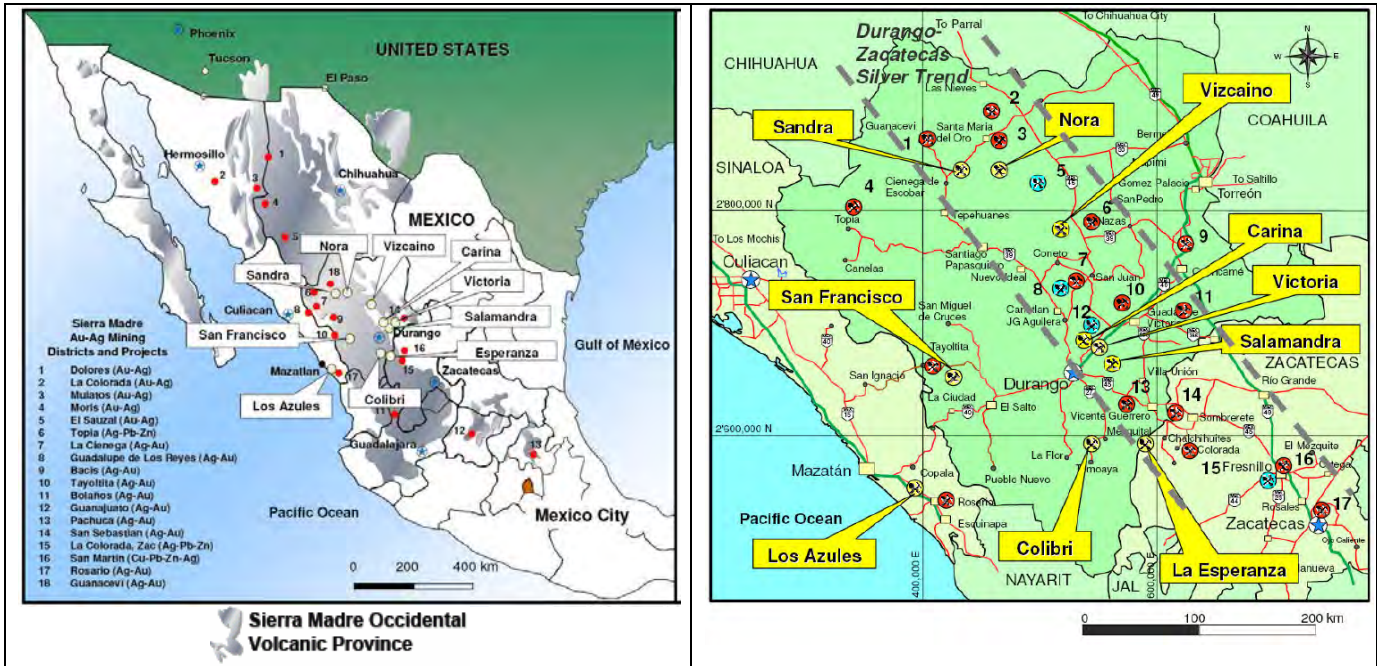
- La Esperanza silver zinc lead project – 100% interest and option to earn 100%
- Colibri silver zinc lead copper project – 100%
- Salamandra zinc silver project (March 2006) – 100% interest and option to earn 100%
- Sandra gold silver project – 100%
- Los Azules copper gold project – 100%
- San Francisco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

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Period ended June 30, 2011

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

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

Exploration projects in Mexico



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

The Company has an option agreement to purchase a 100% interest in the original La Esperanza claims covering 435 hectares, subject to a NSR royalty of up to 1.0%, by making option payments over a period of four years totalling US\$160,000. The claim area at the La Esperanza project has been increased through staking of claims to 18,954 hectares. The project is located on the border of Durango and Zacatecas States, 100 km south-southeast of the city of Durango. A Phase 1 diamond drill program consisting of 9 drill holes for a total of 1,432 metres was completed in 2006 and outlined a mineralized vein with a strike length of over 150 metres and to a depth of 200 metres, which is open in all directions, with a width of up to 10.30 metres carrying high-grade silver mineralization. In 2010 the Company upgraded access roads of over 24 km in the newly acquired claim areas, followed by geological mapping and surface sampling of four high-grade silver vein occurrences on these claims, 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. The agreement also provided for MAG to make placements of up to \$350,000 in Canasil shares. The initial payment of \$50,000 (received) and first year expenditure commitment of \$750,000 are firm commitments. In August 2010 MAG completed the initial payment of \$50,000 and placement of \$150,000 for 1,500,000 units at \$0.10. In October 2010, MAG completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey at La Esperanza.

During the period, MAG Silver actively worked on the interpretation of the ZTEM airborne survey and 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 4 vein systems to define drill targets. MAG Silver reported expenditures of \$619,870 at La Esperanza as at June 30, 2011, of which \$348,513 was spent during the period, and reported total planned 2011 expenditures at the project of \$1,125,000. In May 2011 the final payment under the purchase option agreement to complete the acquisition of the 435 hectare La Esperanza claims was completed, and the claims were transferred to Minera Canasil SA de CV, the Company's wholly owned Mexican subsidiary. Subsequent to the period in August 2011, MAG completed the \$100,000 cash payment for

the second year of the option agreement, and the deadline for the completion of the first year expenditure and drilling commitments was extended from September 1, 2011 to December 31, 2011.

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

The 100% owned Sandra project covers 7,512 hectares, located 183 km northwest of the city of Durango in Durango State, Mexico. The Company is advancing exploration on the Sandra project together with the adjoining 634 hectares Escobar claims of Pan American Silver under an agreement with Pan American (described below). The Company has compiled a database of surface sampling and geological mapping data from the Company's past exploration program, data provided by Pan American Silver, and historical data from a number of companies which had been active in the project area in the past. Analysis of this data has outlined a high level Gold-Silver system on the Sandra and adjoining Escobar claims. The mineralized system is centered on a large altered rhyolite dome complex, with surrounding argillic and potassic alteration zones with extensive evidence of gold, silver and base metal mineralization. These features are indicative of a disseminated gold-silver system, similar to other large bulk tonnage gold-silver-base metal deposits associated with altered intrusive complexes located on a well recognized trend in Durango State. In 2010, the Company completed a comprehensive surface mapping and sampling program to define drill targets in the project area. The results confirm the signature of a potentially large mineralized system. During the period, the Company completed a 420 line-kilometre ZTEM airborne geophysical survey over the project area, petrographic analysis of 23 surface samples, and a high resolution satellite imaging survey to prepare detailed contour maps of the project area. Interpretation of the ZTEM survey results confirmed the signature of a porphyry/intrusive target consistent with the geological mapping and surface sampling programs.

During the period, the Company started a 1,848 metre diamond drill program in 11 drill holes, which was completed in July 2011. Assay results from the initial 6 drill holes for a total of 682 metres returned mineralized intercepts from three veins. These included a high-grade intercept of 0.65 metres carrying 429 g/t silver, 2.58 g/t gold and 0.53% copper from the Maria Fernanda vein, an intercept of 2.06 metres carrying 126 g/t silver from the Candelaria vein, and an intercept of 0.45 metres carrying 121 g/t silver, 6.62% zinc and 1.79% lead from the El Encino vein. A wider 10.64 metre intercept of lower grade silver mineralization was cut at the footwall of the El Encino vein carrying 18 g/t silver, 0.76% zinc and 0.29% lead. The narrow high-grade silver-gold intercept seen at the Maria Fernanda vein is typical of the vein systems in the Guanacevi district and similar to the veins being successfully mined by Endeavour Silver Corp. and Great Panther Silver Corp. in this district. The occurrence of a wider intercept with lower grade silver mineralization at the El Encino vein points to the possibility of a larger zone of disseminated silver mineralization in this area.

The agreement with Pan American signed in August 2008 provides for the Company to earn an initial 51% interest in Pan American's Escobar claims by completing \$1,000,000 exploration expenditures in three years. Canasil's expenditures under the agreement to date have been \$770,381. Following the earn-in, Pan American may 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. If the Company elects not to contribute its share of joint venture expenditures, Pan American may earn an additional 14% interest by completing a feasibility study, thereby taking its interest to 65%. At the Company's option, Pan American may earn a further 15% interest for a total 80% interest by financing the Company's share of capital costs required to take the project through to production. If Pan American decides not to exercise its back-in right, it may sell its 49% interest in the Escobar claims to the Company for US\$5 million in a combination of cash and shares paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims.

Salamandra zinc-silver project, Durango State, Mexico

The Company has an option agreement 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 project area was 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 good access via paved and gravel roads.

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

In 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 km by 2.5 km extending towards the east from the area of previous drilling, confirming the potential for a significantly larger mineralized system in the project area. The geology and style of mineralization observed at Salamandra are similar to the San Martin silver-base metal mine of Grupo Mexico, located 80 km southeast of the project, and the largest underground mining operation in Mexico at 6,000 tonnes per day.

Carina Project, Durango, Mexico

The Carina project covers 12,147 hectares and is located 45 kilometers northeast of the City of Durango, in Durango State. The project lies 6.5 kilometres southwest of the La Preciosa project of 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 NW-SE striking 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 extending beyond the outcropping mineralization.

On November 19, 2010, the Company signed an option agreement with Pan American Silver 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 may increase its interest to 70% by taking the project through to feasibility, and to 80% by funding Canasil's share of investments for taking the project through to production. Pan American can recover Canasil's share of such additional investments from 85% of Canasil's share of cash flow after production. The initial cash payment of US\$36,500 was paid by Pan American in November 2010 upon signature of the agreement. During the period Pan American completed geological mapping and surface sampling to define drill targets for a planned program of 2,910 metres in 14 drill holes. Project expenditures are being incurred by Pan American under the current earn-in option and joint venture agreement.

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

The 100% owned Colibri claims cover 6,163 hectares, located 70 km southeast of the city of Durango. Geological mapping and surface sampling has identified and outlined a number of mineralized veins in the project area with a combined surface strike length of over 14 kilometres, indicating multiple targets for drill testing. The Company completed 34 diamond drill holes for a total of 4,169 metres at the Colibri project in late 2006, 2007 and 2008. The drill program returned high-grade mineralized intercepts from the central zone of the Linda vein containing copper, silver and zinc.

Vizcaino Project, Durango, Mexico

The Vizcaino project covers 3,600 hectares, located 127 kilometers north of the city of Durango, in Durango State. The project is located 38 kilometers southeast of Silver Standard Resources' La Pitarrilla deposit and 42 kilometers north of the San Augustin deposit, both major recent discoveries. The Vizcaino project hosts a prominent quartz vein, which can be traced on the surface for over 2 kilometres with widths of over 1 metre and up to 12 metres. The exposed vein is composed of fine grained chalcedonic quartz with a classic banded structure indicative of the upper levels of a strong epithermal vein system. A surface sampling and mapping program with 99 samples covering the vein outcrops returned anomalous gold values increasing with lower elevations, suggesting the potential for higher grades at depth. A diamond drill program is warranted to test for mineralization at depth.

Victoria zinc-silver claim area, Durango, Mexico

In October 2010 the Company re-staked a 60,000 hectare claim located within the area of the previous large Victoria claim block. In February 2011 the Company completed a 680 line-kilometre ZTEM airborne geophysical survey on the northern sector of the Victoria claim area, in an area where previous reconnaissance had outlined several mineral showings and areas with anomalous geochemical signatures with gold, arsenic, antimony, copper, lead and zinc. Interpretation of the ZTEM survey results shows an electromagnetic signature over an area of 2.5 km by 2.0 km located centrally within the previously defined geochemical anomalies, and similar to the electromagnetic signature observed at the Salamandra project. This is a very positive indicator and the Company is planning further mapping and surface sampling, as well as a ground IP survey to further investigate this area.

Nora project, Durango State, Mexico

The Company holds a 100% interest in the 500 hectare Nora project claims in north-western Durango State, Mexico. The project hosts a prominent gold-silver-copper vein, with limited historical mining activity. In October 2010, the Company completed agreements to acquire the two Candy claims covering 208 hectares and located within the Nora claim area. In January 2011, the Company entered into an option agreement with La Cuesta International to acquire 100% interest in the 7,200 hectares Candelaria claims surrounding the Nora claims, increasing the project area to over 7,908 hectares. As a result the Nora project has now become a large prospective target with potential for hosting gold, silver and copper mineralization.

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

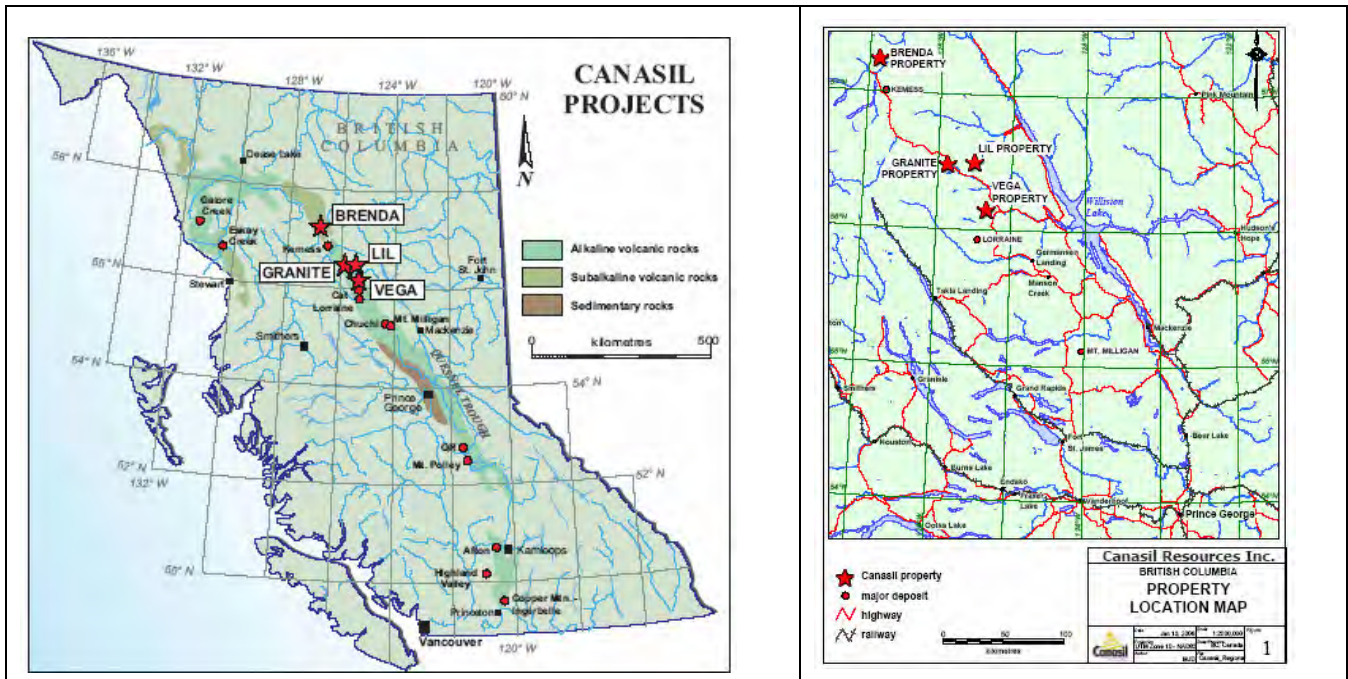
The Company holds a 100% interest in the Los Azules claims in Sinaloa State, Mexico, covering 4,531 hectares. The claims host prospects for epithermal vein type mineralization carrying gold, silver and copper. The Los Azules property is located 60

km southeast of the city of Mazatlan. Between 2006 to 2008, the Company completed a prospecting and sampling program followed by further mapping and evaluation at Los Azules to identify potential mineralized structures. Some of the vein structures have returned gold, silver and copper values, which require further sampling and investigation.

San Francisco gold-silver project, Durango, Mexico

The San Francisco property, covering 500 hectares, is located approximately 104 km west of the city of Durango in the San Dimas mining district of Durango, 14 km southeast of the Goldcorp's Tayoltita mine. The claims are within view of the community of San Francisco. The access road cuts through the centre of the property, as does the main power line supplying the Tayoltita mine.

Exploration projects in British Columbia, Canada



Brenda gold-copper property, British Columbia, Canada

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

These programs have identified the potential for a deep porphyry gold-copper system at the Brenda project. The increasing gold and copper grades at depth observed in drilling to date, and the strength of the highly altered mineralized structure observed in the drill core, in conjunction with the strong anomalies observed in the geophysical survey, are highly encouraging and indicate the potential for a large deep-seated gold-copper porphyry system at the Brenda project. The mineralized system averages 300 to 400 metres in width, and has been traced along a strike length of 400 meters by drilling, with a potential strike length in excess of 1,000 metres indicated by the chargeability anomalies observed in the 3-Dimensional Induced Polarization geophysical survey. A deeper sensing geophysical survey, which can penetrate to 1,000 metres depth, as well as deeper drilling to extend some of the existing drill holes may be used in a future program for further definition of the structure at depth.

During the period the Company applied for an exploration permit covering up to 6,000 metres of diamond drilling from 10 drill hole locations and additional geophysical surveys, which has been approved in August 2011.

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

The 100% owned Vega claims are located in the Omineca Mining Division of British Columbia, 300 km northwest of Prince George. Access to the property is via the Omineca Mines Access Road and logging roads. The claim area was expanded to 11,130 hectares in 2010. During the period the Company completed a review of the Vega project aimed at planning further exploration activities.

The 100% owned LIL claims are located in the Omineca Mining Division, 350 km northwest of Prince George, British Columbia. A review of the Lil project was completed aimed at planning further exploration activities. As a result of this review, the Lil claims were maintained and expanded to 6,145 hectares from 3,465 hectares by adding 2,680 hectares of new claims in January 2011.

The 100% owned Granite gold-silver claims, are located in the Johansson Lake area, Omineca Mining Division of British Columbia, 360 km northwest of Prince George. During the period the Company completed a review of the Granite project aimed at planning further exploration activities. The Granite claims cover 1,624 hectares.

A \$100,000 reconnaissance program is planned for the Lil and Vega projects during the third quarter 2011.

Results of Operations

International Financial Reporting Standards ("IFRS")

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants, which was revised in 2010 to incorporate IFRS. Publicly accountable enterprises are required to apply such standards effective for years beginning on or after January 1, 2011.

The Company's June 30, 2011 condensed interim consolidated financial statements cover a portion of the first annual consolidated financial statements that will be presented in accordance with IFRS for the year ending December 31, 2011. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). In this management discussion, the term Canadian GAAP refers to Canadian GAAP prior to the adoption of IFRS.

The standards that will be effective as at December 31, 2011 are subject to change and additional interpretation. Any subsequent changes to IFRS may affect the Company's annual consolidated financial statements for the year ending December 31, 2011 and could result in restatement of the Company's condensed interim consolidated financial statements for the six-month period ended June 30, 2011.

Note 9 to the Company's March 31, 2011 condensed interim consolidated financial statements discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 have been restated to give effect to these changes. Note 9 to the Company's June 30, 2011 condensed interim consolidated financial statements discloses the impact of the transition to IFRS on the Company's shareholders' equity and comprehensive loss for the period ending June 30, 2010.

The most significant change from the Company's significant accounting policies under Canadian GAAP, and consequently, to the Company's financial position and results of operations under IFRS, relates to its mineral interests. Where the Company formerly capitalized its mineral property costs, under IFRS, the Company has elected to expense its exploration and evaluation costs in the period incurred. Consequently, the Company retrospectively expensed such costs previously capitalized under Canadian GAAP on January 1, 2010, the transition date, with an adjustment to its opening deficit.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

Results of Operations for six-month period ended June 30, 2011 and 2010

Operating expenses during the first six months of 2011 were \$1,806,406 (2010 - \$488,805) which includes \$1,017,180 (2010 - \$188,643) in exploration and evaluation expenditures, which would have previously been capitalized under Canadian GAAP. The Company earned higher interest income of \$5,451 (2010 - \$251) due to an increase of cash on hand. The operating expenses also include non-cash Share-based Compensation of \$176,418 (2010 - \$113,963) related to the issuance and vesting of options during the period. Management and Directors fees increased to \$249,500 (2010 \$57,000) as a result of bonus payments to a Director and Officer. In addition, on April 1, 2011, the Chief Executive Officer of the Company began drawing a salary instead of charging management fees, therefore, salaries and wages increased to \$53,569 (2010 - \$7,709). Investor Relations and Conferences and Conventions expenses increased to \$106,226 (2010 - \$22,649) reflecting a significantly more active program including participation in industry investment conferences and the dissemination of Company information in the German speaking markets in Europe. Listing and Filing fees increased to \$13,035 (2010 - \$10,622), Office Services and Supplies increased to \$49,359 (2010 - \$23,794) and Travel and Accommodation to \$17,858 (2010 - \$Nil) all reflecting the Company's increased level of operating programs in 2011 compared to 2010. Accounting and Audit fees were \$16,437 (2010 - \$12,300), and the Company recorded a foreign exchange loss of \$11,932 (2010 - \$1,221) 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 six-month period, before changes in non-cash working capital items, was \$1,589,702 (2010 - \$369,607), which includes \$1,017,180 (2010 - \$188,643) in Exploration and Evaluation expenditures reflecting the Company's more active exploration programs in 2011. Due to expanded exploration programs in both Canada and Mexico, Accounts Receivable increased by \$28,259 (2010 - \$341) primarily reflecting an increase in recoverable IVA taxes paid in Mexico, Prepaid Expenses increased by \$19,866 (2010 - decrease of \$1,781), Accounts Payable and Accrued Liabilities increased by \$157,737 (2010 - decrease of \$78,546). Cash used for investing activities was \$40,123 (2010 - \$Nil) and related to the purchase of equipment. Net cash flow from financing activities was \$988,790 from the exercise of options, warrants, and the completion of a private placement during the period (2010 - \$392,844 from a private placement and advances from related parties).

Summary of Quarterly Information

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

Year	2011 IFRS		2010 IFRS				2009 Canadian GAAP	
	June 30	March 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Loss for the quarter	(793,741)	(1,007,214)	(542,772)	(203,463)	(244,783)	(243,771)	(70,752)	(79,632)
Loss per share: basic and diluted	(0.01)	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)
Weighted-average shares	61,397,394	58,778,039	54,175,527	45,983,896	43,173,361	41,502,592	36,522,455	35,202,592

Discussion of Quarterly Information

Due to the financial crisis of late 2008, the Company experienced a significantly lower level of exploration and operating activity in 2009, which is reflected in lower levels of administrative expenses and operating losses for 2009, with reductions in expenditures particularly on Investor Relations, Conferences, Travel and Share-Based Compensation. In 2010 the level of operating and exploration activities recovered, increasing through the year and resulting in increasing quarterly losses. There was significantly higher share-based compensation in 2010, related to the issuance of options to directors, officers and consultants.

During the first and second quarters of 2011, the Company had a very active exploration and operating program reflected in the higher quarterly expenditures and losses. In addition the Company transitioned to the new IFRS requirements for financial reporting resulting in all exploration expenditures being included in operating expenses, compared to their being capitalized in previous period under Canadian GAAP. This has made a significant difference to the reported quarterly losses for the first quarter 2011. 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 during the period that the Company had limited cash resources and market support.

Liquidity and Capital Resources

The Company is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sale) in order to finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in securing the required financing.

The Company had a working capital at June 30, 2011 of \$982,693 (December 31, 2010 – \$1,623,728).

The Company had no material income from operations. As at June 30, 2011, the Company had no long-term or short-term debt. During 2008, 2009, and 2010, the Company received total advances of \$215,844 from a related party without interest or specific terms of repayment. All of these advances were fully repaid in 2010.

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 is currently well funded to maintain its planned exploration and operating expenditures through 2011. In 2010 the Company entered into option and joint venture agreements on two of its projects in Mexico, providing for third parties to earn a majority interest through a combination of cash and share payments to the Company and exploration expenditures to advance the projects. Given the increasing precious and base metal prices and interest in the mining exploration sector in 2010 and early 2011, and the Company's higher share price, management believes that the Company is well positioned to raise additional equity funds from the capital markets and enter into further option and joint venture agreements to advance its exploration projects and fund operating activities through 2011, as well as strengthening the Company's working capital position.

Other Information and Disclosures

Related Party Transactions

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence are as follows:

- a) Paid or accrued \$24,000 (2010 - \$48,000) for management fees to Essec Enterprises Ltd., a company of which the Chief Executive Officer is a director;
- b) Paid management salaries of \$37,500 (2010 - \$nil) to the Chief Executive Officer;
- c) Incurred an aggregate total of \$20,000 (2010 - \$20,000) in director fees by paying or accruing \$5,000 (2010 - \$5,000) to each of the following:
 - Stillwater Enterprises Ltd. – a company controlled by a director of the Company
 - Discovery Resource Corp. – a company controlled by a director of the Company
 - Greenspot Enterprise Ltd. – a company controlled by a director of the Company
 - A director of the Company;
- d) Paid or accrued \$13,334 (2010 - \$11,662) for legal services to Vector Corporate Lawyers Inc., a firm in which an officer of the Company is a partner;
- e) Paid or accrued \$20,500 (2010 - \$9,000) in management fees to the Chief Financial Officer;
- f) Paid management fee bonuses of \$175,000 (2010 - \$nil) and \$30,000 (2010 - \$nil) to Essec Enterprises Ltd. and the Chief Financial Officer, respectively;
- g) Paid geological and administrative consulting fees of \$20,000 (2010 - \$nil) to Discovery Resource Corp.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available for similar services, to management personnel on an arm's length basis.

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

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

Resource Properties Expenditures

A summary of the Company's resource expenditures for the period follows:

	6 months 2011	6 months 2010
Canada		
Brenda Property		
Environmental and permits	\$ 663	\$ -
Geological	780	-
Mapping and surveying	260	-
	1,703	-
Other Properties		
Consulting	1,040	-
Environmental and permits	345	-
Geological	1,863	-
Land holding costs	26,290	-
Mapping and surveying	296	-
	29,834	-
Mexico		
Sandra and Escobar Properties		
Administration	2,672	2,371
Assays	6,676	12,383
Consulting	6,174	479
Drilling	262,291	-
Field costs	32,002	13,149
Geological	69,837	31,060
Geophysical	110,246	-
Land holding costs	26,962	4,485
Legal	576	-
Mapping and surveying	25,278	8,435
Road building	35,372	-
Transportation and rentals	965	3,654
Travel and accommodation	2,551	221
	581,602	76,237
La Esperanza Property		
Acquisition and option payments	84,196	14,453
Administration	243	2,225
Assays	-	3,514
Consulting	-	4,776
Field costs	1,358	14,995
Geological	-	18,321
Land holding costs	25,831	13,488
Legal	6,024	640
Mapping and surveying	-	3,137
Road building	-	7,819
Transportation and rentals	-	1,641
Expenditure recoveries	(102,209)	-
	\$ 15,443	\$ 85,009

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

Resource expenditures for the period – *continued*

	6 months 2011	6 months 2010
Mexico – continued		
Colibri Property		
Administration	\$ 200	\$ 184
Field costs	-	11
Land holding costs	7,789	8,575
Transportation and rentals	74	85
	<u>8,063</u>	<u>8,855</u>
Salamandra Property		
Administration	260	11
Field costs	2,105	652
Geological	6,440	1,594
Geophysical	122,444	-
Land holding costs	16,817	2,024
Transportation and rentals	74	-
Travel and accommodation	485	-
	<u>148,625</u>	<u>4,281</u>
Victoria Property		
Administration	91	-
Assays	2,808	-
Consulting	1,602	-
Field costs	5,669	-
Geological	15,301	-
Geophysical	117,939	-
Land holding costs	5,038	17
Mapping and surveying	204	-
Transportation and rentals	826	-
Travel and accommodation	1,835	-
	<u>151,313</u>	<u>17</u>
Carina Property		
Consulting	-	140
Field costs	173	539
Geological	-	1,594
Land holding costs	1,826	1,217
Transportation and rentals	-	108
	<u>1,999</u>	<u>3,598</u>
Other Properties		
Acquisition and option payments	29,625	-
Acquisition - share-based compensation	28,313	-
Consulting	-	1,933
Field costs	516	407
Geological	1,812	-
Land holding costs	18,332	8,306
	<u>78,598</u>	<u>10,646</u>
Total costs for period	\$ 1,017,180	\$ 188,643

Changes in Accounting Policies

There were no changes in accounting policies during the period.

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 International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of commitments and contingencies at the date of the financial statements, and the reported amount of revenue and expenses during the period. The most significant accounting estimates for the Company relate to the estimation of share-based compensation and valuation of income tax assets. The Company's accounting policies are set out in full in note 2 to the March 31, 2011 unaudited interim consolidated financial statements.

Stock-based Compensation

The fair value of stock options is determined by the application of the Black-Scholes Option-Pricing Model, which requires the input of highly subjective assumptions, including the expected price volatility of the Company's common shares and the expected life of the options. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

Income Taxes

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. The Company has tax assets arising from various tax losses and exploration expenditures that can be carried forward to reduce future taxable income, however, the Company does not consider it probable that these future tax assets will be recovered, therefore it has provided a valuation allowance against these assets.

Financial Instruments

The Company's financial instruments consist of cash, receivables, reclamation bond, and accounts payable and accrued liabilities. All of the Company's 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 a major Canadian bank 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 June 30, 2011, the Company held the equivalent of \$5,904 in cash, \$74,497 in receivables, and \$129,822 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.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

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 unaudited condensed interim financial statements for the quarter ended June 30, 2011, 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 shares. As at June 30, 2011 the Company had 62,999,592 common shares issued and outstanding (diluted – 71,758,092) compared to 58,579,592 common shares issued and outstanding (diluted – 69,836,842) as at December 31, 2010.

During the period, 785,000 stock options were exercised at a weighted average price of \$0.19, 58,750 stock options expired and the Company granted 350,000 options at \$0.35 to consultants and in connection with a property option agreement. During the period 2,415,000 warrants were exercised at a weighted average price of \$0.15 and 200,000 warrants expired unexercised. The Company completed a private placement of 1,220,000 shares at \$0.40 per unit including 610,000 warrants with an exercise price of \$0.60 within 12 months.

Subsequent to June 30, 2011, the Company issued 100,000 shares upon the exercise of stock options for cash proceeds of \$10,000 bringing the number of outstanding shares to 63,099,592 (diluted – 71,758,092) as of the date hereof.

Options

As at June 30, 2011, a total of 4,180,000 incentive stock options were outstanding, 100,000 of which were subsequently exercised, leaving a balance of 4,080,000 as at the date hereof.

Number of Shares	Exercise Price	Expiry Date
100,000	\$ 0.20	October 27, 2011
75,000	\$ 0.20	November 21, 2011
780,000	\$ 0.50	March 20, 2012
100,000	\$ 0.25	July 10, 2013
875,000	\$0.10	February 2, 2015
150,000	\$0.10	May 13, 2012
1,750,000	\$0.28	November 23, 2015
350,000	\$0.35	January 13, 2013
4,180,000		

Warrants

As at June 30, 2011 and the date hereof, a total of 4,578,500 share purchase warrants were outstanding.

Number of Warrants	Exercise Price	Expiry Date
1,835,000	\$0.25	September 24, 2011
2,133,500	\$0.45	December 17, 2011
610,000	\$0.60	May 6, 2012
4,578,500		

Escrow

There are no shares subject to escrow or pooling arrangements.

Investor Relations

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. During the quarter the Company exhibited at the Vancouver Mineral Exploration Roundup and the Vancouver Resource Investment Conference in January 2011, attended the PDAC conference in Toronto in March 2011, the Calgary Resource Investment conference in April 2011, the New York Hard Assets conference in May 2011 and the Vancouver Resource Investment conference in June 2011. The Company also contracted IR-World Finanzkommunikation GmbH for translation and distribution of news releases in the German speaking markets in Europe. This resulted in significantly higher Investor Relations expenditures and activities in 2011.

Recent developments

Subsequent to June 30, 2011, the Company issued 100,000 shares upon the exercise of stock options for cash proceeds of \$10,000, and subject to regulatory approval issued 150,000 two-year stock options at an exercise price of \$0.30 in relation to a consulting agreement for developing contacts with European based investment funds for future funding activities. The Company received an update from MAG Silver Corp. with regards to progress on the La Esperanza project option – MAG reported positive results from the ZTEM airborne survey and surface mapping and sampling programs, as well as intentions to start a drill program to test drill targets defined to date.

General Conditions Affecting the Company's Operations

General Trends

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

During the fourth quarter of 2008 there was a marked deterioration in global economic conditions due to the financial and banking crisis in the U.S. and its effects on the global economy. These conditions resulted in a sharp decrease in the price of commodities and precious and base metals as well as sharp drops in all stock markets and loss of confidence in the investment sector. 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. There has been an overall improvement in the share prices of mining and mineral exploration companies and renewed interest in the exploration sector allowing for greater funding opportunities and significantly more active operating and exploration activities from the second half of 2010 through 2011 to date.

Competitive Conditions

The outlook for acquisition and development of natural resource projects had deteriorated due to the global financial crisis in late 2008 and first half of 2009. However these conditions started showing some improvement in the second half of 2009 and appear to be continuing to improve. The lower level of exploration activity has resulted in greater availability and generally lower prices for mineral exploration services.

Environmental Protection

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

Number of Employees

As of June 30, 2011, the Company had three employees. Significant administrative and certain geological services are provided to the Company by 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 Resource Properties

During the quarter the Company entered into an option agreement with La Cuesta International for acquisition of 100% interest in 7,200 hectares claims surrounding the Nora project in Durango, Mexico. The Company also increased the claim area of the Lil Silver project in BC, Canada, by 2,680 hectares through the staking of new claims.

Risk Factors Relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries no liability insurance, and any liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

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

Environmental Factors

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

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

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 ten 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, 2011, the Company's accumulated deficit was \$15,271,780.

Price Fluctuations and Share Price Volatility

In recent years the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the quarter, and to the date of this report, the price of the Company's shares fluctuated from a low of \$0.23 to a high of \$0.58 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at June 30, 2011, a total of 62,999,592 common shares of the Company were issued and outstanding. There were 4,180,000 stock options and 4,578,500 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

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period ended June 30, 2011

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