2010

ANNUAL REPORT

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Directors' Letter to Shareholders

April 25, 2011

Dear Shareholders,

2010 was a positive year for the mining and mineral exploration industry, and for Canasil. Overall economic conditions continued to improve through 2010 and in 2011 - the Dow Jones Industrial Average Index started the year at 10,500 and was up at 11,500 by year-end 2010 and 12,500 at present. The TSX Composite Index started the year close to 12,000 and was up at 13,500 by the end of the year and 14,000 at present. With the improving economic conditions, and in particular increasing demand from China and other developing economies, the price of commodities and particularly precious metals, increased significantly through the year. Crude oil prices were relatively stable through 2010, trading at $75 per barrel at the beginning of the year and closing at $85. In 2011 the crude oil price has increased to over $110 per barrel. Gold increased from $1,120 to $1,375 by year-end 2010, and on to $1,500 at present. Silver showed the highest increase, outperforming gold by a factor of 2, starting at $17 in January 2010 and on to $29 by December 2010, and $45 at present. Copper prices increased from $3.20 per lb to $4.10 per lb in 2010 and have held up in 2011 with a price of $4.30 per lb at present. Lead and zinc did not shown as high an increase – zinc prices have fluctuated, moving from $1.15 per lb in January 2010 down to $1.10 per lb at present. Lead prices showed a small increase form $1.15 per lb in January 2010 to $1.30 per lb at present. Both commodities are expected to show higher future prices due to forecasted demand. The increasing precious metal prices, and high copper prices as well as other commodities such as iron ore and coal, had a positive impact on the mining and exploration industry, with improving results for the major mining companies, and much greater interest for funding exploration companies.

In 2010 Canasil achieved a number of key objectives aimed at recovering from the industry downturn in late 2008 and 2009 in order to re-build the Company's working capital for a more active operating program. A number of private placements were completed at increasing prices through the year starting in May 2010 at $0.10 and ending in December 2010 at $0.30. A total of $2.95 million in new funding was completed in 2010 from private placements and the exercise of warrants, while maintaining a strong share structure with 58 million shares issued by year-end. This put the Company in a strong financial position by year-end with over $1.6 million in working capital. Earn-in option agreements were signed with MAG Silver Corp. on the Company's large La Esperanza silver-lead-zinc project, and with Pan American Silver Corp. on the Carina silver-gold project in Durango and Zacatecas States. These agreements provided independent confirmation of the potential of the Company's projects, as well as the opportunity to fund and advance the projects with industry leading partners. The Company also took advantage of opportunities to expand the claim areas covered by its projects in Mexico and British Columbia, Canada, through the year. These positive developments had a major impact on the Company's share price and market capitalization. Our share price increased from 10c in January 2010 to 34c by December 2010. With the increasing gold and silver prices, it went on to a high of 58c in March 2011. This resulted in an increase of the Company's market capitalization from $4 million in January 2010 to over $30 million in March 2011.

<u>Directors' Letter to Shareholders - April 25, 2011 (contd.)</u>

These developments have placed the Company in a strong position for advancing its highly prospective mineral exploration projects and creating shareholder value in 2011. In 2010 total exploration and acquisition expenditures in Mexico were $433,283 (2009: $259,715) and in British Columbia $17,663 (2009: $8,354). Currently planned exploration and acquisition expenditures by Canasil in 2011 amount to $750,000. These will be increased in 2011 depending on the completion of further funding. The minimum committed earn-in expenditures by MAG Silver and Pan American Silver this year total $950,000 and the required total first year expenditures under the agreements total $1,115,000. MAG Silver has indicated a 2011 planned budget for expenditures at La Esperanza of $1,125,000. Based on these figures, total currently planned 2011 exploration expenditures will exceed $1,700,000 and may be significantly higher. In 2011 to date, Canasil has already completed over 1,300 line-km airborne geophysical surveys at three large projects in Durango State, Mexico. A 1,500 metre drill program is underway at the Sandra-Escobar silver-gold project in Durango, Mexico, and MAG Silver and Pan American Silver are expected to drill test the La Esperanza and Carina projects in 2011. There are further opportunities for testing the Company's other drill ready projects in Mexico and in British Columbia, depending on funding opportunities in 2011. These programs will result in multiple opportunities for discovery and value added to the Company's projects.

The Company will take advantage of higher share prices and funding opportunities to further strengthen its working capital in 2011. This will be done as before with careful attention to maintaining the Company's share structure and shareholder dilution. The Company has a highly prospective gold-silver-copper-lead-zinc project portfolio in Mexico and British Columbia, Canada. These include several drill ready projects located on well-recognized mineral trends with a history of discoveries and hosting large mineral deposits. Together with our high quality partners, we have a very active exploration program in 2011 which has the potential for generating positive results, leading to improving share prices, trading volumes and further financing opportunities.

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

On behalf of the Board,

"Bahman Yamini"

Bahman Yamini, President, CEO & Director

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the accompanying consolidated financial statements of Canasil Resources Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and deficit, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements presents fairly in all material respects the financial position of Canasil Resources Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

NEXIA INTERNATIONAL

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Emphasis of Matter

Without qualifying our opinion, we draw attention to the consolidated statement of operations and deficit which indicates that the Company incurred a net loss of $785,673 during the year ended December 31, 2010. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, British Columbia Chartered Accountants

March 17, 2011

CANASIL RESOURCES INC.

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

ASSETS		2010		2009
Current				
Cash	$	1,583,542	$	80,063
Receivables		104,098		50,294
Prepaid expenses		21,770		3,086
		1,709,410		133,443
Reclamation bond		20,000		20,000
Resource properties *(Note 4)*		5,614,855		5,165,739
Property and equipment *(Note 5)*		56,008		65,977
	$	7,400,273	$	5,385,159

LIABILITIES				
Current				
Accounts payable and accrued liabilities – trade	$	49,077	$	49,979
Accounts payable and accrued liabilities – related parties		36,605		210,000
Due to related party *(Note 8)*		-		145,000
		85,682		404,979

SHAREHOLDERS' EQUITY				
Share capital *(Note 6)*		13,971,204		11,128,289
Contributed surplus *(Note 6)*		1,199,357		922,188
Deficit		(7,855,970)		(7,070,297)
		7,314,591		4,980,180
	$	7,400,273	$	5,385,159

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.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

		2010		2009
Expenses				
Accounting and audit	**$**	**29,588**	$	34,575
Amortization		**9,969**		14,578
Conferences and conventions		**31,047**		1,745
Director fees		**40,000**		40,000
Foreign exchange loss		**9,105**		17,221
General exploration		**42,497**		40,729
Investor relations and promotions		**35,386**		3,257
Legal fees		**17,756**		11,318
Listing and filing fees		**8,487**		11,690
Management fees		**114,000**		114,000
Office services and supplies		**71,676**		60,989
Shareholder communications		**15,854**		2,905
Stock-based compensation *(Note 7)*		**341,054**		8,640
Transfer agent fees		**9,049**		7,173
Travel and accommodation		**10,541**		-
Loss before other item		**786,009**		368,820
Interest income		**(336)**		(984)
Loss and comprehensive loss for the year		**785,673**		367,836
Deficit - beginning of year		**7,070,297**		6,702,461
Deficit - end of year	**$**	**7,855,970**	$	7,070,297
Loss per share – basic and diluted	**$**	**0.02**	$	0.01
Weighted-average number of shares outstanding		**46,242,948**		36,522,455

- See Accompanying Notes -

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

CASH RESOURCES PROVIDED BY (USED IN)		**2010**		2009
Operating activities				
Loss for the year	**$**	**(785,673)**	$	(367,836)
Items not affecting cash				
Amortization		**9,969**		14,578
Stock-based compensation		**341,054**		8,640
		(434,650)		(344,618)
Changes in non-cash working capital				
Decrease (increase) in receivables		**(53,804)**		230,645
Decrease (increase) in prepaid expenses		**(18,684)**		629
Increase (decrease) in accounts payable and accrued liabilities		**(186,568)**		94,849
		(693,706)		(18,495)
Investing activities				
Resource property expenditures		**(525,175)**		(325,123)
Resources property expenditure recoveries received		**1,830**		56,665
Resource property option payments received		**86,500**		-
		(436,845)		(268,458)
Financing activities				
Share capital issued for cash		**2,905,600**		327,500
Share issuance costs		**(126,570)**		(3,750)
Increase (decrease) in due to related party		**(145,000)**		35,000
		2,634,030		358,750
Change in cash for the year		**1,503,479**		71,797
Cash position - beginning of year		**80,063**		8,266
Cash position - end of year	**$**	**1,583,542**	$	80,063

Supplemental schedule of non-cash investing and financing transactions				
Fair value of stock options exercised	**$**	**63,885**	$	-
Increase (decrease) in accounts payable – resource property costs	**$**	**12,271**	$	(15,754)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

	2010	2009
Deficit	$ 7,855,970	$ 7,070,297
Working capital (deficiency)	$ 1,623,728	$ (271,536)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Significant estimates used in the preparation of these financial statements relate to the impairment of resource property interests and property and equipment, useful lives of property and equipment, valuation allowances for future income tax assets, stock-based compensation and valuation of warrants in private placements.

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to resource properties and furniture and equipment related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 100% per annum.

Resource properties

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

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

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

Asset retirement obligations

Asset retirement obligations are legal obligations associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of liabilities for asset retirement obligations in the year in which they occur or in the year in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. The Company has determined that it has no asset retirement obligations as at December 31, 2010 and 2009.

Income taxes

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

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currency translation

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

Loss per share

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

Stock-based compensation

The Company uses the fair value method whereby the Company recognizes compensation costs over the vesting periods for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its stock-based compensation.

Financial instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Recent accounting pronouncements

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010. The Company is currently assessing the impact of the transition to IFRS on its first IFRS compliant consolidated financial statements for the three-month period ending March 31, 2011.

Business Combinations; Consolidated Financial Statements and Non-Controlling Interests

In January 2008, the CICA issued Handbook Sections 1582 – *Business Combinations*; 1601 – *Consolidated Financial Statements;* and 1602 – *Non-Controlling Interests*. These sections replace the former CICA Handbook Section 1581 – *Business Combinations* and CICA 1600 – *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections also provide the Canadian equivalent to IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements.*

CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1692 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Management has not yet evaluated the impact of these standards on the Company's financial statements.

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, reclamation bond, accounts payable and accrued liabilities, and due to related party. Cash is classified under Assets Held for Trading and carried at fair value measured using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash is held in interest bearing accounts at a major Canadian bank and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which it uses to fund its foreign projects. The cash balances, 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 expenditures. Accounts payable denominated in pesos are settled in a timely manner. At December 31, 2010, the Company held the equivalent of $27,543 in cash, $25,271 in receivables, and $17,222 in accounts payable, all of which are denominated in pesos.

3. FINANCIAL INSTRUMENTS – *continued*

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 year.

4. RESOURCE PROPERTIES

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

Salamandra and Victoria projects, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the Salamandra project located in Durango State, Mexico, subject to a Net Smelter Returns royalty ("NSR") of 2%. The Company has the right to acquire these claims by making cash payments over a period of five years totalling US$500,000. The Company has completed payments of US$50,000 and the agreement requires a final payment of US$450,000 by May 23, 2011. 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.

During 2008, the Company granted an arm's length party the right to earn a 60% interest in the properties by incurring US$7,000,000 in exploration expenditures and making US$375,000 in cash or share payments to the Company over six years. In 2008, the Company received US$75,000 in cash payments and $91,230 in expenditure recoveries from the optionee, and completed a private placement of 500,000 shares with the optionee for proceeds of $125,000. During 2009, the Company received $41,300 in expenditure recoveries. The agreement was terminated on March 19, 2009.

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.

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 NSR of up to 1%. The claims are located in Zacatecas State, Mexico. The Company has the right to acquire these claims by making option payments over a period of three years totalling US$150,000. 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 optionee to US$160,000 over a four-year period. The Company has completed payments of US$85,000 and the agreement requires a final payment of US$75,000 by March 27, 2011. From 2006 to 2010, the Company has progressively added further claims by direct staking to increase the project area.

4. RESOURCE PROPERTIES - *continued*

La Esperanza project, Mexico - *continued*

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, 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 addition, MAG may subscribe to a further $200,000 private placement during the first year of the agreement and will be required to do so should the option extend into the second year of the agreement.

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.

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.

Other projects

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

4. RESOURCE PROPERTIES - *continued*

Additions for the period and cumulative expenditures as at December 31 are as follows:

2010	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ -	$ -	$ 2,011,967
- Expenditure recoveries	-	(1,830)	(1,830)	(202,669)
Other, Canada	1,644	16,019	17,663	21,016
Los Azules, Mexico	-	12,343	12,343	21,659
Sandra and Escobar, Mexico	-	126,361	126,361	317,304
San Francisco, Mexico	-	1,321	1,321	2,651
La Esperanza, Mexico	14,453	107,822	122,275	726,418
- Option payments received	-	(50,000)	(50,000)	(50,000)
Colibri, Mexico	8,956	24,520	33,476	1,648,012
Salamandra, Mexico	40,296	35,911	76,207	975,079
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	32,492	32,492	189,748
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	18,725	18,725	62,973
- Option payments received	-	(36,500)	(36,500)	(36,500)
Other, Mexico	65,329	31,254	96,583	135,312
	$ 130,678	$ 318,438	$ 449,116	$ 5,614,855

2009	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 1,474	$ 1,474	$ 2,011,967
- Expenditure recoveries	-	(11,838)	(11,838)	(200,839)
Lil, Canada	-	1,130	1,130	1,130
- Expenditure recoveries	-	(1,067)	(1,067)	(1,067)
Vega, Canada	-	5,750	5,750	5,750
- Expenditure recoveries	-	(2,460)	(2,460)	(2,460)
Los Azules, Mexico	-	9,316	9,316	9,316
Sandra, Mexico	-	57,462	57,462	190,943
San Francisco, Mexico	-	1,330	1,330	1,330
Esperanza, Mexico	13,523	90,010	103,533	604,143
Colibri, Mexico	-	12,069	12,069	1,614,536
Salamandra, Mexico	-	24,422	24,422	898,872
- Expenditure recoveries	-	(12,286)	(12,286)	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	50,721	50,721	157,256
- Expenditure recoveries	-	(29,014)	(29,014)	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	19,177	19,177	44,248
Other, Mexico	-	22,985	22,985	38,729
	$ 13,523	$ 239,181	$ 252,704	$ 5,165,739

5. PROPERTY AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 31,686	$ -	$ 31,686	$ 31,686	$ -	$ 31,686
Automobile	27,730	22,071	5,659	27,730	19,645	8,085
Computer	14,729	12,696	2,033	14,729	11,033	3,696
Field equipment	31,971	22,322	9,649	31,971	18,188	13,783
Furniture and equipment	25,545	18,564	6,981	25,545	16,818	8,727
	$ 131,661	$ 75,653	$ 56,008	$ 131,661	$ 65,684	$ 65,977

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of Shares	Share Capital	Contributed Surplus
Authorized			
Unlimited common voting shares, without par value			
Issued and outstanding			
Balance, December 31, 2008	34,952,592	$ 10,804,539	$ 913,548
Warrants exercised	250,000	12,500	-
Private placement	6,300,000	315,000	-
Share issuance costs – finder's fee	-	(3,750)	-
Stock-based compensation *(Note 7)*	-	-	8,640
Balance, December 31, 2009	41,502,592	11,128,289	922,188
Private placement	3,620,000	362,000	-
Private placement	1,500,000	150,000	-
Private placement	3,820,000	573,000	-
Private placement	4,267,000	1,280,100	-
Share issuance costs – finders' fees	-	(99,750)	-
Share issuance costs – filing and legal fees	-	(26,820)	-
Warrants exercised	3,070,000	460,500	-
Options exercised	800,000	80,000	-
Fair value of options exercised *(Note 7)*	-	63,885	(63,885)
Stock-based compensation *(Note 7)*	-	-	341,054
Balance, December 31, 2010	58,579,592	$ 13,971,204	$ 1,199,357

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS – *continued*

Private placements

In October 2009, the Company issued 6,300,000 units at a price of $0.05 per unit for gross proceeds of $315,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one common share at $0.15 until October 13, 2010. The Company paid a finder's fee of $3,750.

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. The warrants are subject to an accelerated exercise provision.

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. The warrants are subject to an accelerated exercise provision.

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.

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.

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		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2008	2,400,000	$	0.52	2,283,750	$	0.40
Granted	3,150,000	$	0.15	-	$	-
Exercised	(250,000)	$	0.05	-	$	-
Expired	(2,150,000)	$	0.11	(350,000)	$	0.75
Outstanding, December 31, 2009	3,150,000	$	0.15	1,933,750	$	0.34
Granted *(i)*	6,603,500	$	0.28	3,675,000	$	0.19
Exercised	(3,070,000)	$	0.15	(800,000)	$	0.10
Expired	(100,000)	$	0.15	(135,000)	$	0.39
Outstanding, December 31, 2010	6,583,500	$	0.28	4,673,750	$	0.26
Exercisable, December 31, 2010	6,583,500	$	0.28	3,298,750	$	0.25

(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 2,540,000 warrants – 10-day trading share price of $0.30;
As to 1,910,000 warrants – 10-day trading share price of $0.45;
As to 2,133,500 warrants – 10-day trading share price of $0.90.

7. STOCK OPTIONS AND WARRANTS – *continued*

At December 31, 2010, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	743,750	$ 0.20	March 15, 2011
	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
	250,000	$ 0.10	May 13, 2012
	1,750,000	$ 0.28	November 23, 2015
	4,673,750		
Warrants	1,790,000	$ 0.15	May 20, 2011
	750,000	$ 0.15	August 27, 2011
	1,910,000	$ 0.25	September 24, 2011
	2,133,500	$ 0.45	December 17, 2011
	6,583,500		

Stock-based compensation

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

	2010	2009
Total options granted	3,675,000	-
Average exercise price	$ 0.19	$ -
Estimated fair value of options granted	$ 519,367	$ -
Estimated fair value per option	$ 0.14	$ -

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

	2010	2009
Risk-free interest rate	2.38%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	107%	-
Expected option life in years	4.80	-

7. STOCK OPTIONS AND WARRANTS – *continued*

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

		2010		2009
Number of options vested in period		2,300,000		50,000
Compensation recognized in period	$	341,054	$	8,640

During the year, 800,000 stock options (2009 – nil) were exercised and the related fair value of $63,885 (2009 – $nil) was recorded as share capital.

8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid or accrued $96,000 (2009 - $96,000) for management fees to a company with a director in common;
b) Paid or accrued $28,511 (2009 - $11,318) for legal services to a law firm in which an officer of the Company is a partner;
c) Paid or accrued $40,000 (2009 - $40,000) in director fees to a director and to three companies, each controlled by a director;
d) Paid or accrued $18,000 (2009 - $18,000) in management fees to an officer.

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

During the year ended December 31, 2010, directors, officers, and companies with directors in common made advances totalling $140,844 (December 31, 2009 - $145,000) 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 year.

9. INCOME TAXES

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

		2010		2009
Loss before income taxes for accounting purposes	$	(785,673)	$	(367,836)
Expected tax recovery for the year		(217,206)		(124,608)
Other items		80,318		(214,022)
Unrecognized benefit of non-capital losses		136,888		338,630
Tax recovery for the year	$	-	$	-

9. INCOME TAXES – *continued*

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

	2010	2009
Future Income Tax Assets		
Non-capital loss carry-forwards	$ 1,731,257	$ 435,349
Mineral property expenditures	472,948	520,356
Equipment	17,817	15,096
Share issuance costs	31,388	12,549
	2,253,410	983,350
Valuation allowance	(2,253,410)	(983,350)
Net future income tax assets (liabilities)	$ -	$ -

The Company's Canadian non-capital loss carry-forwards expire as follows:

Year of Expiry	Amount
2014	$ 167,000
2015	162,000
2026	295,000
2027	221,000
2028	468,000
2029	312,000
2030	438,000
	$ 2,063,000

The Company has approximately $3,900,000 of Canadian resource related expenditures that may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

10. CAPITAL DISCLOSURES

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

11. SEGMENTED INFORMATION

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

2010	Canada	Mexico	Total
Resource properties	$ 1,830,314	$ 3,784,541	$ 5,614,855
Plant and equipment	$ 12,408	$ 43,600	$ 56,008

2009	Canada	Mexico	Total
Resource properties	$ 1,814,481	$ 3,351,258	$ 5,165,739
Plant and equipment	$ 17,793	$ 48,184	$ 65,977

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the Company:

Granted 200,000 five-year and 150,000 two-year incentive stock options with an exercise price of $0.35;

Issued 785,000 shares from treasury upon the exercise of stock options for cash proceeds of $147,000.

This Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("the Company") is dated March 17, 2011, and provides information on the Company's activities for the year ended December 31, 2010, 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 audited financial statements and related notes 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 improving economic conditions in 2010 and increasing precious and base metal prices resulted in greater interest and funding opportunities to support a more active exploration program and operating activities. Limited funding during the first half of the year did not allow programs such as geophysical surveys and drilling. Exploration work was focused on the La Esperanza silver-zinc-lead and Sandra-Escobar gold-silver projects in Mexico. Work at La Esperanza consisted of upgrading access roads to the newly acquired claim areas, followed by geological mapping and surface sampling of the high-grade silver vein occurrences on these claims, with positive results. At Sandra-Escobar the Company undertook a comprehensive mapping and surface sampling program to define drill targets, again with positive results defining several prospective drill targets. The Company acquired, by staking, a 60,000 hectare claim block in south-eastern Durango State, as well as two claim blocks within the Nora project claims in north-western Durango State. Net deferred exploration and acquisition expenditures in Mexico during the year amounted to $433,283 net of $86,500 in option payments received (2009 - $259,715 net of $29,014 in expenditure recoveries received). All the mineral claims in Mexico were maintained in good standing.

The Company also had discussions and site visits by a number of companies interested in option and joint venture cooperation on the projects in Mexico, with visits to the La Esperanza, Carina and Salamandra projects. These discussions resulted in the signature of an option agreement with MAG Silver Corp. ("MAG") in August 2010, 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 invest in private placements of up to US$350,000 in Canasil shares. In October 2010, MAG completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey at La Esperanza, On November 19, 2010, the Company signed an option agreement with Pan American Silver Corp. ("Pan American") providing for Pan American to earn a 55% interest in the Carina project for expenditures of US$3,650,000 and cash payments to Canasil of US$365,000 over a period of four years.

There was no exploration activity on the Company's projects in British Columbia during the year, with a limited expenditure of $15,833 net of $1,830 in expenditure recoveries for claim acquisition and maintenance payments (2009 net recovery of $7,011 with total recoveries of $15,365). In September 2010, the Vega project claims were increased by 2,790 hectares, and the Lil project claims were increased by 2,586 hectares, both through staking of new claims. All other BC claims were maintained in good standing.

In May 2010 the Company completed a private placement of 3,620,000 units at $0.10 for gross proceeds of $362,000, and in August 2010, the Company received the $50,000 initial payment for the La Esperanza agreement from MAG, and a further $150,000 for the initial private placement of 1,500,000 units at $0.10 per unit. In September 2010, the Company completed a private placement of 3,820,000 units at a price of $0.15 for gross proceeds of $573,000, and in October 2010, received $457,500 from the exercise of 3,050,000 warrants at $0.15. In December 2010, the Company completed a private placement of $1,280,100 through the issuance of 4,267,000 units at $0.30. Total new funding in 2010 from private placements and the exercise of options and warrants was $2,905,600 (2009 $327,500). In 2009 and 2010 the Company received significant advances from a director and a company with a director in common in order to maintain its operations. These advances were repaid by the year-end 2010. In January 2010, the Company issued 1,675,000 incentive stock options, and in May 2010 a further 250,000 options, both grants having an exercise price of $0.10. In November 2010 the Company issued 1,750,000 options at $0.28.

The Company exhibited at the Vancouver Mineral Exploration Roundup and the Vancouver Resource Investment Conference in January 2010, attended the 2010 Prospectors and Developers Association Conference in Toronto in March 2010, the Vancouver World Resource Investment Conference in June 2010, and the Toronto Resource Investment Conference in September 2010. The Company also exhibited at the Silver Summit in Spokane in October 2010, and attended the San Francisco Hard Assets conference in November 2010. Investor Relations expenditures during the year were $35,386 (2009 - $3,257) and travel and conferences expenditures were $41,588 (2009 – 1,745).

Mineral Properties

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

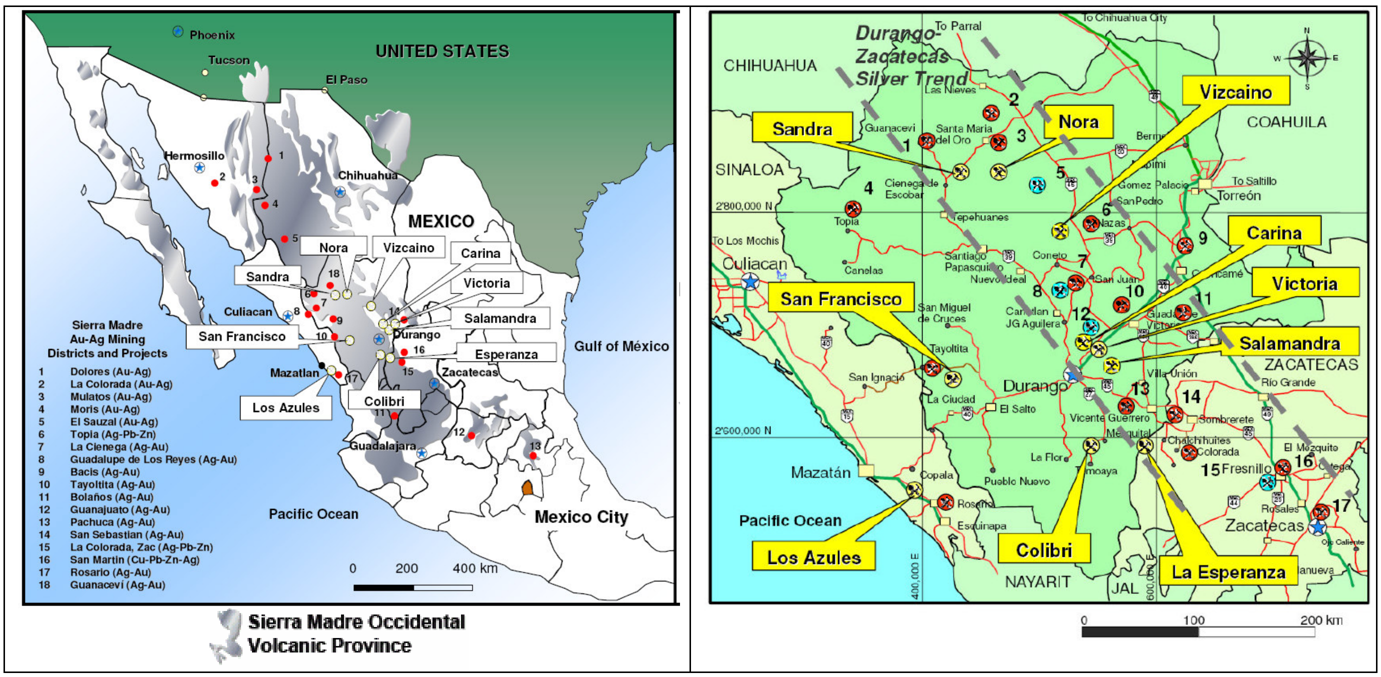
- La Esperanza silver zinc lead project – 100% interest in 18,519 ha and option to earn 100% in 435 ha
- Colibri silver zinc lead copper project – 100%
- Salamandra zinc silver project – 100% interest in 13,819 ha and option to earn 100% in 900 ha
- Sandra gold silver project – 100%

- 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 project – 100% interest in 708 ha

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. Expenditures on the La Esperanza project in 2010 were $122,275 (2009 - $103,533). An initial option payment of $50,000 was received from MAG Silver.

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.

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, 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. Expenditures on the Sandra-Escobar project in 2010 were $126,361 (2009 - $57,462).

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. 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, including a large adjacent claim block from the Victoria project. The project, is located in Durango State, 35 km northeast of the city of Durango, with good access via paved and gravel roads.

The Company has 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 March 2008, the Company entered into an Option and Joint Venture Agreement with Blackcomb Minerals Inc. providing for Blackcomb to earn a 60% interest in the Salamandra and Victoria projects against exploration expenditures of US$7 million and cash payments of US$375,000 over a period of 6 years. The agreement required a minimum expenditure of US$1 million in the first year. Blackcomb Minerals did not fulfill the first year expenditure requirement, and the agreement was terminated in March 2009. Total expenditures on the Salamandra project in 2010 were $76,207 (2009 – $24,422 with $12,286 in expenditure recoveries received from Blackcomb Minerals).

Carina Project, Durango, Mexico

The Carina project covers 12,147 hectares, increased by including a large adjacent claim block from the Victoria project, 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. 2010 expenditures on the Carina project were $18,725 (2009 – $19,177). The Company received a US$36,500 option payment from Pan American Silver.

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.

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. Expenditures on the Colibri project in 2010 were $33,476 (2009 - $12,069).

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. Expenditures on the Vizcaino project in 2010 were $15,135, (2009 – $15,540).

Victoria zinc-silver claim area, Durango, Mexico

The Victoria project claim area was reduced from 45,000 hectares to 21,189 hectares in two blocks surrounding the Salamandra and Carina projects. These claim areas have been incorporated as part of the Salamandra and Carina projects respectively. Subsequent to the end of the year, the Company re-staked a 60,000 hectare claim located within the area of the previous large Victoria claim block. In March 2008 the Victoria claims were optioned to Blackcomb Minerals Inc. as part of the Option and Joint Venture Agreement covering the Salamandra project, which was terminated in March 2009. Total expenditures on the Victoria project during the year were $32,492 (2009 – $50,721 with expenditure recoveries of $29,014 received from Blackcomb Minerals).

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 to acquire 100% interest in the 7,200 hecatres Candelaria claims surrounding the Nora claims, increasing the project area to over 8,000 hectares. As a result the Nora project has now become a large prospective target with potential for hosting gold, silver and copper mineralization. Expenditures on the Nora project in 2010 amounted to $74,749 (2009 - $3,806).

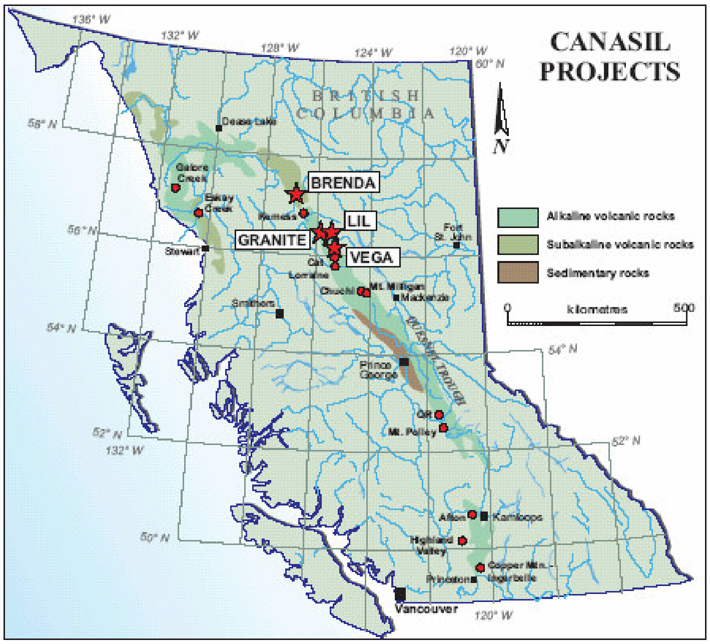
Los Azules gold-silver-copper project, Sinaloa State, Mexico

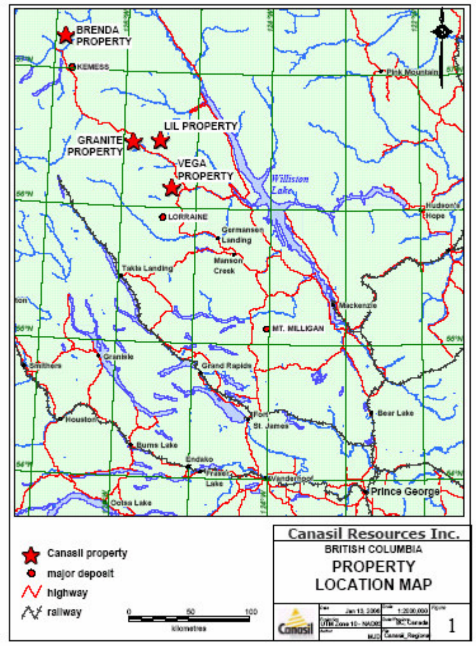
The Company holds a 100% interest in the Los Azules claims in Sinaloa State, Mexico, covering 4,531 hectares. The claims host prospects for epithermal vein type mineralization carrying gold, silver and copper. The Los Azules property is located 60 km southeast of the city of Mazatlan. Between 2006 to 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. Expenditures during the year at Los Azules were $12,343 (2009 - $9,316).

San Francisco gold-silver project, Durango, Mexico

The San Francisco property, covering 500 hectares, is located approximately 104 km west of the city of Durango in the San Dimas mining district of Durango, 14 km southeast of the Goldcorp's Tayoltita mine. The claims are within view of the community of San Francisco. The access road cuts through the centre of the property, as does the main power line supplying the Tayoltita mine. Expenditures on the San Francisco project during the period were $1,321 (2009 - $1,330).

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. The Brenda mineral claims are valid to May 30, 2018, and there were no expenditures during 2010 (2009 - $1,474 with recoveries of $11,838). In January 2009 the Company received a Mineral Exploration Tax Credit of $189,001 related to exploration expenditures on the Brenda project in 2006 and 2007, and in December 2009 received a further credit of $11,838 related to expenditures in 2008.

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. Expenditures for maintenance of the Vega project during the year were $15,681 (2009 - $5,750).

The 100% owned LIL claims are located in the Omineca Mining Division, 350 km northwest of Prince George, British Columbia. The Lil claims were maintained and expanded to 3,460 hectares in 2010 with expenditures on $179 (2009 - $1,130).

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. The claims cover 1,624 hectares and were maintained in 2010 with expenditures of $1,803 (2009 - $Nil).

Results of Operations

Results of Operations for year ended December 31, 2010 and 2009

Operating expenses for 2010 increased to $786,009 (2009 - $368,820) as the mining and exploration industry regained a more active operating pace after the downturn in late 2008 and 2009. The Company earned interest income of $336 (2009 - $984). The operating expenses for 2010 include non-cash Stock-Based Compensation of $341,054 (2009 - $8,640) due to a larger number of options granted in the current year. Net operating expenditures excluding amortization and Stock-Based compensation were $434,986 (2009 - $345,602). During 2010, Management and Directors fees were $154,000 (2009 - $154,000) and expenditures on Investor Relations and Conferences and Conventions increased to $66,433 (2009 - $5,002). Accounting and audit fees were $29,588 (2008 – $34,575), office services and supplies $71,676 (2009 - $60,989), and travel and accommodation expenses $10,541 (2009 - $Nil). In 2010, the Company recorded a foreign exchange loss of $9,105 (2009 – $17,221) resulting from exchange rate fluctuations between the Canadian Dollar, the U.S. Dollar, and the Mexican Peso. The Company did not write off any deferred exploration expenditures on resource properties in 2009 or 2010.

Net cash used for operating activities, before changes in non-cash working capital items, during 2010 was $434,650 (2009 - $344,618). Accounts Receivable increased by $53,804 (2009 – decrease of 230,645). Accounts Payable and Accrued Liabilities decreased by $174,297 (2009 – increase of $79,095) and amounts due to related parties decreased by $145,000 (2009 – increase of $35,000). Cash used for investing activities increased to $436,845 net of $88,330 in option payments received and expenditure recoveries (2009 - $268,458 net of $56,665 in expenditure recoveries) reflecting the higher level of exploration expenditures in 2010. Net cash flow from equity financing activities was $2,779,030 (2009 - $323,750).

Selected Annual Information

The information in the following table provides selected audited financial information of the Company for 2010 and the two preceding years. This information is derived from the audited financial statements and should be read in conjunction with those statements and notes.

The loss for the year was significantly lower in 2009 reflecting the Company's lower level of exploration and operating activities due to the global economic downturn. In 2008 and 2010 the loss was higher due to the Company's more active operations, and also included stock-based compensation and mineral property expenditure write-offs as indicated.

Year Ended December 31	2010	2009	2008
Total Revenue	Nil	Nil	Nil
Loss for the year	$(785,673)	$(367,836)	$(958,618)
Loss per share – basic and diluted	$(0.02)	$(0.01)	$(0.03)
Total Assets	7,400,273	$5,385,159	$5,306,510
Long Term Financial Liabilities	$Nil	$Nil	$Nil
Cash Dividends per Share	$Nil	$Nil	$Nil
Shareholders' Equity	7,314,591	$4,980,180	$5,015,626
Working Capital	1,623,728	$(271,536)	$2,036
Stock-Based Compensation	341,054	$8,640	$180,787
Write-off of Mineral Property Costs	$Nil	$Nil	$249,908

Summary of Quarterly Information

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

Year	2010				2009			
Quarter ended:	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar 31**
Loss before other items	(148,879)	(109,792)	(105,541)	(80,407)	(70,752)	(79,632)	(75,946)	(132,866)
Stock-based compensation	(203,387)	(23,704)	(44,297)	(69,666)	-	-	(4,320)	(4,320)
Write-off of resource properties	-	-	-	-	-	-	-	-
Loss for the quarter	(352,266)	(133,496)	(149,838)	(150,073)	(70,752)	(79,632)	(80,266)	(137,186)
Loss per share: basic and diluted	(0.007)	(0.003)	(0.003)	(0.003)	(.002)	(0.002)	(0.002)	(0.004)
Weighted-average shares	54,175,527	45,983,896	43,173,361	41,502,592	36,522,455	35,202,592	35,202,592	34,955,370

Discussion of Quarterly Information

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 Stock Based Compensation. In 2010 the level of operating and exploration activities recovered, increasing through the year and resulting in increasing quarterly losses. There were no property write-downs in 2009 and 2010, and significantly higher stock based compensation in 2010. related to the issuance of options to directors, officers an consultants.

Fourth Quarter

The Company reported a loss during the fourth quarter 2010 of $352,266 or $0.007 per share, compared to a loss of $70,752 or $0.002 per share in the fourth quarter of 2009. The most significant variance in these fourth quarter results is the Stock Based Compensation of $203,387 in the fourth quarter of 2010, which compares to $Nil in the fourth quarter of 2009, however, the Operating loss for the fourth quarter of 2010 was also higher than 2009 due to a general increase in expenses, particularly trade show, travel, and investor relations expenses, given the increasing level of activities in 2010.

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 December 31, 2010 of $1,623,728 (December 31, 2009 – deficit of $271,536).

The Company had no material income from operations. As at December 31, 2010, the Company had no long-term debt. In 2008 and 2009 the Company received total advances of $145,000 from a related party without interest or specific terms of repayment, and recorded $210,000 in accounts payable to related parties for management and directors' fees, which were all fully repaid in 2010. In 2010 the Company experienced positive cash flow of $1,503,479 (2009 – $71,797) from operating, investing and financing activities. This included net cash used in operating activities of $693,706 (2009 – $18,495*),* net cash used in investing activities of $436,845 (2009 - $268,458), and net cash provided by financing activities of $2,634,030 (2009 – $358,750).

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 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 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.

Resource Properties Expenditures 12/31/2010:

	2010	2009
Canada		
Brenda Property		
Balance – beginning of year	$ 1,811,128	$ 1,821,492
Geological	-	1,159
Mapping and surveying	-	315
Expenditure recoveries received	(1,830)	(11,838)
	(1,830)	(10,364)
Total – end of year	1,809,298	1,811,128
Other Properties		
Balance – beginning of year	3,353	-
Acquisition and option payments	1,644	-
Land holding costs	15,819	6,880
Mapping and surveying	200	-
Expenditure recoveries received	-	(3,527)
	17,663	3,353
Total – end of year	21,016	3,353
Mexico		
Sandra and Escobar Properties		
Balance – beginning of year	190,943	133,481
Administration	5,515	14,779
Assays	12,244	66
Consulting	4,343	5,713
Field costs	22,141	4,044
Geological	57,194	22,926
Land holding costs	9,760	5,926
Legal	724	1,257
Mapping and surveying	8,443	-
Transportation and rentals	4,659	2,531
Travel and accommodation	1,338	220
	126,361	57,462
Total – end of year	317,304	190,943
La Esperanza Property		
Balance – beginning of year	604,143	500,610
Acquisition and option payments	14,453	13,533
Option payments received	(50,000)	-
Administration	3,772	5,475
Assays	2,410	378
Consulting	4,922	1,482
Field costs	23,754	7,024
Geological	24,975	29,617
Land holding costs	33,263	42,649
Legal	639	423
Mapping and surveying	4,065	-
Road building	7,806	-
Transportation and rentals	2,216	2,789
Travel and accommodation	-	163
	72,275	103,533
Total – end of year	$ 676,418	$ 604,143

Resource Properties Expenditures 12/31/2010 *(continued)*:

	2010	2009
Mexico *- continued*		
Colibri Property		
Balance – beginning of year	$ 1,614,536	$ 1,602,467
Acquisition and option payments	8,956	-
Administration	655	615
Consulting	6,598	2,826
Field costs	1,155	1,864
Geological	1,577	61
Land holding costs	14,349	6,288
Legal	-	415
Transportation and rentals	140	-
Travel and accommodation	46	-
	33,476	12,069
Total – end of year	1,648,012	1,614,536
Salamandra Property		
Balance – beginning of year	826,201	814,065
Acquisition and option payments	40,296	-
Administration	2,530	2,180
Assays	-	561
Consulting	154	3,338
Field costs	3,466	6,536
Geological	4,094	4,594
Land holding costs	25,667	3,568
Legal	-	587
Mapping and surveying	-	2,958
Transportation and rentals	-	100
Expenditure recoveries received	-	(12,286)
	76,207	12,136
Total – end of year	902,408	826,201
Victoria Property		
Balance – beginning of year	21,812	105
Administration	129	1,018
Consulting	4,996	4,172
Field costs	1,180	21
Geological	13,160	1,393
Land holding costs	12,652	43,570
Legal	-	547
Transportation and rentals	146	-
Travel and accommodation	229	-
Expenditure recoveries received	-	(29,014)
	32,492	21,707
Total – end of year	$ 54,304	$ 21,812

Resource Properties Expenditures 12/31/2010 *(continued)*:

	2010	2009
Mexico *- continued*		
Nora Property		
Balance – beginning of year	$ 3,806	$ -
Acquisition and option payments	65,329	-
Administration	31	-
Field costs	1,388	-
Geological	5,380	-
Land holding costs	1,027	3,806
Legal	214	-
Mapping and surveying	1,594	-
Travel and accommodation	2,278	-
	77,241	3,806
Total – end of year	81,047	3,806
Carina Property		
Balance – beginning of year	44,248	25,071
Option payments received	(36,500)	-
Administration	2,130	3,483
Consulting	294	5,750
Field costs	1,262	1,821
Geological	4,094	6,700
Geophysical	-	1,262
Land holding costs	10,838	85
Road building	107	64
Transportation and rentals	-	12
	(17,775)	19,177
Total – end of year	26,473	44,248
Other Properties		
Balance – beginning of year	45,569	15,744
Administration	1,562	3,860
Consulting	2,243	4,937
Field costs	321	484
Geological	4,236	7,525
Geophysical	-	385
Land holding costs	24,644	11,331
Legal	-	585
Road building	-	718
	33,006	29,825
Total – end of year	78,574	45,569
Costs for the Year	449,116	252,704
Balance - beginning of year	5,165,739	4,913,035
Balance - End of Year	$ 5,614,855	$ 5,165,739

Other Information and Disclosures

Related Party Transactions

During the year the Company paid or accrued a total of $182,511 (2009 - $165,318) to related parties covering directors' and management fees and legal services as listed below. The increase in 2010 is due to higher level of legal services and share issuance costs related to property option and joint venture agreements and the significantly higher level of financing activities. The Company relies heavily on its directors and officers for many of its administrative and professional services.

a) Paid or accrued $96,000 (2009 - $96,000) for management fees to a company with a director in common;
b) Paid or accrued $28,511 (2009 - $11,318) for legal services and share issue costs to a law firm in which an officer of the Company is a partner;
c) Paid or accrued $40,000 (2009 - $40,000) in director fees to a director and to three companies, each controlled by a director;
d) Paid or accrued $18,000 (2009 - $18,000) in management fees to an officer.

Included in accounts payable at December 31, 2009 was $210,000 due to these related parties, which were fully repaid by December 31, 2010. During 2008 and 2009, a company controlled by a director advanced $145,000 to the Company, which increased to $215,844 during the second quarter of 2010. The advance was fully repaid by December 31, 2010.

Changes in Accounting Policies

There were no changes in accounting policies during the year ended December 31, 2010, however, Section 3862 - *Financial Instruments* – Disclosures, was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The amendment to this standard had no significant affect upon the Company's financial statements.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of commitments and contingencies at the date of the financial statements, and the reported amount of revenue and expenses during the period. The most significant accounting estimates for the Company relate to the carrying value of its mineral property assets and accounting for stock-based compensation. The Company's accounting policies are set out in full in note 2 to the December 31, 2010 audited consolidated financial statements.

Mineral Property Costs

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

In the event that reserves are determined, the carrying values of mineral interests, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

The Company's Management regularly reviews the carrying value of each mineral property. Where information and conditions suggest that there has been impairment in their carrying value, management assesses the project for impairment and records a write-down to the estimated fair value in the statement of operations.

With stabilization in the financial markets and improvements in the metals markets and the Company's share price, management considers there to have been no events or circumstances that constitute triggering events that would require management to test its mineral properties for impairment at December 31, 2010. The Company's stock price indicates a market capitalization that supports the carrying value of its net assets. Management is satisfied that all of its properties are of merit and warrant further exploration. Despite the difficulty that junior exploration companies may have raising equity finances in the current market, the Company is optimistic that it will be able to raise sufficient funds to advance the properties. The significant interest shown by third parties for cooperation agreements on the Company's mineral exploration projects is also encouraging. Based on this assessment, management concluded that no impairment charge was required as at December 31, 2010.

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.

Financial Instruments

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

All of the Company's Canadian cash is held in interest bearing accounts at a major Canadian bank and such balances earn interest at market rates. The Company also maintains cash in the currency of Mexico (peso), which it uses to fund its foreign projects. The cash balances, 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 expenditures. Accounts payable denominated in pesos are settled in a timely manner. At December 31, 2010, the Company held the equivalent of $27,543 in cash, $25,271 in receivables, and $17,222 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 year.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-orientated enterprises for interim and annual financial statements effective January 1, 2011. Accordingly, the Company will prepare its financial statements for fiscal 2010 using Canadian GAAP. In 2011, the Company will present its fiscal 2011 financial statements, with comparatives for fiscal 2010, using IFRS.

The company has completed the assessment and scoping phase of its IFRS change-over process. In this phase, the Company identified significant differences between existing Canadian GAAP and IFRS; identifying policy choices and changes required to the Company's current accounting policies; and assessing the impact of such choices and changes, including the impact of adopting IFRS 1 – *First Time Adoption of IFRS*. Management of the Company has now made specific suggestions for accounting policy changes, and awaits final approval of such changes from the audit committee.

The Company has now moved into the implementation phase, in which it will update its significant accounting policies, adjust its accounting systems, and design tools and processes for the preparation of IFRS information, including comparative and opening balance sheet information. The Company will also design model IFRS financial statements. These tools and the model IFRS financial statements will be tested and adapted to ensure a smooth and accurate change-over in 2011. Due to the small and simple organizational, administrative and accounting structure of the Company, management is confident that once the policy choices are finalized, the implementation phase should be completed by early-2011.

To date, management has identified a number of differences between Canadian GAAP and IFRS, many of which are not expected to have a material impact on the reported results and financial position of the Company. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's consolidated financial statements.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. The Company does not expect any material changes to its financial statements upon adopting this IFRS standard.

Share Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share–based transactions with only a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Previously, the Company used the straight line method; however, in fiscal 2010, it applied the accelerated amortization method and therefore the adoption of IFRS 2 is not expected to have a significant impact on the Company's financial statements.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. The Company is expecting to use an estimate of forfeitures when determining the number of equity instruments expected to vest during fiscal 2010. Upon adoption of IFRS 2, the Company will be fully compliant with the new standard and the adoption is not expected to have an impact on the financial statements.

Exploration and Evaluation Assets

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized. Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation assets. The Company can decide to apply the International Accounting Standards Board ("IASB") Framework which requires exploration expenditures to be expensed and capitalization of expenditures only after the completion of a feasibility study, or disregard the IASB Framework and keep the existing Company policy of capitalizing such costs.

Management has recommended that the Company fully adopt IFRS 6, "Exploration and Evaluation of Mineral Properties," and apply the IASB Framework. Should the audit committee ratify this recommendation, the result would be to retrospectively expense all resource related costs up to December 31, 2010. The effect on the Company's December 31, 2010 financial statements would be to increase the opening deficit by $5,165,739 to $12,236,036 and to reduce the opening resource property costs by $5,165,739 to $nil. Resource property expense (and loss) for 2010 would increase by $449,116 and the balance of resource properties on the December 31, 2010 balance sheet would be $nil. The loss for the year ended December 31, 2010 would increase from $785,673 to $1,234,789 and the ending deficit would increase from $7,855,970 to $13,470,825.

Foreign Currency

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and the entity's financial results and position should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Currently the functional currency of the consolidated entity is the Canadian dollar which is also the presentation currency of the Company's financial statements. As events and conditions relevant to the Company change, it will re-consider the primary and secondary indicators, as described in IAS 21, in determining the functional currency for each entity. Management's current assessment is that the Canadian dollar will remain the functional currency for all entities included in the consolidated financial statements, however, going forward under IFRS, management will assess the appropriate functional currency based on existing circumstances which may have a significant impact on the Company's consolidated financial statements prepared under IFRS.

Future Income Taxes

Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings. The Company has not yet assessed the impact of implementing IAS 12, Income Taxes, on the financial statements. However, as events and circumstances of the Company's operations change that give rise to future income taxes, IAS 12 will be applied.

General

The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable accounting standards at the conversion date are known.

Based on management's assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more detail than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its consolidated financial statements.

Disclosure for Venture Issuers without Significant Revenue

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's audited financial statements for the year ended December 31, 2010 provide a breakdown of the general and administrative expenses for the period under review and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common shares. As at December 31, 2010 the Company had 58,579,592 common shares issued and outstanding (diluted – 69,836,842) compared to 41,502,592 common shares issued and outstanding (diluted – 46,586,342) as at December 31, 2009. In May 2010, the Company completed a private placement of 3,620,000 units at $0.10 for gross proceeds of $362,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant exercisable at $0.15 per share until May 20, 2011. In August 2010, the Company received $150,000 from MAG for the initial private placement of 1,500,000 units at $0.10 per unit, each unit consisting of one common share and one-half of one share purchase warrant with each whole warrant exercisable at $0.15 per share until August 27, 2011. In September 2010, the Company completed a private placement of 3,820,000 units at a price of $0.15 for gross proceeds of $573,000, each unit consisting of one common share and one-half of one share purchase warrant with each whole warrant exercisable at $0.25 per share until September 24, 2011. In October 2010, the Company received $457,500 from the exercise of 3,050,000 warrants at $0.15, and in December 2010, the Company received $3,000 from the exercise of 20,000 warrants at $0.15, $80,000 from the exercise of 800,000 options at $0.10, and completed a private placement of $1,280,100 through the issuance of 4,267,000 units at $0.30, each unit consisting of one common share and one-half of one share purchase warrant with each whole warrant exercisable at $0.45 per share until December 17, 2011. Total new funding in 2010 from private placements and the exercise of warrants was $2,905,600 .In January 2010, the Company issued 1,675,000 incentive stock options, and in May 2010 a further 250,000 options, both grants having an exercise price of $0.10. In November 2010 the Company issued 1,750,000 options at an exercise price $0.28. During the year, 100,000 warrants and 135,000 stock options expired unexercised.

From December 31, 2010 to the date of this report the Company granted 350,000 options at $0.35 to consultants. This increased the number of diluted shares to 70,186,842 as at the date of this report.

Options

As at December 31, 2010, a total of 4,673,750 incentive stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
743,750	$ 0.20	March 15, 2011
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
250,000	$ 0.10	May 13, 2012
1,750,000	$ 0.28	November 23, 2015
4,673,750		

Warrants

As at December 31, 2010, a total of 6,583,500 share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,790,000	$ 0.15	May 20, 2011
750,000	$ 0.15	August 27, 2011
1,910,000	$ 0.25	September 24, 2011
2,133,500	$ 0.45	December 17, 2011
6,583,500		

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 year, the Company exhibited at the Vancouver Mineral Exploration Roundup and the Vancouver Resource Investment Conference in January 2010, attended the 2010 Prospectors and Developers Association Conference in Toronto in March 2010, the Vancouver World Resource Investment Conference in June 2010, and the Toronto Resource Investment Conference in September 2010. The Company also exhibited at the Silver Summit in Spokane in October 2010, and attended the San Francisco Hard Assets conference in November 2010.

Recent developments

Subsequent to December 31, 2010, to the date of this report, the Company granted 350,000 incentive stock options at an exercise price of $0.35 to consultants (200,000 for five years and 150,000 for two years). The Company awarded a contract for airborne geophysical surveys on three of its projects in Mexico for a total value of $333,535. The Company also issued 785,000 shares from treasury upon the exercise of stock options for cash proceeds of $147,000.

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.

Following the global economic crisis during the fourth quarter of 2008 and its negative effects on the mining and mineral exploration industry, economic conditions started to improve since the fourth quarter of 2009 and through 2010. This resulted in increasing precious and base metal prices and a renewed interest in funding mineral exploration companies. There has been an marked improvement in the share prices of mining and mineral exploration companies during 2010., and renewed interest in funding mineral exploration companies and projects as a result of forecasted demand for metals and minerals.

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 continued to improve during 2010.

Environmental Protection

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

Number of Employees

As of December 31, 2010, the Company had no employees. All administrative and certain geological services are provided to the Company by consultants or companies controlled by related parties.

Acquisition and Disposition of Resource Properties

During the year, the Company acquired though staking of claims a 60,000 hectare claim in south-eastern Durango State, Mexico, recovering prospective areas which were part of the large Victoria claim which had been reduced during the industry downturn. The Company also completed agreements to acquire the 208 hectares Candy claims as part of the Nora project in north-western Durango State. Following the year-end, the Company finalized an option agreement to acquire 100% interest in the 7,200 hectares Candelaria claims surrounding the Nora project claims.

Risk Factors Relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

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

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

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

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

Government Regulation

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

Environmental Factors

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

Title to Assets

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

Foreign Operations

The Company operates in Mexico and has acquired four mineral properties, through staking, and has option agreements to acquire interests in three other mineral properties. The Company is currently engaged in exploration activities on these properties. Subsequent to the end of the fiscal year, the Company has acquired two additional claim areas surrounding the existing mineral properties.

Management and Directors

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

Conflicts of Interest

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

Limited Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2009, the Company's accumulated deficit was $7,070,297.

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 2009, and to the date of this report, the price of the Company's shares fluctuated from a low of $0.025 to a high of $0.16 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at December 31, 2010, a total of 58,579,592 common shares of the Company were issued and outstanding. There were 4,673,750 stock options and 6,583,500 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 from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Approval

The Board of Directors of the Company has approved the disclosure contained in this annual MD&A.

A copy of this MD&A and previously published financial statements and MD&A, as well as other information is available on the SEDAR website at www.sedar.com, and on the Company's website at www.canasil.com