



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canasil Resources Inc.

Opinion

We have audited the accompanying consolidated financial statements of Canasil Resources Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$1,489,204 during the year ended December 31, 2018 and has a cumulative deficit of \$28,742,727. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Grant P. Block.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 18, 2019

CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
Expressed in Canadian Dollars

ASSETS	2018	2017
Current		
Cash	\$ 118,314	\$ 202,029
Marketable securities <i>(Notes 3 and 16)</i>	56,000	1,060,500
Receivables	57,282	75,257
Prepaid expenses	12,618	11,989
	<u>244,214</u>	<u>1,349,775</u>
Reclamation bonds	47,000	40,000
Property and equipment <i>(Note 5)</i>	40,618	44,316
	<u>\$ 331,832</u>	<u>\$ 1,434,091</u>

LIABILITIES

Current

Accounts payable and accrued liabilities <i>(Note 9)</i>	\$ 127,048	\$ 109,583
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SHAREHOLDERS' EQUITY

Share capital <i>(Note 6)</i>	21,837,835	21,437,985
Contributed surplus	6,484,218	6,514,588
Accumulated other comprehensive income	625,458	678,997
Deficit	(28,742,727)	(27,307,062)
	<u>204,784</u>	<u>1,324,508</u>
	<u>\$ 331,832</u>	<u>\$ 1,434,091</u>

Nature and continuance of operations *(Note 1)*

Commitments *(Note 10)*

Contingency *(Note 11)*

Subsequent event *(Note 16)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	Number of Shares	Share Capital (Note 6)	Contributed Surplus (Note 7)	Accumulated Other Comprehensive Income	Deficit	Total
Balance – December 31, 2016	101,897,372	\$ 21,437,985	\$ 6,257,759	\$ 1,199,692	\$ (24,974,859)	\$ 3,920,577
Share-based compensation	-	-	256,829	-	-	256,829
Comprehensive loss for the year	-	-	-	(520,695)	(2,332,203)	(2,852,898)
Balance – December 31, 2017	101,897,372	21,437,985	6,514,588	678,997	(27,307,062)	1,324,508
Exercise of warrants	2,309,250	369,480	-	-	-	369,480
Fair value of warrants exercised	-	30,370	(30,370)	-	-	-
Comprehensive loss for the year	-	-	-	(53,539)	(1,435,665)	(1,489,204)
Balance – December 31, 2018	104,206,622	\$ 21,837,835	\$ 6,484,218	\$ 625,458	\$ (28,742,727)	\$ 204,784

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	2018	2017
Expenses		
Accounting and audit	\$ 51,205	\$ 42,516
Consulting	525	2,484
Depreciation <i>(Note 5)</i>	3,698	4,800
Director fees <i>(Note 9)</i>	42,000	48,000
Exploration and evaluation <i>(Note 4)</i>	805,404	1,235,421
Foreign exchange (gain) loss	(7,447)	41,055
Interest income	(934)	(9,435)
Investor relations and promotions	13,706	30,478
Legal fees	20,171	79,765
Listing and filing fees	10,876	22,600
Management fees <i>(Note 9)</i>	150,000	150,000
Office rent, services and supplies	74,953	75,441
Salaries and wages <i>(Note 9)</i>	231,978	231,755
Shareholder communications	23,546	23,362
Share-based compensation <i>(Note 7)</i>	-	256,829
Transfer agent fees	5,319	8,362
Travel and accommodation	2,664	10,965
Loss for the year before taxes	(1,427,664)	(2,254,398)
Deferred income tax expense <i>(Notes 3 and 12)</i>	(8,001)	(77,805)
Loss for the year	(1,435,665)	(2,332,203)
Other comprehensive loss		
Change in fair value of marketable securities, net of taxes <i>(Note 3)</i>	(53,539)	(520,695)
Comprehensive loss for the year	\$ (1,489,204)	\$ (2,852,898)
Loss per share – basic and diluted	\$ (0.01)	\$ (0.02)
Weighted-average number of shares		
Outstanding – basic and diluted	103,668,851	101,897,372

- the accompanying notes are an integral part of these financial statements -

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

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2018	2017
Operating activities		
Loss for the year	\$ (1,435,665)	\$ (2,332,203)
Items not involving cash		
Depreciation	3,698	4,800
Deferred income tax expense	8,001	77,805
Share-based compensation	-	256,829
Changes in non-cash working capital		
Receivables	17,975	(28,027)
Prepaid expenses	(629)	(608)
Accounts payable and accrued liabilities	17,465	(28,014)
	<u>(1,389,155)</u>	<u>(2,049,418)</u>
Investing activities		
Proceeds on sale of marketable securities	942,960	-
Purchase of equipment	-	(1,929)
Reclamation bonds	(7,000)	(12,000)
	<u>935,960</u>	<u>(13,929)</u>
Financing activities		
Shares issued for cash	369,480	-
Change in cash for the year	(83,715)	(2,063,347)
Cash position - beginning of year	202,029	2,265,376
Cash position - end of year	<u>\$ 118,314</u>	<u>\$ 202,029</u>

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

Fair value of warrants exercised	\$ 30,370	\$ -
Unrealized losses on marketable securities	\$ 61,540	\$ 598,500

Supplemental cash flow information

Interest received	\$ 515	\$ 15,172
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

- the accompanying notes are an integral part of these financial statements -

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (“Canasil” or the “Company”) is a mineral exploration company incorporated in British Columbia with its head office located at 1760 – 750 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interests in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The Company’s continuing operation is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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. As at December 31, 2018 the Company had working capital of \$117,166 (2017 - \$1,240,192), which it considers to be inadequate to fund its overhead and currently planned exploration activities for the ensuing twelve months. 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 material uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. The Company has incurred operating losses since inception and as at December 31, 2018 had an accumulated deficit of \$28,742,727 (2017 - \$27,307,062).

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.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee using those standards in effect for the reporting year ended December 31, 2018. The Company’s board of directors approved these consolidated financial statements for issue on April 18, 2019.

Basis of measurement

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

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiaries, CRD Minerals Corp., Canmine Minerals Inc. (“Canmine”), Minera Canasil S.A. de C.V. and Minera CRD S.A. de C.V. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, and unrealized foreign exchange translation gains or losses have been eliminated.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currency translation

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

Cash

Cash includes cash balances held through current operating bank accounts and guaranteed investment certificates at major financial institutions that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in nominal value.

Marketable securities

Marketable securities consist of common shares of publicly traded companies and are classified as fair value through other comprehensive income. The shares are recorded at fair value; gains or losses arising from changes in fair value are recorded as other comprehensive income (loss) and included in accumulated other comprehensive income (loss). Gains and losses realized upon sale remain in accumulated other comprehensive income (loss).

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 45% per annum. Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable.

Exploration and evaluation

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

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

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

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral properties that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no significant restoration obligations as at December 31, 2018.

Impairment

Non-financial assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial assets are reviewed at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets. The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Share-based compensation

The Company uses the fair value method whereby share-based compensation costs are recognized over the vesting periods for grants of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and, where vesting is not immediate, each tranche is recognized over the vesting period. In situations where options are granted to non-employees and some or all of the services provided cannot be specifically valued, the services are measured at the fair value of the share-based compensation. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Loss per share

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

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Income taxes

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

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

Significant accounting estimates and judgements

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

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

The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity and has no effect upon the Company's assets or liabilities.

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

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of new accounting standard

On January 1, 2018, the Company adopted IFRS 9 – *Financial Instruments*, which replaces IAS 39 *Financial Instruments – Recognition and Measurement*. The new standard provides guidance that is based on the Company’s business model for managing its financial instruments, which includes the purpose for which the financial instruments were acquired as well as their contractual cash flow characteristics.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“FVTOCI”), and fair value through profit or loss (“FVTPL”). It also includes a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own-credit risk in other comprehensive income for any liabilities designated as FVTPL.

Determination of the classification of financial instruments is made at initial recognition and reclassifications are made only upon the Company changing its business model for managing its financial instruments. Financial assets are derecognized when they mature or are sold, and substantially all of the risks and rewards of ownership have been transferred. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, upon initial recognition the Company can make a one-time irrevocable election to designate them as FVTOCI.

Upon adoption of IFRS 9 on a retrospective basis, the Company made an irrevocable election to measure its marketable securities at FVTOCI, therefore, there was no impact on the carrying values or equity as at January 1, 2018 and no measurement differences due to adopting the new standard. Accordingly, the Company was not required to retroactively restate the comparative periods or to make an adjustment to deficit or accumulated other comprehensive income at January 1, 2018. As a result of adopting IFRS 9, the Company’s accounting policy for financial instruments has been modified to include the following:

Financial assets

FVTPL

Financial assets classified as FVTPL are initially recognized at fair value with transaction costs being expensed in the period incurred. Realized gains and losses recognized upon derecognition and unrealized gains and losses arising from changes in the fair value of the financial assets are included in profit or loss in the period in which they arise.

FVTOCI

Investments in equity instruments classified as FVTOCI are initially recognized at fair value plus transaction costs. Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income with no subsequent reclassification to profit or loss upon derecognition. Realized gains and losses recognized upon derecognition remain within accumulated other comprehensive income.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of new accounting standard – continued

Amortized cost

A financial asset is measured at amortized cost if the objective of the Company's business model is to hold the instrument for the collection of contractual cash flows, which are comprised solely of payments of principal and interest. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Impairment losses are included in profit or loss in the period the impairment is recognized.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities. Accounts payable are measured at amortized cost.

The Company completed an assessment of its financial instruments as at January 1, 2018. The following table summarizes the original classification under IAS 39 and the new classification under IFRS 9:

	IAS 39	IFRS 9
Cash	FVTPL	FVTPL
Marketable securities	Available-for-sale	FVTOCI
Receivables	Amortized cost	Amortized cost
Reclamation bonds	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost

New accounting pronouncements

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, according to which all leases will be presented on the balance sheet, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company currently leases its office premises and therefore the presentation of this lease arrangement will change upon adopting IFRS 16. Beginning on January 1, 2019, the Company will record a right-of-use asset and lease liability on its balance sheet; rent expense will be replaced by recording depreciation and interest expense. Accordingly, in the statement of cash flows, interest expense will be included under operating activities and the principal reduction in the lease liability will be presented as a financing activity.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

3. MARKETABLE SECURITIES

The Company acquired common shares of Orex Minerals Inc. (“Orex”) and Barsele Minerals Corp. (“Barsele”) through a private placement with, and subsequent reorganization of, Orex and which have not been designated as held for trading. At the time of the acquisition of these shares, the Company had an option agreement with Orex on the Sandra-Escobar project (*Note 4*) and the shares were considered a strategic investment in the project. Prior to January 1, 2018, these shares were classified as available-for-sale financial assets. Upon adopting IFRS 9 on January 1, 2018, the Company elected to measure these shares at FVTOCI.

Details as at December 31 are as follows:

	Shares 2018	Cost 2018	Fair Value 2018	Fair Value 2017
Orex Minerals Inc. (<i>Note 16</i>)	700,000	\$ 69,956	\$ 56,000	\$ 94,500
Barsele Minerals Corp.	-	-	-	966,000
		<u>\$ 69,956</u>	<u>\$ 56,000</u>	<u>\$ 1,060,500</u>

Changes in the fair value of these securities for the years ended December 31 are as follows:

	2018	2017
Fair value – beginning of year	\$ 1,060,500	\$ 1,659,000
Sold – 1,400,000 Barsele shares	(942,960)	-
Change in fair value	<u>(61,540)</u>	<u>(598,500)</u>
Fair value – end of year	<u>\$ 56,000</u>	<u>\$ 1,060,500</u>

The carrying value of the Company’s marketable securities is determined by using the quoted closing price of the security as at the balance sheet date. During the year, the Company sold 1,400,000 Barsele shares for net cash proceeds of \$942,960 and a gain of \$732,872. In accordance with IFRS 9 adopted on January 1, 2018, gains realized upon sale remain in accumulated other comprehensive income and are not recognized in profit or loss. The Company also recorded unrealized losses of \$53,539 (2017 - \$520,695), net of deferred income tax impact of \$8,001 (2017 - \$77,805), through accumulated other comprehensive income.

4. EXPLORATION AND EVALUATION

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

Sandra-Escobar project, Mexico

Between 2004 and 2006, the Company acquired, by staking, the Sandra claims located in Durango State, Mexico. In accordance with a 2008 agreement with Pan American Silver Corp. (“Pan American”), the Company also earned a 40% interest in Pan American’s Escobar claims in 2012, which are contiguous with the Sandra claims. In addition to these claims, the Company has also acquired various other claims in the area from third parties, all of which form the Sandra-Escobar project.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION – *continued*

Sandra-Escobar project, Mexico – *continued*

In September 2015, the Company signed an option agreement with Orex on the Sandra-Escobar project providing Orex with the right to earn an initial 55% interest by paying the Company \$500,000 (received) and incurring US\$2,000,000 in exploration expenditures over a three-year period. Orex could earn an additional 10% interest by paying the Company \$500,000 in cash or shares and incurring an additional US\$2,000,000 in exploration expenditures within two years. In January 2017, Orex advised the Company that it had completed the required expenditures of US\$2,000,000 to earn a 55% interest in the project and declined the second option to earn an additional 10% interest.

In December 2017, the Company signed a non-binding letter of intent with Pan American and Orex, which provided the basis for entering into a definitive option agreement whereby the three companies would advance the Sandra-Escobar project jointly. In October 2018, prior to signing a definitive option agreement, the Company and Pan American signed a non-binding letter of intent providing Pan American with the right to purchase the Company's rights, title, and interest in the project. The definitive purchase agreement with Pan American will provide for the Company to receive \$2,000,000 and a 2% net smelter returns royalty ("NSR") payable on Pan American's share of the project; the NSR can be reduced to 1% upon payment of \$4,000,000 to the Company (*Note 11*).

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in certain claims within the La Esperanza project area, subject to an NSR of up to 1%. The claims are located in Zacatecas State, Mexico. The Company acquired a 100% interest in these claims in May 2011 and purchased the NSR in 2016. From 2006 to 2010, the Company also added further claims, by direct staking, to increase the size of the project area.

Salamandra project, Mexico

The Salamandra project, located in Durango State, Mexico, was acquired through staking and an option to purchase a 100% interest in certain claims comprising the central 900 hectares of the project area. During 2017, the Company renegotiated the terms of this option agreement such that it acquired a 100% interest in the 900 hectares by making a final payment of US\$25,000 bringing the total paid for these claims to US\$250,000. These claims are subject to a 0.5% NSR that can be purchased from the owner for US\$500,000.

Other projects

The Company has staked other claims located in Durango State, Mexico, which include the Colibri, Carina, Vizcaino, and Nora 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 projects (*Note 15*).

Mineral title

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

CANASIL RESOURCES INC.
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4. EXPLORATION AND EVALUATION - continued

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

	Expenditures 2018	Expenditures 2017	Cumulative 2018
Brenda, Canada	\$ 6,646	\$ 42,337	\$ 2,392,170
- Expenditure recoveries	(12,701)	(3,550)	(222,580)
Vega, Canada	33,481	7,257	285,118
- Expenditure recoveries	(1,439)	(15,003)	(37,016)
Other, Canada	-	2,844	141,767
- Expenditure recoveries	(703)	(7,958)	(22,776)
La Esperanza, Mexico	498,373	910,517	3,155,253
- Expenditure recoveries	-	-	(262,373)
- Option payments received	-	-	(300,000)
Sandra-Escobar, Mexico	135,256	87,913	2,009,624
- Expenditure recoveries	(90,877)	-	(177,486)
- Option payments received	-	-	(500,000)
Salamandra, Mexico	117,276	118,592	6,209,977
- Expenditure recoveries	-	-	(223,652)
- Option payments received	-	-	(553,989)
Other, Mexico	120,092	92,472	3,527,768
- Expenditure recoveries	-	-	(131,346)
- Option payments received	-	-	(133,471)
	<u>\$ 805,404</u>	<u>\$ 1,235,421</u>	<u>\$ 15,156,988</u>

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

	2018	2017
Acquisition and option payments	\$ -	\$ 31,724
Administration	165,597	172,168
Assays	20,527	28,131
Consulting	6,879	-
Drilling	46,093	346,365
Field costs	27,387	41,821
Geological	126,887	168,997
Geophysical	37,200	-
Land holding costs	450,476	402,439
Legal	8,176	2,755
Mapping and surveying	4,528	34,666
Road building	10,367	18,537
Transportation and rentals	182	11,062
Travel and accommodation	6,825	3,267
Expenditure recoveries	(105,720)	(26,511)
	<u>\$ 805,404</u>	<u>\$ 1,235,421</u>

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5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
December 31, 2016	\$ 31,686	\$ 63,175	\$ 25,107	\$ 31,971	\$ 34,068	\$ 186,007
Additions	-	-	1,929	-	-	1,929
December 31, 2017	31,686	63,175	27,036	31,971	34,068	187,936
Additions	-	-	-	-	-	-
December 31, 2018	31,686	63,175	27,036	31,971	34,068	187,936
Accumulated Depreciation						
December 31, 2016	-	57,445	22,793	30,836	27,746	138,820
Additions	-	1,719	1,476	341	1,264	4,800
December 31, 2017	-	59,164	24,269	31,177	29,010	143,620
Additions	-	1,204	1,245	238	1,011	3,698
December 31, 2018	-	60,368	25,514	31,415	30,021	147,318
Net Book Value						
December 31, 2017	\$ 31,686	\$ 4,011	\$ 2,767	\$ 794	\$ 5,058	\$ 44,316
December 31, 2018	\$ 31,686	\$ 2,807	\$ 1,522	\$ 556	\$ 4,047	\$ 40,618

6. SHARE CAPITAL

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

There were no shares issued from treasury during the year ended December 31, 2017.

In March 2018, the Company granted the holders of 4,194,250 share purchase warrants, with an exercise price of \$0.50 per share, the right to exercise their warrants at a reduced price of \$0.16 on or before March 23, 2018. In March 2018, 2,309,250 warrants were exercised for cash proceeds of \$369,480. Holders exercising their warrants also received a replacement warrant with an exercise price of \$0.25 per share expiring on February 28, 2020, subject to an acceleration clause should the closing price of the Company's shares exceed \$0.33 per share for a period of ten consecutive trading days. The terms of the 1,885,000 unexercised warrants remained unchanged and these warrants expired unexercised in June 2018.

The related fair value of \$30,370, which was recognized in contributed surplus upon issuance of 134,250 of the exercised warrants, has been recorded as share capital.

CANASIL RESOURCES INC.
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7. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") that 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 subsidiaries to purchase common shares of the Company. The stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

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, 2016	4,194,250	\$ 0.50	7,162,500	\$ 0.10
Granted	-	\$ -	735,000	\$ 0.20
Expired	-	\$ -	(262,500)	\$ 0.18
Outstanding, December 31, 2017	4,194,250	\$ 0.50	7,635,000	\$ 0.10
Exercised	(2,309,250)	\$ 0.16	-	\$ -
Issued	2,309,250	\$ 0.25	-	\$ -
Expired	(1,885,000)	\$ 0.50	(70,000)	\$ 0.13
Outstanding, December 31, 2018	2,309,250	\$ 0.25	7,565,000	\$ 0.10
Exercisable, December 31, 2018	2,309,250	\$ 0.25	7,565,000	\$ 0.10

At December 31, 2018, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	325,000	\$ 0.10	January 4, 2019 (i)
	4,950,000	\$ 0.06	December 21, 2020
	400,000	\$ 0.21	March 1, 2021
	1,155,000	\$ 0.20	January 20, 2022 (ii)
	<u>735,000</u>	\$ 0.20	January 25, 2022
	<u>7,565,000</u>		

(i) Expired unexercised on January 4, 2019;

(ii) On January 20, 2017, these options were amended to extend their expiry date from January 20, 2017 to January 20, 2022 with all other terms remaining unchanged.

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7. STOCK OPTIONS AND WARRANTS – continued

	Number of Shares	Exercise Price	Expiry Date
Warrants	2,309,250	\$ 0.25	February 28, 2020

At December 31, 2018, the weighted-average remaining life for the outstanding stock options was 2.18 years and 1.16 years for the outstanding warrants.

Share-based compensation

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

	2018	2017
Total options granted and extended	-	1,910,000
Average exercise price	\$ -	\$ 0.20
Estimated fair value of options granted and extended	\$ -	\$ 256,829
Estimated fair value per option	\$ -	\$ 0.13

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

	2018	2017
Risk-free interest rate	-	1.14%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	95%
Expected forfeiture rate	-	0.00%
Expected option life in years	-	5.00

The Company has recorded share-based compensation relating to options granted and extended during the year as follows:

	2018	2017
Number of options vested in year	-	1,910,000
Compensation recognized in year	\$ -	\$ 256,829

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8. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

	2018	2017
Cash		
Cash on deposit	\$ 118,314	\$ 202,029
Marketable securities		
	\$ 56,000	\$ 1,060,500
Receivables		
Value-added taxes	\$ 36,299	\$ 49,527
Goods and services tax and other	20,983	25,730
	\$ 57,282	\$ 75,257
Reclamation bonds		
	\$ 47,000	\$ 40,000
Accounts payable and accrued liabilities		
Accounts payable	\$ 76,908	\$ 30,668
Accrued audit, legal, exploration and other	50,140	78,915
	\$ 127,048	\$ 109,583

Cash is classified as fair value through profit or loss and carried at fair value. Marketable securities are classified as fair value through other comprehensive income and carried at fair value. The Company's receivables, reclamation bonds, and accounts payable are carried at amortized cost – the carrying values approximate their fair values due to the short-term nature of these instruments.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. All of the Company's Canadian cash and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the Mexican peso and U.S. dollar, which is held through major banks in Mexico and used to fund foreign projects. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk in respect of value-added tax ("IVA") refunds receivable from the government of Mexico. The Company currently receives its IVA refunds without significant delays.

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. A significant market risk to which the Company is exposed is currency risk. The cash balances, receivables, and payables that are denominated in pesos and U.S. dollars are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso/U.S. dollar. At December 31, 2018, the Company held the equivalent of \$35,210 in cash, \$36,298 in receivables, and \$38,930 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of \$13,908 in cash denominated in U.S. dollars. Due to the amount and nature of these balances and the volatility of the exchange rates between the Canadian dollar, U.S. dollar, and Mexican peso, such currency risk could result in future gains or losses to the Company.

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8. FINANCIAL INSTRUMENTS – continued

During the year ended December 31, 2018, the Mexican peso strengthened against the Canadian dollar by approximately 8.8%; the U.S. dollar strengthened against the Canadian dollar by approximately 8.7%. Based on the Company's peso and U.S. dollar denominated monetary assets and liabilities as at December 31, 2018, a 10% fluctuation in the exchange rates with the Canadian dollar would result in a gain or loss of approximately \$3,258 and \$1,391, respectively. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

The Company's marketable securities are subject to market downturns and declines in share prices and therefore the Company is exposed to significant market risk in respect of these financial instruments.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments.

The carrying value of the financial assets recorded in these financial statements, totalling \$278,596, represents the Company's maximum exposure to credit and market risk as at December 31, 2018.

The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

9. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes officers and non-executive directors. The compensation paid or payable to key management for the years ended December 31 is as follows:

	2018	2017
Salaries	\$ 225,000	\$ 225,000
Management fees	150,000	150,000
Director fees	42,000	48,000
Legal fees	2,953	63,951
	<u>\$ 419,953</u>	<u>\$ 486,951</u>

In addition, the Company recorded share-based compensation of \$nil (2017 - \$197,415), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 7.

Accounts payable and accrued liabilities includes \$nil (2017 - \$28,282) in legal fees due to a law firm in which an officer of the Company was a partner, \$9,000 (2017 - \$nil) in accrued director fees, and \$13,125 (2017 - \$nil) in management fees payable to the chief financial officer.

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10. COMMITMENTS

The Company has a lease agreement for office premises that expires on September 30, 2021. As at December 31, 2018, monthly payments were \$3,713 and include basic rent and common operating costs. Minimum future annual lease payments (based on current common operating costs) are as follows:

	Amount
2019	\$ 45,296
2020	46,223
2021	35,190
	<u>\$ 126,709</u>

The Company has an employment agreement with the chief executive officer and a management agreement with the chief financial officer for aggregate monthly compensation totalling \$31,250 per month. The agreements provide for termination provisions should the contracts be terminated without cause or should there be a change of control of the Company.

11. CONTINGENCY

In September 2017, Pan American filed a legal action against the Company in the Supreme Court of British Columbia claiming certain rights under the 2008 option agreement on the Sandra-Escobar project. Pan American has not served the Company in respect of this action and the Company believes that the action is without merit. In October 2017, the Company and Pan American entered into a non-binding letter of intent to enter into a definitive agreement whereby Pan American will purchase the Company's interest in the Sandra-Escobar project (*Note 4*). A condition precedent to signing the definitive purchase agreement is Pan American withdrawing its legal action.

12. 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:

	2018	2017
Loss before income taxes for accounting purposes	\$ (1,427,664)	\$ (2,254,398)
Expected tax recovery for the year	(386,000)	(586,000)
Effect of different tax rate on foreign losses	(54,000)	(56,000)
Non-deductible expenses, recoveries, and other	13,000	64,000
Taxable gain through AOCI	99,000	-
Change in unrecognized deductible temporary differences	336,001	655,805
Tax expense for the year	<u>\$ 8,001</u>	<u>\$ 77,805</u>

CANASIL RESOURCES INC.
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12. INCOME TAXES – continued

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

	2018	2017
Non-capital losses	\$ 2,882,000	\$ 2,516,000
Exploration expenditures	4,594,000	5,049,000
Equipment	39,000	41,000
Share issuance costs	22,000	32,000
Investment tax credits	40,000	40,000
Marketable securities	2,000	(101,000)
Unrecognized deferred tax assets (liabilities)	\$ 7,579,000	\$ 7,577,000

The Company's deferred tax assets (liabilities) expire as follows:

	2018	Expiry Date Range	2017
Non-capital losses	\$ 10,259,000	2021 to 2038	\$ 9,218,000
Exploration expenditures	\$ 15,699,000	Not applicable	\$ 17,214,000
Equipment	\$ 141,000	Not applicable	\$ 149,000
Share issuance costs	\$ 82,000	2039 to 2040	\$ 124,000
Investment tax credits	\$ 55,000	2027 to 2033	\$ 55,000
Marketable securities	\$ 14,000	Not applicable	\$ (780,000)

13. CAPITAL DISCLOSURES

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

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. SEGMENTED INFORMATION

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

2018	Canada	Mexico	Total
Property and equipment	\$ 4,368	\$ 36,250	\$ 40,618

2017	Canada	Mexico	Total
Property and equipment	\$ 6,275	\$ 38,041	\$ 44,316

15. PROPOSED SPIN-OFF TRANSACTION

In July 2017, the Company announced its intention to undertake a spin-off transaction to segregate its British Columbia properties into a separate company, Canmine, a wholly-owned subsidiary of the Company. Upon completion, shareholders of the Company will receive shares of Canmine in proportion to their shareholdings of the Company, which will continue to hold its Mexican properties. The transaction will be carried out as a Plan of Arrangement under the Business Corporations Act (British Columbia). The shareholders of the Company approved the transaction at a special meeting held on December 12, 2017 and the Company received final court approval on December 20, 2017. Completion of the transaction is subject to the conditional listing of the shares of Canmine on the TSX Venture Exchange, which has been delayed due to market conditions.

16. SUBSEQUENT EVENT

Subsequent to December 31, 2018, the Company sold 700,000 shares of Orex (*Note 3*) for gross cash proceeds of \$56,000.



Management's Discussion and Analysis For the Year Ended December 31, 2018

INTRODUCTION

Canasil Resources Inc. ("Canasil" or the "Company") is a junior mineral exploration company listed under the trading symbol "CLZ" on the TSX Venture Exchange. The Company is engaged in the exploration and development of mineral properties with prospects for silver, gold, copper, zinc and lead in Durango and Zacatecas States, Mexico, and in British Columbia, Canada. The Company's project portfolio includes seven silver-focused projects in Mexico, and four projects in British Columbia, two of which are prospective for hosting copper-gold porphyry mineralized systems.

This Annual Management's Discussion and Analysis ("MD&A") is dated April 18, 2019, and provides information on the Company's activities for the year ended December 31, 2018, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the audited annual consolidated financial statements and related notes for the years ended December 31, 2018 and 2017, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2017.

Discussion of the Company, its operations and associated risks is further described in the Company's filings available for viewing at www.sedar.com.

HIGHLIGHTS

Highlights of the Company's activities during the year under review are as follows:

- sold marketable securities for gross proceeds of \$490,000 in January 2018 and \$455,000 in July 2018;
- received proceeds of \$369,480 in March 2018 upon the exercise of 2,309,250 warrants;
- pursued discussions with major copper-gold producers for cooperation agreements on its BC projects;
- pursued arrangements for meeting the funding requirements for the proposed spin-off of its BC projects;
- completed a surface trenching and sampling program on the Salamandra project;
- continued drilling at its La Esperanza project, completing a 347-metre diamond drill hole before suspending the program due to weather conditions;
- conducted a LIDAR survey on the Vega property;
- followed up to finalize the definitive option agreement with Pan American Silver Corp. ("Pan American") together with Orex Minerals Inc. ("Orex"), to advance the Sandra-Escobar project (see next highlight);
- signed a non-binding letter of intent to sell the Company's interest in the Sandra-Escobar project to Pan American for \$2,000,000 and a 2% net smelter returns royalty ("NSR"), one-half of which can be purchased by Pan American for \$4,000,000. If completed, this agreement will supersede the option agreement detailed above.

Subsequent to December 31, 2018, the Company sold marketable securities for gross proceeds of \$56,000

OUTLOOK

Corporate Outlook

The Company reviewed the encouraging drill results obtained in 2017 from the La Esperanza project, and completed further surface sampling in the La Esperanza vein area. This data was evaluated to plan further drilling at La Esperanza, and in June 2018 drill-hole ES-18-21 was completed to a downhole depth of 347 metres, targeted below ES-17-16 on the southeastern extension of the La Esperanza vein. This hole cut the La Esperanza vein at 315 metres downhole intersecting a core length of 14.11 metres (true width 12.20 metres) with strong epithermal textures and disseminated sulphide minerals. The entire vein structure intersected was mineralized including bands of higher-grade silver-zinc-lead mineralization as detailed below under the La Esperanza project summary. The recovery of a wide, complete and non-faulted interval of the La Esperanza vein as projected in a significant step-out hole was very encouraging. This opens the southeast extension of the La Esperanza vein for additional drilling along strike and to depth.

The Company also completed a surface trench sampling program and further geological evaluation at its Salamandra project in late 2017 and early 2018 and continues to seek a joint venture partner for this prospective property.

In British Columbia, the Company pursued opportunities to arrange funding for the proposed spin-off transaction to segregate the BC properties into a separate company, which received shareholder and court approvals in December 2017. Completion of the transaction is subject to the Company meeting the minimum listing requirements and obtaining a conditional listing of the shares of the new company on the TSX Venture Exchange (see "*Proposed Transactions*"). Progress in this respect has been impacted by the weak market conditions and stagnant copper and gold prices, particularly in the second half of 2018 to date. This also impacted interest from larger gold and copper producers in exploration opportunities in British Columbia, particularly in the area where the Company's Brenda gold-copper project is located. Opportunities for cooperation agreements to advance the Brenda and Vega properties, both of which host multiple porphyry copper-gold targets, will be contingent on higher copper and gold prices and better market conditions.

In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies would advance the Sandra-Escobar project jointly. The terms provided for the parties to incur optional expenditures of US\$6,000,000 (US\$5,000,000 by Pan American and US\$1,000,000 jointly by Canasil and Orex) over four years, following which Pan American would hold a 51% interest and Canasil and Orex would jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American would have a further option to increase its interest to 60% in the combined properties by advancing the project to pre-feasibility.

In October 2018, prior to finalizing a definitive option agreement, the Company and Pan American signed a non-binding letter of intent providing Pan American with the right to purchase the Company's rights, title, and interest in the project. The definitive purchase agreement with Pan American will provide for the Company to receive \$2,000,000 and a 2% NSR payable on Pan American's share of the project; the NSR can be reduced to 1% upon payment of \$4,000,000 to the Company. The proposed transaction will provide a significant source of non-dilutive capital which can be used to advance the Company's other projects. The parties are in the process of completing the definitive agreement to finalize this arrangement.

In September 2017, Pan American filed a legal action against the Company in the Supreme Court of British Columbia claiming certain rights under a 2009 option agreement on the Sandra-Escobar project. Pan American has not served the Company in respect of this action and the Company believes that the action is without merit. A condition precedent to signing the definitive purchase agreement is Pan American withdrawing its legal action.

Canasil Resources Inc. - Management's Discussion and Analysis
For the Year Ended December 31, 2018

Market Conditions

Gold, silver and metal prices staged a marked recovery during the first half of 2016, with silver trading up to US\$20 per ounce by June/July 2016, up from US\$14 per ounce at the beginning of the year. However, during the second half of 2016 through to the end of 2017, silver prices were volatile and fluctuated between US\$16 and US\$18 per ounce, and closed below US\$16 in late December 2017. During the first and second quarter of 2018, silver prices fluctuated around US\$16.50 per ounce after increasing to US\$17.50 per ounce in late January and two short increases to over US\$17 per ounce in early April and late June. During the third quarter of 2018 the silver price dropped markedly, trading around US\$14.50 per ounce, with a further drop down to US\$14.00 per ounce in November 2018. This downward trend was also reflected in gold and base metal prices.

Silver prices improved gradually following the year-end up to US\$16 per ounce by mid-January and mid-February 2019, before dropping back to US\$15 at the time of this report. The precious metal and commodity prices have been negatively affected by the economic uncertainties resulting from trade disputes and tariffs imposed by the US, as well as a higher US dollar. With gold at US\$1,275 per ounce at the time of this report, the gold/silver price ratio remains close to an all-time high of 85, leading to speculation of a higher potential increase in the silver price. Despite forecasts for increasing demand and low inventories, particularly for copper driven by expected increase in production of electric vehicles, copper and zinc prices dropped in the second half of 2018 to US\$2.60 per pound of copper and US\$1.05 per pound of zinc, down from US\$3.20 per pound and US\$1.60 per pound respectively in January 2018. Despite a modest recovery since the year-end, copper and zinc prices remain relatively low with copper trading at US\$2.92 per pound and zinc at US\$1.31 per pound as at the date of this report.

The uncertain global economic conditions and lower precious and base metal prices has dampened optimism for the resource and exploration sectors focused on these metals, resulting in generally lower share prices, particularly for earlier stage exploration companies. There have also been significantly lower financing opportunities and less urgency among larger companies to conclude cooperation agreements with explorers for advancing earlier stage projects. As a result, the Company has had to adopt a more conservative approach to preserve working capital resulting in delays in implementation of its plans.

FINANCIAL CONDITION

As at December 31, 2018, the Company had working capital of \$117,166, compared to working capital of \$1,240,192 at December 31, 2017. The decrease in working capital is due to the resources used for operations exceeding the proceeds from the exercise of warrants and changes in fair values of marketable securities. The Company's working capital position consists of the following:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 118,314	\$ 202,029
Marketable securities (i)	56,000	1,060,500
Receivables	57,282	75,257
Prepaid expenses	12,618	11,989
Accounts payable and accrued liabilities	(127,048)	(109,583)
Working capital	\$ 117,166	\$ 1,240,192

- (i) At December 31, 2018, the Company held 700,000 shares of Ores Minerals Inc. and nil shares of Barsele Minerals Corp. ("Barsele") (December 31, 2017 – 700,000 shares and 1,400,000 shares, respectively). In February 2019, the Company sold the 700,000 Ores shares for gross proceeds of \$56,000.

The Company had no short or long-term debt at December 31, 2018.

Liquidity and Financial Resources

The Company has no income from operations and is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by option, joint venture or outright sale) to finance acquisitions, exploration and development of mineral properties, and meet general and administrative expenses.

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During the current year, the Company incurred cash expenses of \$1,423,966, which included administrative expenses of \$618,562 and exploration and evaluation expenses of \$805,404. In May 2018, the Company began a drill program at La Esperanza with an initial budget of \$200,000 and incurred \$46,093 in direct drilling costs before stopping the program due to weather conditions. The administrative budget and exploration and land holding budgets for each of the Company's properties are established depending on expected cash resources and such budgets are regularly adjusted according to actual cash resources.

Management of the Company considers its current working capital to be insufficient to meet its budgeted overhead and planned exploration and land holding requirements for the ensuing twelve months. In the long-term there can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

Commitments

The Company has an employment agreement with the chief executive officer and a management agreement with the chief financial officer for aggregate compensation totalling \$31,250 per month. The agreements provide for termination provisions should the contracts be terminated without cause or should there be a change of control of the Company. The Company has a lease agreement for its office premises that expires on September 30, 2021 and currently requires payments of \$3,713 per month.

FINANCIAL PERFORMANCE

Loss

The Company's loss for the current and comparative fourth quarters includes the following:

	2018	2017
General and administrative expenses	\$ 146,810	\$ 226,915
Exploration and evaluation expenditures	102,019	277,647
Total operating expenses	248,829	504,562
Deferred income tax expense	3,640	-
Loss for the quarter	\$ 252,469	\$ 504,562

The Company's loss for the current and comparative years includes the following:

	2018	2017
General and administrative expenses	\$ 622,260	\$ 1,018,977
Exploration and evaluation expenditures	805,404	1,235,421
Total operating expenses	1,427,664	2,254,398
Deferred income tax expense	8,001	77,805
Loss for the year	\$ 1,435,665	\$ 2,332,203

The Company was significantly more active both corporately and in the field during 2017 compared with 2018, which resulted in lower administrative and exploration costs for the fourth quarter and for the full year. General and administrative expenses for the year ended December 31, 2017 include share-based compensation, a non-cash item, of \$256,829. The Company did not grant any stock options in the current year; 735,000 stock options were granted and 1,175,000 existing stock options were extended in the comparative year. Excluding share-based compensation, general and administrative expenses were \$622,260 in the current year and \$762,148 for the comparative year. During 2017, the Company incurred higher legal, listing, and filing fees in respect of the Pan American legal claim, the new agreement with Pan American and Orex, and the proposed spin-off transaction.

The decrease in exploration and evaluation expenditures for the current year is due primarily to there being less drilling conducted during the current year. Direct drilling costs of \$46,093 were incurred on the La Esperanza project during 2018 while \$346,365 was incurred during 2017. In addition, the Company received \$105,720 in expenditure recoveries during the current year while only \$26,511 was received in the comparative year. Land holding costs increased to \$450,476 in the current year, compared to \$402,439 in the comparative year.

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Comprehensive Loss

The Company's comprehensive loss for the current and comparative fourth quarters includes the following:

	2018	2017
Loss for the quarter	\$ 252,469	\$ 504,562
Other comprehensive loss	24,360	-
Comprehensive loss for the quarter	\$ 276,829	\$ 504,562

During the fourth quarter of 2018, the Company experienced unrealized losses on its marketable securities of \$28,000, less deferred income tax expense of \$3,640; there was no change in the fair value of its marketable securities in the fourth quarter of 2017.

The Company's comprehensive loss for the current and comparative years includes the following:

	2018	2017
Loss for the year	\$ 1,435,665	\$ 2,332,203
Other comprehensive loss	53,539	520,695
Comprehensive loss for the year	\$ 1,489,204	\$ 2,852,898

During 2018, the Company experienced unrealized losses on its marketable securities of \$61,540, less deferred income tax expense of \$8,001 whereas in 2017, the Company experienced unrealized losses of \$598,500, less deferred income tax expense of \$77,805.

In January 2018, the Company sold 700,000 Barsele shares for net proceeds of \$488,980 and a gain on sale of \$383,936. In July 2018, the Company sold the remaining 700,000 Barsele shares for net proceeds of \$453,980 and a gain on sale of \$348,936. In accordance with IFRS 9 adopted on January 1, 2018, the gains realized upon sale of these shares remain in accumulated other comprehensive income and are not recognized in profit or loss.

Cash Flows

Cash used for operating activities during the fourth quarter, before changes in non-cash working capital items, was \$247,905 and compares to \$503,362 used in the comparative quarter. The decrease in cash used for operations is due to a decrease in cash general and administrative expenses of \$79,829 and a decrease in cash exploration costs of \$175,628 for the current quarter. Significant changes in non-cash working capital items for the current quarter include an increase in accounts payable of \$54,977.

Cash used for operating activities for the year, before changes in non-cash working capital items, was \$1,423,966 and compares to \$1,992,769 used in the comparative year. The decrease in cash used for operations is due to a decrease in cash general and administrative expenses of \$138,786 and cash exploration costs of \$430,017 as detailed in the discussion of Loss. Cash provided by investing activities includes the proceeds of sale of marketable securities of \$942,960 less a \$7,000 increase in reclamation bonds required on the BC projects. Financing activities for 2018 consists of the issuance of shares upon the exercise of warrants for proceeds of \$369,480 - there were no financing activities during 2017.

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SELECTED ANNUAL INFORMATION

The information in the following table provides selected financial information of the Company for 2018 and the two preceding years. This information derives from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information is presented in accordance with IFRS.

Year Ended December 31	2018	2017	2016
Total Revenue	\$nil	\$nil	\$nil
Share-Based Compensation Expense	\$nil	\$256,829	\$64,997
Exploration and Evaluation Expense	\$805,404	\$1,235,421	\$852,703
Gain on Sale of Marketable Securities	\$nil	\$nil	\$143,524
Loss for the Year	\$1,435,665	\$2,332,203	\$1,261,636
Comprehensive Loss for the Year	\$1,489,204	\$2,852,898	\$82,944
Loss per Share – Basic and Diluted	\$0.01	\$0.02	\$0.01
Total Assets	\$331,832	\$1,434,091	\$4,058,174
Working Capital	\$117,166	\$1,240,192	\$3,845,390
Long-Term Liabilities	\$nil	\$nil	\$nil
Dividends per Share	\$nil	\$nil	\$nil
Shareholders' Equity	\$204,784	\$1,324,508	\$3,920,577

In 2016, the Company completed short field programs on its BC projects, including aerial magnetometer surveys on the Vega and Granite projects, and in December 2016 commenced a drill program at La Esperanza. In 2017, the Company completed its drill program and surface sampling program at La Esperanza, commenced a trenching and surface sampling program at Salamandra, and continued with its comprehensive review and update of the data bases on its BC projects, which included a short inspection program at the Brenda project in September 2017. During 2018, the Company completed its surface trenching and sampling program at Salamandra, completed a short drill program at La Esperanza before shutting down due to weather conditions, and conducted a LIDAR survey at Vega.

The Company granted 450,000 stock options in 2016 and in 2017 granted 735,000 stock options and extended the expiry date of 1,175,000 options. There were no stock options granted during 2018.

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SUMMARY OF QUARTERLY INFORMATION

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

Year	2018				2017			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Revenue	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Exploration and evaluation expenses	\$102,019	\$325,073	\$202,930	\$175,382	\$277,647	\$199,005	\$210,939	\$547,830
Share-based compensation expense	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$256,829
Deferred income taxes	\$3,640	\$2,863	\$1,365	\$133	\$nil	\$1,365	\$67,795	\$8,645
Loss for the period	\$252,469	\$488,830	\$366,253	\$328,113	\$504,562	\$404,524	\$451,759	\$971,358
Other comprehensive loss	\$24,360	\$19,157	\$9,135	\$887	\$nil	\$9,135	\$453,705	\$57,855
Comprehensive loss for the period	\$276,829	\$507,987	\$375,388	\$329,000	\$504,562	\$413,659	\$905,464	\$1,029,213
Loss per share: basic and diluted	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.01
Weighted-average shares outstanding	104,206,622	104,206,622	104,206,622	102,025,664	101,897,372	101,897,372	101,897,372	101,897,372

DISCUSSION OF QUARTERLY INFORMATION

During the first quarter of 2017, the Company completed a drill program at La Esperanza, granted 735,000 stock options, and extended 1,175,000 existing stock options for a further five years. During the second quarter of 2017, the Company conducted a surface sampling program at La Esperanza and continued its work on the data bases of the BC projects. In the third quarter of 2017, the Company conducted a short field program at the Brenda project and commenced work on the information circular and required reports for the proposed spin-off transaction. During the fourth quarter of 2017, the Company conducted a trenching and sampling program at Salamandra, completed a technical report on the Brenda project, and held a special shareholder meeting in respect of the spin-off transaction.

During the first quarter of 2018, the Company completed its surface trenching and sampling program on the Salamandra project. During the second quarter of 2018, the Company continued drilling at its La Esperanza project, completing a 347-metre diamond drill hole before suspending the program due to weather conditions. In the third quarter of 2018, the Company conducted a LIDAR survey on the Vega property, which was completed in the fourth quarter.

MAJOR OPERATING MILESTONES

During the year under review, the Company sold marketable securities for gross proceeds of \$945,000 and issued 2,309,250 shares from treasury for proceeds of \$369,480 upon the exercise of warrants. The Company completed a surface rock sampling and trenching program at its Salamandra project, resumed drilling at its La Esperanza project before being stopped by weather, conducted a LIDAR survey on the Vega property, and followed up with plans for meeting the requirements to spin-off the BC projects into a new public company. In addition, the Company signed a non-binding letter of intent to sell its interest in the Sandra-Escobar project to Pan American, which, if completed, would supersede a previously signed letter of intent with Pan American and Orex providing for a three-way option agreement on the Sandra-Escobar project.

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FINANCIAL INSTRUMENTS

	2018		2017	
Cash				
Cash on deposit	\$	118,314	\$	202,029
Marketable securities				
	\$	56,000	\$	1,060,500
Receivables				
Value-added taxes	\$	36,299	\$	49,527
Goods and services tax and other		20,983		25,730
	\$	57,282	\$	75,257
Reclamation bonds				
	\$	47,000	\$	40,000
Accounts payable and accrued liabilities				
Accounts payable	\$	76,908	\$	30,668
Accrued audit, legal, exploration and other		50,140		78,915
	\$	127,048	\$	109,583

Cash is classified as fair value through profit or loss and carried at fair value. Marketable securities are classified as fair value through other comprehensive income and carried at fair value. The Company's receivables, reclamation bonds, and accounts payable are carried at amortized cost – the carrying values approximate their fair values due to the short-term nature of these instruments.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. All of the Company's Canadian cash and reclamation bonds are held in interest bearing accounts and short-term guaranteed investment certificates at major Canadian banks and such balances earn interest at market rates. The Company also maintains cash in the Mexican peso and U.S. dollar, which is held through major banks in Mexico and used to fund foreign projects. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk in respect of value-added tax ("IVA") refunds receivable from the government of Mexico. The Company currently receives its IVA refunds without significant delays.

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. A significant market risk to which the Company is exposed is currency risk. The cash balances, receivables, and payables that are denominated in pesos and U.S. dollars are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso/U.S. dollar. At December 31, 2018, the Company held the equivalent of \$35,210 in cash, \$36,298 in receivables, and \$38,930 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of \$13,908 in cash denominated in U.S. dollars. Due to the amount and nature of these balances and the volatility of the exchange rates between the Canadian dollar, U.S. dollar, and Mexican peso, such currency risk could result in future gains or losses to the Company. During the year ended December 31, 2018, the Mexican peso strengthened against the Canadian dollar by approximately 8.8%; the U.S. dollar strengthened against the Canadian dollar by approximately 8.7%. Based on the Company's peso and U.S. dollar denominated monetary assets and liabilities as at December 31, 2018, a 10% fluctuation in the exchange rates with the Canadian dollar would result in a gain or loss of approximately \$3,258 and \$1,391, respectively. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

The Company's marketable securities are subject to market downturns and changes in share prices and therefore the Company is exposed to market risk in respect of these financial instruments.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements, totalling \$278,596, represents the Company's maximum exposure to credit and market risk as at December 31, 2018. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

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RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company relies heavily on its directors and officers for many of its administrative and professional services. Key management includes executive and non-executive directors and officers. The compensation paid or payable to key management for the years ended December 31 is as follows:

	2018	2017
Salaries – chief executive officer	\$ 225,000	\$ 225,000
Management fees – chief financial officer	150,000	150,000
Director fees	42,000	48,000
Legal fees – law firm in which an officer was a partner	2,953	63,951
	\$ 419,953	\$ 486,951

In addition, the Company recorded share-based compensation of \$nil (2017 - \$197,415), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 7 to the December 31, 2018 consolidated financial statements.

Accounts payable and accrued liabilities includes \$nil (2017 - \$28,282) in legal fees due to a law firm in which an officer of the Company was a partner; \$9,000 (2017 - \$nil) in accrued director fees, and \$13,125 (2017 - \$nil) in management fees payable to the chief financial officer.

OUTSTANDING SHARE DATA

Details of the Company's outstanding shares, options, and warrants are as follows:

	April 18, 2019	December 31, 2018	December 31, 2017
Shares issued and outstanding	104,206,622	104,206,622	101,897,372
Outstanding stock options	7,240,000	7,565,000	7,635,000
Outstanding warrants	2,309,250	2,309,250	4,194,250
Diluted shares outstanding	113,755,872	114,080,872	113,726,622

In March 2018, the Company granted the holders of 4,194,250 share purchase warrants, with an exercise price of \$0.50 per share, the right to exercise their warrants at a reduced price of \$0.16 on or before March 23, 2018. In March 2018, 2,309,250 warrants were exercised for cash proceeds of \$369,480. Holders exercising their warrants also received a replacement warrant with an exercise price of \$0.25 per share expiring on February 28, 2020, subject to an acceleration clause should the closing price of the Company's shares exceed \$0.33 per share for period of ten consecutive trading days. The terms of the 1,885,000 unexercised warrants remained unchanged and expired unexercised in June 2018. In June 2018, 70,000 incentive stock options expired unexercised and in January 2019, and additional 325,000 options expired. Notes 6 and 7 to the Company's December 31, 2018 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, the Company adopted IFRS 9 – *Financial Instruments*, which replaces IAS 39 – *Financial Instruments – Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“FVTOCI”), and fair value through profit or loss (“FVTPL”).

Upon adoption of IFRS 9 on a retrospective basis, the Company made an irrevocable election to measure its marketable securities at FVTOCI, therefore, there was no impact on the carrying values or equity as at January 1, 2018 and no measurement differences due to adopting the new standard. Accordingly, the Company was not required to retroactively restate the comparative periods or to make an adjustment to deficit or accumulated other comprehensive income at January 1, 2018. A detailed discussion of the adoption of IFRS 9 is provided in Note 2 to the Company's December 31, 2018 audited consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, according to which all leases will be presented on the balance sheet, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company currently leases its office premises and therefore the presentation of this lease arrangement will change upon adopting IFRS 16. Beginning on January 1, 2019, the Company will record a right-of-use asset and lease liability on its balance sheet; rent expense will be replaced by recording depreciation and interest expense. Accordingly, in the statement of cash flows, interest expense will be included under operating activities and the principal reduction in the lease liability will be presented as a financing activity.

OFF-BALANCE SHEET ARRANGEMENTS

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

PROPOSED TRANSACTIONS

The Company continues to pursue opportunities and discussions with respect to the funding and advancement of its projects, however, other than the letter of intent to sell the Company's interest in the Sandra-Escobar project to Pan American, it does not have any other proposed transactions in this regard as at the date of this report.

In July 2017, the Company announced its intention to undertake a spin-off transaction to segregate its BC properties into a separate company, Canmine Minerals Inc. ("Canmine"), a wholly-owned subsidiary of the Company. Upon completion, shareholders of the Company will receive shares of Canmine in proportion to their shareholdings of the Company, which will continue to hold its Mexican properties. The transaction will be carried out as a Plan of Arrangement under the Business Corporations Act (British Columbia). The shareholders of the Company approved the transaction at a special meeting held on December 12, 2017 and the Company received final court approval on December 20, 2017. Completion of the transaction is subject to the Company meeting the minimum listing requirements and obtaining a conditional listing of the shares of Canmine on the TSX Venture Exchange, which has been delayed due to market conditions. Additional information can be found contained in the Company's information circular dated November 3, 2017 available for viewing at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity and has no effect upon the Company's assets or liabilities.

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

DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The Company has no source of operating revenue. The Company's consolidated financial statements for the year ended December 31, 2018 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

MINERAL PROPERTY SUMMARY

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

<p>Durango and Zacatecas, Mexico:</p> <ul style="list-style-type: none"> • Sandra silver-gold project – 100%, and Escobar silver-gold claims – 40%, subject to option agreement with Orex • Salamandra zinc-silver project – 100% • La Esperanza silver-zinc-lead project – 100% • Carina silver project – 100% • Colibri silver-zinc-lead-copper project – 100% • Vizcaino silver-gold project – 100% • Nora silver-gold-copper project – 100% 	<p>British Columbia, Canada:</p> <ul style="list-style-type: none"> • Brenda, gold-copper property – 100% • Vega, gold-copper property – 100% • Granite, gold property – 100% • LIL, silver property – 100%
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La Esperanza

The La Esperanza silver-zinc-lead project claims cover 14,916 hectares and are located spanning the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. The project is located in a prolific mining district on the important Fresnillo silver trend, 80 kilometres northwest of the Fresnillo mine, and approximately 35 kilometres from Pan American Silver's La Colorada mine, and First Majestic Silver's La Parrilla and Del Toro mines. Systematic and comprehensive exploration programs have been conducted on the project, including satellite imaging and high-resolution mapping, 1,330 line-kilometre ZTEM airborne geophysical survey, extensive geological mapping and sampling and 7,728 metres of drilling in 32 diamond drill holes. Prior drilling has returned wide high-grade silver-lead-zinc intercepts from the La Esperanza vein, located in the SE of the project area that is open in all directions. Additional occurrences of silver-lead-zinc vein mineralization have also been identified in the northwest of the project area. Two of these have been tested with initial drill programs, which indicated potential for significant silver-lead-zinc mineralization.

In November 2016, the Company received a drill permit covering up to 30 additional drill holes in the La Esperanza vein area. From December 2016 to April 2017, the Company undertook a drill program for a total of 2,452 metres in eight drill holes, testing the La Esperanza vein along strike and to depth beyond previous drill intercepts. Results from this program were announced in news releases dated February 9, March 23, April 5, and May 2, 2017. All eight drill holes intercepted the La Esperanza vein and the results were particularly encouraging, extending the confirmed envelope of the La Esperanza vein to over 400 metres along strike to the southeast and to the northwest, and 425 metres to depth. Furthermore, drill hole ES-17-19 returned the highest gold values recorded to date from the La Esperanza vein together with high silver values. These results open the La Esperanza vein for further expansion by drilling in both directions along strike and to depth.

In late May 2018 a drill program was initiated to drill below and along strike from the previous high-grade intercepts on the southeastern and northwestern sides of the main La Esperanza vein. Drill-hole ES-18-20 was lost before reaching target depth, while ES-18-21 was completed to 347 metres in June 2018, both targeted below ES-17-16. This hole intersected the La Esperanza vein at 315 metres downhole over a core length of 14.11 metres (true width 12.20 metres) with well-developed epithermal textures and disseminated sulphide minerals. Assay results were announced on July 24, 2018; the entire vein structure was mineralized returning 68 g/t silver, 0.11 g/t gold, 1.02% zinc, 0.17% lead and 0.07% copper, including bands of higher-grade mineralization detailed below.

The highest grade zone was close to the footwall of the vein structure from 325.33 metres to 327.55 metres, returning 2.22 metres (true width 1.92 metres) of 190 g/t silver, 0.13 g/t gold, 1.35% zinc, 0.22% lead and 0.06% copper, including 0.80 metres (true width 0.69 metres) of 248 g/t silver, 0.14 g/t gold, 1.28% zinc, 0.31% lead and 0.09% copper. A lower footwall section from 328.45 metres to 329.10 metres returned 0.65 metres (true width 0.56 metres) of 255 g/t silver, 0.02 g/t gold, 0.18% zinc, 0.15% lead and 0.26% copper. A hanging wall section from 314.99 metres to 315.54 metres returned 0.55 metres (true width 0.48 metres) of 136 g/t silver, 0.22 g/t gold, 2.63% zinc, 0.60% lead and 0.05% copper.

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La Esperanza 2018 Drill Program										
Hole ES-18-21										
	Interval - Metres		Width – Metres		Gold	Silver	Zinc	Lead	Copper	*Silver Eq
	From	To	Interval	True	Au g/t	Ag g/t	Zn %	Pb %	Cu %	*Ag Eq g/t
Entire Vein	314.99	329.10	14.11	12.20	0.11	68	1.02	0.17	0.07	143
HW Section	314.99	316.50	1.51	1.31	0.17	69	2.89	0.40	0.05	253
Including	314.99	315.54	0.55	0.48	0.22	136	2.63	0.60	0.05	318
FW Section	323.15	329.10	5.95	5.15	0.11	117	1.33	0.18	0.08	209
Including	325.33	327.55	2.22	1.92	0.13	190	1.35	0.22	0.06	285
Including	326.75	327.55	0.80	0.69	0.14	248	1.28	0.31	0.09	346
And Includ.	328.45	329.10	0.65	0.56	0.02	255	0.18	0.15	0.26	273
<p><i>*Silver equivalents calculated assuming 100% recoveries (for Ag Eq calculation only – may not reflect actual recoveries), and Ag US\$17/oz, Au US\$1,250/oz, Cu US\$2.50/lb, Zn US\$1.30/lb, and Pb US\$1.00/lb. The metal prices used are for reference, and at the time of this report may differ.</i></p>										

The recovery of a wide, complete and non-faulted interval of the La Esperanza vein as projected in a previously untested zone is very encouraging. This opens the southeast extension of the La Esperanza vein for additional drilling along strike and to depth. The vein textures and symmetry of the vein suggests a well-developed epithermal environment, with the strongest mineralization within a breccia domain near the footwall contact. Re-logging of earlier vein intersections suggest similar controls on mineralization, consistent with mineralizing relationships noted at other epithermal vein deposits. The La Esperanza vein remains open for expansion both to the northwest and southeast along strike and to depth.

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Highlights of prior drill intercepts from the La Esperanza vein include:

La Esperanza Vein Selected Drill Intercepts										
	Interval - Metres		Width – Metres		Gold	Silver	Zinc	Lead	Copper	Silver Eq*
	From	To	Interval	True	Au g/t	Ag g/t	Zn %	Pb %	Cu %	Ag Eq g/t
Hole ES-06-02										
	100.22	107.74	7.52	4.29	0.03	210	1.25	1.03	0.03	319
Including	101.68	107.74	6.06	3.46	0.03	249	1.48	1.22	0.03	381
Including	101.68	104.17	2.49	1.42	0.04	458	2.20	2.31	0.06	675
And	102.60	103.75	1.15	0.66	0.01	615	3.37	2.12	0.05	882
Hole-ES-06-04										
HW Vein	88.45	90.80	2.35	1.79	0.09	142	2.32	1.07	0.07	308
La Esp Vn	116.83	127.25	9.86	7.52	0.22	388	1.36	1.35	0.09	516
Including	118.92	121.58	2.66	2.03	0.24	634	1.56	1.45	0.10	801
And	124.47	127.25	2.78	2.12	0.07	593	0.35	1.09	0.04	664
Hole ES-06-05										
HW Vein	118.46	119.88	1.42	1.12	0.03	471	3.11	6.40	0.22	891
Stockwork	119.88	147.82	27.94	21.96	0.06	17	0.25	0.67	0.01	62
La Esp Vn	147.82	160.92	13.10	10.30	0.04	396	0.71	1.96	0.04	516
Including	147.82	152.03	4.21	3.31	0.04	746	0.57	2.20	0.05	872
Including	148.22	150.15	1.93	1.52	0.06	1,380	0.38	3.40	0.05	1,546
including	148.22	149.17	0.95	0.75	0.01	2,144	0.29	3.20	0.06	2,294
And	154.35	159.10	4.75	2.73	0.02	389	0.97	3.30	0.03	577
ES-12-03										
La Esp Vn	266.66	276.94	10.28	8.22	0.19	97	2.3	1.1	0.32	241
Including	266.66	273.20	6.54	5.23	0.23	139	3.3	1.5	0.43	432
Including	266.66	270.67	4.01	3.20	0.14	189	5.2	2.2	0.33	614
Including	266.66	269.08	2.42	1.94	0.17	278	5.8	2.8	0.09	715
Hole ES-17-16										
	139.41	145.35	5.94	4.92	0.01	257	0.64	0.63	0.03	321
Including	143.00	145.35	2.35	1.95	0.03	628	0.90	1.52	0.08	750
Including	144.20	145.35	1.15	0.95	0.06	1,133	1.56	2.98	0.16	1,362
Hole ES-17-17										
HW 1 Vn	240.15	242.48	2.33	2.02	0.00	89	1.82	1.00	0.01	228
HW 2 Vn	248.33	248.60	0.27	0.23	0.04	236	0.28	8.43	0.06	618
HW 3 Vn	250.02	252.00	1.98	1.71	0.03	225	1.30	0.59	0.12	332
Including	250.02	251.21	1.19	1.03	0.03	277	2.01	0.81	0.19	438
Main Vn	258.70	265.41	6.71	5.81	0.10	204	1.83	1.46	0.07	376
Including	259.25	260.60	1.35	1.17	0.03	233	0.98	1.03	0.08	338
And	261.84	262.75	0.91	0.79	0.11	347	2.98	2.20	0.02	606
And	264.51	265.41	0.90	0.78	0.10	244	3.00	2.04	0.03	498
FW Vein	272.60	272.72	0.12	0.10	0.12	30	3.61	1.84	0.04	310
Holes ES-17-18										
	257.49	265.31	7.82	6.77	0.04	79	0.68	0.53	0.03	141
Including	257.49	259.65	2.16	1.87	0.03	231	1.19	1.38	0.03	357
Including	258.98	259.65	0.67	0.58	0.04	358	0.70	1.85	0.03	479
Hole ES-17-19										
	296.44	309.41	12.97	11.23	0.74	219	0.90	0.43	0.05	382
HW Vein	296.44	298.83	2.39	2.07	0.04	261	2.09	0.92	0.15	406
Main Vein	298.33	302.01	3.18	2.75	2.76	552	1.16	0.63	0.08	850
Including	300.73	302.01	1.28	1.11	6.39	1,281	2.23	1.25	0.18	1,938
FW Vein	306.88	308.62	1.74	1.51	0.39	256	1.68	0.74	0.02	406
<p><i>*Silver equivalents calculated assuming 100% recoveries (for Ag Eq calculation only – may not reflect actual recoveries) and Ag US\$17/oz, Au US\$1,250/oz, Cu US\$2.50/lb, Zn US\$1.30/lb, and Pb US\$1.00/lb. The metal prices used are for reference, and at the time of this report may differ.</i></p>										

Sandra-Escobar

The Sandra silver-gold project covers 6,333 hectares, located 200 kilometres northwest of the City of Durango. The Company has a 40% interest in the adjoining 634-hectare Escobar claims of Pan American Silver Corp., earned under an option agreement with Pan American between 2008 and 2012. The project hosts a high-level silver-gold system centered on a large altered rhyolite dome complex, with widespread silver, gold, and base metal mineralization indicating potential for disseminated mineralization, as well as several high-grade veins.

The Company's previous exploration programs included geological mapping and surface sampling, a 420 line-km ZTEM airborne geophysical survey, petrographic analysis of surface samples, high resolution satellite imaging and topographic mapping surveys, an 1,848-metre diamond drill program in eleven drill holes, ASTER satellite alteration imaging survey and a 11.8 line-kilometre ground IP survey. These programs suggest a large hydrothermal system centred on an intrusive feature and identified five silver-gold-base metal drill targets over an area of 25 square kilometres.

In September 2015, the Company signed an option agreement providing Orex with the right to earn up to a 65% interest in the project. Orex could earn an initial 55% interest by paying the Company \$500,000 (received) and incurring US\$2,000,000 in exploration expenditures over a three-year period (completed). Upon vesting its 55% interest, Orex could earn an additional 10% interest by paying the Company \$500,000 in cash or shares, at Orex's option, and incurring an additional US\$2,000,000 in exploration expenditures within two years. The Company has a director in common with Orex. In January 2017, Orex advised the Company that it had completed the required expenditures to earn a 55% interest in the Sandra-Escobar project, and elected to forego the option to earn up to 65% in the project. Orex reported expenditures of approximately US\$2,100,000 under the option agreement.

During 2016 Orex completed extensive surface sampling including 3,652 soil samples and 381 chip samples, geological mapping over an area of 3,880 hectares, and a helicopter borne radiometric survey over an area of 2,400 hectares. Orex also completed four phases of core drilling for a total of 65 holes and 9,953 metres of drilling in the southeast part of the project area. These drill programs delineated an area with disseminated near-surface silver mineralization over a strike distance of approximately 750 metres and a width of approximately 250 metres in a tabular body with a thickness varying between 25 metres to 45 metres (the "Main Zone" or subsequently the "Bolerias Deposit"). The consistency of grades within the mineralized intervals of the Bolerias Deposit is favourable, with continuous silver mineralization throughout the mineralized zone and within individual drill intercepts. Step-out holes drilled in adjacent zones to the west and northwest of the Bolerias Deposit indicated potential for additional mineralized zones in these areas.

On October 31, 2016, Orex released the results of an initial resource estimate completed by Mining Plus Consultants focused on the Main Zone for an Inferred Resource of 9.8 million tonnes grading 106 g/t Ag for a total of 33.3 million ounces Ag at a "Base Case" of 45 g/t Ag cut-off, as detailed in the table below and in Canasil and Orex news releases dated October 31, 2016. On December 15, 2016, Orex announced that metallurgical testing using conventional methods returned very low recoveries from composite samples prepared to represent the average grades reported in the Bolerias deposit. The Bolerias deposit is located on a relatively small part of the project area, and there are several other prospective zones and mineralized targets within the project area which could be investigated in future programs.

In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies would advance the Sandra-Escobar project jointly. The terms provided for the parties to incur optional expenditures of US\$6,000,000 (US\$5,000,000 by Pan American and US\$1,000,000 jointly by Canasil and Orex) over four years, following which Pan American would hold a 51% interest and Canasil and Orex would jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American would have a further option to increase its interest to 60% in the combined properties by advancing the project to pre-feasibility.

In October 2018, prior to finalizing the option agreement, the Company and Pan American signed a non-binding letter of intent providing Pan American with the right to purchase the Company's rights, title, and interest in the project. The definitive purchase agreement with Pan American will provide for the Company to receive \$2,000,000 and a 2% NSR payable on Pan American's share of the project; the NSR can be reduced to 1% upon payment of \$4,000,000 to the Company. A condition precedent to signing the definitive option agreement is Pan American withdrawing its legal action.

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Salamandra

The Salamandra zinc-silver project is located in Durango State, 35 kilometres northeast of the City of Durango, with excellent access by paved and gravel roads. The project area covers 14,719 hectares and was acquired through staking of claims and an option agreement to purchase a 100% interest in the central 900 hectares of claims based on a schedule of payments and subject to an NSR. In April 2017, this agreement was renegotiated to provide for the Company to acquire a 100% interest in the 900 hectares within the project area by making a final payment of US\$25,000, for a total of US\$250,000, which has been paid. These claims will be subject to a 0.5% NSR that can be purchased from the owner for US\$500,000.

Past exploration by Canasil at Salamandra includes geological mapping and surface sampling, 3D-IP ground geophysics, ZTEM airborne geophysics and twelve diamond drill holes for a total of 3,595 metres. In May 2013, the Company signed an option agreement with MAG on the Salamandra project providing MAG with the right to earn up to a 70% interest in the property. In February 2016, MAG withdrew from the agreement without earning an interest in the project and as a result Canasil retains a 100% interest in Salamandra. The Company received cash payments totaling \$500,000 from MAG during the period of the agreement.

MAG reported completion of \$5.8 million in cumulative qualifying expenditures to December 31, 2015. The exploration programs included surface sampling and data review in 2013, followed by three diamond drill programs for a total of 14,382 metres in 23 drill holes completed between 2013 and 2015. The surface sampling and data review identified indications of large carbonate replacement deposits at Salamandra. The drill programs reported encouraging high-grade silver-copper-zinc intercepts, pervasive zinc mineralization, and finally, an interesting interval of gold-tungsten mineralization. Selected mineralized drill intervals reported in the Company's prior news releases are listed in the table below

Salamandra hosts an extensive, complex system with a strong metals endowment. Pervasive zinc mineralization intersected in most of the drill holes, the high-grade silver-copper intercepts and deeper gold and tungsten intercepts indicate the potential for a large metalliferous system at Salamandra. This system remains open and requires additional drilling.

Selected drill intercepts from the Salamandra project include:

Salamandra Project, Durango, Mexico – Selected Drill Intercepts						
Drill Hole	Intercept From – To: m	Width m	Silver g/t	Zinc %	Copper %	Lead %
SA-07-02	7.40 – 17.25	9.85	102	0.55	0.02	0.03
SA-07-02	27.65 – 35.10	7.45	50	12.00	0.22	0.06
SA-07-03	195.00 – 205.00	10.00	71	3.48	0.06	1.26
SA-07-06	3.40 – 15.00	11.60	13	4.05	0.20	0.03
SA-07-08	261.00 – 271.00	10.00	29	3.51	0.04	0.42
SA-07-10	230.00 – 234.35	4.35	5	5.51	0.02	0.05
SA-13-13	20.65 – 830.81	810.16	2	0.6	0	0
SA-13-13	637.50 – 669.72	31.72	1	3.6	0.1	0
SA 14-14	165.99 – 182.88	16.89	29	1.8	0	0.2
SA 14-14	182.40 – 182.88	0.48	197	1.1	0.4	0.6
SA 14-14	186.38 – 186.80	0.42	108	0.6	0.5	1.4
SA 14-15	605.74 – 613.13	7.89	166	1.2	1.2	0.6
SA 14-15	607.50 – 609.80	2.30	393	2.8	3.6	0.4
SA 14-19	128.87 – 130.22	1.35	59	0.9	0	1.1
SA 14-19	349.87 – 388.36	37.99	1	1.6	0.02	0
SA 14-25	113.00 – 143.51	30.51	25	0.8	0.02	0.4
SA 14-25	121.36 – 126.73	5.37	41	1.7	0.02	0.7
SA 14-25	138.58 – 143.51	4.93	77	1.9	0.03	1.3
SA 14-27	358.40 – 366.00	7.60	2	2.2	0.03	0.2
SA 14-27	358.40 – 360.68	2.28	5	3.5	0.04	0.2
SA 14-27	364.12 – 366.00	1.88	2	4.4	0.05	0.4
SA 14-28	19.90 – 193.36	173.46	4	1.0	0.01	0.1

Brenda

The Brenda gold-copper project covers 4,450 hectares, and is located in north-central British Columbia, 20 kilometres northwest of the past producing Kemess South Mine. Comprehensive exploration programs carried out to date include satellite surveys, airborne and ground geophysics, extensive geological mapping and sampling and 11,000 metres of diamond drilling in 64 drill holes. These programs highlighted the possibility of a deep-seated porphyry gold-copper system at the Brenda project, possibly similar to Centerra Gold Inc.'s nearby Kemess Underground and Kemess East deposits, located approximately 15 kilometres southeast of the Brenda property.

In 2007, two deep drill holes intersected broad gold-copper mineralized zones with increasing grades to a depth of 560 metres, with the average grade of five intercepts above a depth of 450 metres returning 0.48 g/t gold and 0.079% copper over a combined intercept length of 394 metres; the average grade of three intercepts below 450 metres returned 0.68 g/t gold and 0.116% copper over a combined intercept length of 93 metres. Unmineralized dykes separate the mineralized intervals. The mineralized system averages 300 to 400 metres in width and has been traced along a strike length of 400 metres by drilling, with a potential strike length in excess of 1,000 metres when including the chargeability anomalies observed in a 3-Dimensional Induced Polarization geophysical survey. In August 2013, a 962-metre diamond drill hole, BR-13-01, was completed to twin BR-07-04 and investigate the possibility of higher-grade gold-copper mineralization at depth. This drill hole returned lower grades than the equivalent intercepts in BR-07-04 from 504 metres to 572 metres, and the intercepts below 570 metres returned no significant gold-copper mineralization with only low copper and gold values over certain intervals. It appears that BR-13-01 entered a post-mineralization intrusive dyke at depth and remained within it to the end of the hole. Additional drilling will be required to test the true depth-extent of mineralization.

In late 2016 and early 2017, the Company undertook a comprehensive technical review of the Brenda project data. All historical data has been reviewed and checked prior to modelling and analysis using modelling software. Detailed analysis of the data has identified targets for further exploration including additional mapping and sampling, deeper sensing ground and airborne geophysics and drill testing. The Brenda project remains an attractive prospect based on the results to date, excellent road access and proximity to Kemess with its advanced infrastructure including power grid, year-round airfield, and mining facilities.

Vega

The Vega project is located in north-central British Columbia, approximately 300 kilometres northwest of Prince George, BC, with access via the Omineca Mines Access Road and logging roads. The project covers 9,002 hectares on the Quesnel trough trend running through central British Columbia and hosting the Mount Milligan, Chuchi, Kwanika, Lorraine and Cat porphyry deposits. There are several showings in the eastern and western sectors of the Vega property prospective for hosting copper-gold porphyry mineralization. Most of the past exploration work done by Canasil has been focused on the Vega Showings located in the eastern portion of the property. More recent work has identified additional gold/copper showings on the western side of the property, most notably the Pluto showing. In September 2016, the Company carried out prospecting field work on the Pluto and Vega showings. This work confirmed past observations on the Vega showing, and in particular highlighted the Pluto showing identifying a surface signature suggesting the upper levels of a porphyry copper-gold mineralized system. The Company conducted an airborne magnetics geophysical survey covering the Vega property area in November 2016. This survey returned encouraging results highlighting structural corridors which are prospective for hosting porphyry mineralized systems both in the east and west of the project area.

In September 2018, the Company engaged McElhanney Consulting Services Ltd. to undertake an airborne LiDAR survey over the core area of the Vega Property. The objective of the survey was to obtain "bare earth" and orthophoto imagery to use in future exploration programmes. LiDAR measures the height of forest canopies and maps the ground beneath the forest to create high-resolution digital elevation models (DEMs) that can reveal micro-topographic features that are otherwise hidden by the forest. This permits the identification of faults and fractures, bedrock trends and surficial deposits such as moraine, eskers and gravel terraces. LiDAR-derived products can be easily integrated into a Geographic Information System (GIS) for analysis and interpretation, and viewed in combination with previously collected geological, geophysical and geochemical data.

As a result of the survey previously un-documented features are noted at Vega, some of which require confirmation on the ground. The site was flown September 29, 2018; data was delivered in November and December. Review and

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analysis are on-going. The results of the LiDAR survey will assist with further surface sampling and geological mapping of these prospective zones to define drill targets.

Technical

Jerry Blackwell, P. Geo. British Columbia, and Advisor to the Board of Canasil, is the Company's designated Qualified Person in accordance with National Instrument 43-101 in relation to data provided with regard to exploration programs undertaken by the Company. On projects under option with MAG and Orex, the Company also relied on the Qualified Persons at these companies who were responsible for the exploration programs under the terms of option agreements.

INVESTOR RELATIONS

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. The Company attended the PDAC conference in Toronto in March 2018 and participated in the Sprott Vancouver Natural Resource Symposium in July 2018.

GENERAL CONDITIONS AFFECTING THE COMPANY'S OPERATIONS

General Trends

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

The volatility in the resources sector caused by the sharp decrease in metals and commodity prices from 2011 to 2015 resulted in a loss of confidence in the resources sector among investors. This resulted in a general decline in the share prices of resource companies, and in particular for junior explorers, and presented significant constraints on funding exploration companies and programs. During the first half of 2016 there was a gradual recovery, particularly in the prices for gold and silver with silver rising to over \$20 per ounce in June/July 2016, leading to greater optimism and activity in the resource sector. This resulted in both greater funding opportunities for exploration companies as well as possibilities for conclusion of cooperation agreements with third parties to advance exploration projects.

However, during the second half of 2016 through to the end of 2017, precious and base metal prices were volatile and generally trended lower. Silver prices fluctuated between US\$16 and US\$18 per ounce, and closed below US\$16 in late December 2017. During the first half of 2018, silver prices fluctuated around US\$16.50 per ounce after increasing to US\$17.50 per ounce in late January and two short increases to over US\$17 per ounce in early April and late June. During the second half of 2018, the silver price dropped markedly, trading around US\$14.50 per ounce, with a low of US\$14.00 per ounce in November 2018. This downward trend was also reflected in gold and base metal prices. Silver and gold prices improved marginally following the year-end 2018 up to US\$15 per ounce silver and US\$1,275 per ounce gold at the time of this report. Copper and zinc prices also remain relatively low with copper trading at US\$2.92 per pound and zinc at US\$1.31 per pound as at the date of this report.

The uncertain global economic conditions and lower precious and base metal prices has dampened optimism for the resource and exploration sectors focused on these metals, resulting in generally lower share prices, particularly for earlier stage exploration companies. There have also been significantly lower financing opportunities and less urgency among larger companies to conclude cooperation agreements with explorers for advancing earlier stage projects.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects improved markedly in 2016, following a prolonged period of decline from early March 2011 to December 2015 due to lower metal prices and slowing global growth rates. The conditions in 2017, 2018 and to the date of this report have been less favourable, in spite of the overall need in the resource sector to replace reserves which have been depleted due to the extended downturn in the industry and cut-backs in exploration and replacement of reserves between 2011 and 2015.

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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, 2018, the Company had one employee in Canada and five employees in Mexico. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants. The Company, through its wholly-owned Mexican subsidiary, Minera Canasil SA de CV., maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the year ended December 31, 2018, the Company did not dispose of any mineral properties. In October 2018, the Company signed a non-binding letter of intent providing Pan American with the right to purchase the Company's rights, title, and interest in the Sandra-Escobar project (see "*Mineral Property Summary*"). Due to limited funding in the years 2013 to 2015, the Company has allowed certain claim payments on non-core properties to fall into arrears and has allowed certain claims to lapse. Such claims may or may not be re-instated depending on the circumstances. During 2016 and 2017, the Company added to its Vega project by staking additional claims.

RISK FACTORS RELATING TO THE COMPANY'S BUSINESS

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development of mineral properties 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

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

Foreign Operations

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

Management and Directors

The Company is dependent on a small number of directors and officers and operating personnel in Mexico: Alvin Jackson, Michael McInnis, 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. Gary Nordin, a former director of the Company, and Jerry Blackwell are members of the Company's advisory board. 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.

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, 2018, the Company's accumulated deficit was \$28,742,727.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the year, and to the date of this report, the price of the Company's shares fluctuated from a low of \$0.055 to a high of \$0.185 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date of this report, a total of 104,206,622 common shares of the Company are issued and outstanding. There are 7,240,000 stock options and 2,309,250 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's consolidated financial statements have been prepared by, and are the responsibility of, the Company's management. The consolidated financial statements are prepared in accordance with IFRS and reflect management's best estimates and judgement based on information currently available. Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and financial information is reliable. The board of directors is responsible for ensuring that management fulfills its responsibilities. The audit committee reviews the results of the annual audit and the annual consolidated financial statements prior to their submission to the board of directors for approval. The consolidated financial statements have been audited by Davidson & Company LLP and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

CONTROLS AND PROCEDURES

The chief executive officer and chief financial officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim condensed financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. In contrast to the certificate for non-venture issuers under National Instrument ("NI") 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with IFRS.

TSX-V listed companies are not required to provide representations in the interim and annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. In particular, the certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE

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