



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the accompanying consolidated financial statements of Canasil Resources Inc., which comprise the consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canasil Resources Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 26, 2015

CANASIL RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

Expressed in Canadian Dollars

ASSETS	2015	2014
Current		
Cash (Note 9)	\$ 203,294	\$ 125,226
Marketable securities (Note 3)	371,000	-
Receivables (Note 9)	162,306	458,930
Prepaid expenses	7,354	4,914
	<u>743,954</u>	<u>589,070</u>
Reclamation bonds	28,000	28,000
Property and equipment (Note 5)	50,602	54,568
	<u>\$ 822,556</u>	<u>\$ 671,638</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 9 and 10)	\$ 201,509	\$ 110,046
Accounts payable and accrued liabilities – related parties (Notes 9 and 10)	98,132	210,864
Due to related parties (Notes 10 and 15)	519,000	185,000
	<u>818,641</u>	<u>505,910</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	17,588,877	17,418,851
Convertible debenture (Note 8)	4,323,549	3,179,030
Contributed surplus	1,783,712	1,640,077
Accumulated other comprehensive income	21,000	-
Deficit	<u>(23,713,223)</u>	<u>(22,072,230)</u>
	3,915	165,728
	<u>\$ 822,556</u>	<u>\$ 671,638</u>

Nature and continuance of operations (Note 1)

Commitment (Note 11)

Subsequent events (Note 15)

ON BEHALF OF THE BOARD:

_____, Director
 "Alvin Jackson"

_____, Director
 "Michael McInnis"

- See Accompanying Notes -

CANASIL RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	Number of Shares	Share Capital (Notes 6,7)	Convertible Debenture (Note 8)	Contributed Surplus (Note 7)	Accumulated Other Comprehensive Income	Deficit	Total
Balance – December 31, 2013	77,867,873	\$ 17,159,791	\$ -	\$ 1,622,649	\$ -	\$ (18,494,774)	\$ 287,666
Private placement	370,000	33,300	-	-	-	-	33,300
Warrants exercised	2,821,999	225,760	-	-	-	-	225,760
Convertible debenture	-	-	3,179,030	-	-	-	3,179,030
Share-based compensation	-	-	-	17,428	-	-	17,428
Comprehensive loss for the year	-	-	-	-	-	(3,577,456)	(3,577,456)
Balance – December 31, 2014	81,059,872	17,418,851	3,179,030	1,640,077	-	(22,072,230)	165,728
Private placement	3,000,000	150,000	-	-	-	-	150,000
Private placement	600,000	27,000	-	-	-	-	27,000
Share issuance costs	-	(6,974)	-	-	-	-	(6,974)
Convertible debenture	-	-	1,144,519	-	-	-	1,144,519
Share-based compensation	-	-	-	143,635	-	-	143,635
Comprehensive loss for the year	-	-	-	-	21,000	(1,640,993)	(1,619,993)
Balance – December 31, 2015	84,659,872	\$ 17,588,877	\$ 4,323,549	\$ 1,783,712	\$ 21,000	\$ (23,713,223)	\$ 3,915

- See Accompanying Notes -

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

Expressed in Canadian Dollars

	2015	2014
Expenses		
Accounting and audit	\$ 31,943	\$ 33,328
Conferences and conventions	1,728	4,332
Depreciation <i>(Note 5)</i>	6,810	8,800
Exploration and evaluation <i>(Note 4)</i>	1,114,924	3,105,549
Foreign exchange loss	23,545	35,407
General exploration	523	2,991
Interest income	(10,588)	(13,039)
Investor relations and promotions	3,051	13,698
Legal fees	13,651	9,023
Listing and filing fees	7,879	10,690
Management fees	60,000	60,000
Office rent, services and supplies	68,947	76,134
Salaries and wages	158,444	192,146
Shareholder communications	5,161	7,347
Share-based compensation <i>(Note 7)</i>	143,635	17,428
Transfer agent fees	9,304	8,922
Travel and accommodation	2,036	4,700
Loss for the year	(1,640,993)	(3,577,456)
Other comprehensive income		
Unrealized gains on available-for -sale marketable securities <i>(Note 3)</i>	21,000	-
Comprehensive loss for the year	\$ (1,619,993)	\$ (3,577,456)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.05)
Weighted-average number of shares		
Outstanding – basic and diluted	82,672,475	78,740,322

- See Accompanying Notes -

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

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2015	2014
Operating activities		
Loss for the year	\$ (1,640,993)	\$ (3,577,456)
Items not involving cash		
Depreciation	6,810	8,800
Share-based compensation	143,635	17,428
Changes in non-cash working capital		
Receivables	296,624	(235,044)
Prepaid expenses	(2,440)	14,281
Accounts payable and accrued liabilities	91,463	6,894
Accounts payable and accrued liabilities – related parties	162,268	195,255
	<u>(942,633)</u>	<u>(3,569,842)</u>
Investing activities		
Purchase of equipment	(2,844)	(2,714)
Purchase of marketable securities	(350,000)	-
	<u>(352,844)</u>	<u>(2,714)</u>
Financing activities		
Share capital issued for cash	177,000	259,060
Share issuance costs	(6,974)	-
Convertible debenture	1,144,519	3,179,030
Due to related parties, net of repayments	59,000	140,000
	<u>1,373,545</u>	<u>3,578,090</u>
Change in cash for the year	78,068	5,534
Cash position - beginning of year	<u>125,226</u>	<u>119,692</u>
Cash position - end of year	\$ 203,294	\$ 125,226

During the year ended December 31, 2015, the Company recorded \$21,000 in unrealized gains on marketable securities through accumulated other comprehensive income. There were no significant non-cash investing or financing activities for the year ended December 31, 2014.

Supplemental cash flow information	2015	2014
Interest received	\$ 10,588	\$ 13,039
Interest paid	\$ 1,839	\$ 494
Taxes paid	\$ -	\$ -

- See Accompanying Notes -

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS

Canasil Resources Inc. (the "Company") is a mineral exploration company incorporated in British Columbia with its head office located at 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. Several adverse conditions and material uncertainties cast significant doubt upon the validity of this assumption. Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests.

The Company has incurred operating losses since inception and as at December 31, 2015 had an accumulated deficit of \$23,713,223 (2014 - \$22,072,230). In addition, the Company had a working capital deficiency of \$74,687 (2014 – positive working capital of \$83,160). Subsequent to December 31, 2015, the Company sold marketable securities for net proceeds of \$213,480 (*Note 3*) and completed two private placements to raise net proceeds of \$1,169,000 (*Note 15*).

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, 2015. The Company's board of directors approved these consolidated financial statements for issue on April 26, 2016.

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 available-for-sale financial assets, using the accrual basis of accounting, except for cash flow information.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CRD Minerals Corp. ("CRD"), Minera Canasil S.A. de C.V. and Minera CRD S.A. de C.V. ("Minera CRD"). 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.

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 comprises cash balances held through current operating bank accounts that are subject to an insignificant risk of change in value.

Marketable securities

Marketable securities consist of common shares of publicly traded companies and are classified as available-for-sale financial assets. 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) until the investments are sold, at which time the accumulated gains or losses are included in income (loss) for the period. Available-for-sale financial assets are assessed at each reporting date for objective evidence of a significant or prolonged decline in fair value and such impairments are recognized in income (loss) for the period.

Financial instruments

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

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

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to 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 with all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

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

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

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, 2015.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 each tranche is recognized on a graded-vesting basis over the vesting period. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Loss per share

The Company computes the dilutive effect of options, warrants and similar instruments and its effect on 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.

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.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. 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 highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. 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.

New accounting pronouncements

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's initiative to replace IAS 39 *Financial Instruments – Recognition and Measurement*. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements.

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. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact on its consolidated financial statements of adopting this standard.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

3. MARKETABLE SECURITIES

In September 2015, the Company acquired 1,400,000 common shares of Orex Minerals Inc. (“Orex”) under a private placement at a cost of \$350,000. On September 25, 2015, Orex and Barsele Minerals Corp. (“Barsele”) completed a plan of arrangement such that each old share of Orex was exchanged for one new share of Orex plus one common share of Barsele. At the time of the exchange, the fair value of the Barsele shares was estimated at \$210,088 with a residual value of \$139,912 being attributed to the new Orex shares. These shares are designated as available-for-sale securities with details for the year ended December 31, 2015 as follows:

	Shares	Cost	Fair Value 2015
Orex Minerals Inc.	1,400,000	\$ 139,912	\$ 210,000
Barsele Minerals Corp.	1,400,000	210,088	161,000
		<u>\$ 350,000</u>	<u>\$ 371,000</u>

Changes in the fair value of these securities for the year ended December 31, 2015 are as follows:

	2015
Fair value – beginning of year	\$ -
Shares acquired	350,000
Change in fair value	21,000
Fair value – end of year	<u>\$ 371,000</u>

The Company’s available-for-sale securities are carried at fair value measured using a Level 1 fair value measurement whereby the carrying value is determined by using the quoted closing price of the security as at the balance sheet date. Subsequent to December 31, 2015, the Company sold 700,000 Orex shares for net cash proceeds of \$213,480 and a gain on sale of \$143,524.

4. EXPLORATION AND EVALUATION

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

Salamandra project, Mexico

The Salamandra project, located in Durango State, Mexico, was acquired through staking of claims and an option to purchase a 100% interest in the central 900 hectares of claims, subject to a net smelter returns royalty (“NSR”) of 2% of which 1% may be purchased for \$1,000,000. To acquire the claims under option, the Company can make payments based on a specific schedule that totals US\$600,000 over a period of eight years from 2012 to 2019, of which US\$175,000 has been paid to date.

In May 2013, the Company signed an option agreement with MAG Silver Corp. (“MAG”) on the Salamandra project providing MAG with the right to earn up to a 70% interest in the property - an initial 55% interest by paying the Company \$750,000 and incurring \$5,500,000 in exploration expenditures over a four-year period and thereafter, an additional 15% interest by delivering a feasibility study on the project or by incurring an additional \$20,000,000 in exploration expenditures within four years. To date, the Company has received cash payments from MAG totalling \$500,000 of which \$200,000 was received during fiscal 2015.

CANASIL RESOURCES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION – *continued*

Salamandra project, Mexico – *continued*

The Salamandra property is held by Minera CRD, a wholly-owned subsidiary of CRD, a wholly-owned subsidiary of the Company. Under the agreement, MAG had the option of incurring qualifying expenditures on the Salamandra property either directly, or by advancing funds to CRD under a non-interest bearing convertible debenture, which funds would be used to incur expenditures on the property by Minera CRD (*Note 8*). Were MAG to comply with the terms of the agreement and earn an interest in the Salamandra property, the convertible debenture would be converted into common shares of CRD such that MAG would hold either a 55% or 70% interest in CRD. Further development of the property would be carried out jointly by the Company and MAG through CRD and Minera CRD. Subsequent to December 31, 2015, MAG advised the Company that it intended to withdraw from the agreement and not earn an interest in the project.

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, subject to an NSR of up to 1%, which can be purchased by the Company for US\$100,000. The claims are located in Zacatecas State, Mexico. The Company acquired these claims by making option payments of US\$160,000 over a four-year period to May 2011. From 2006 to 2010, the Company added further claims by direct staking to increase the project area.

Sandra-Escobar project, Mexico

The Company has staked 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. The Company has also acquired various additional claims in the area from third parties.

In September 2015, the Company signed an option agreement with Orex on the Sandra-Escobar project providing Orex with the right to earn up to a 65% interest in the property. Orex can 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. The first year expenditure requirement of US\$675,000 is a firm commitment. Thereafter, Orex can 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.

Other projects

The Company has staked other claims located in Durango State, Mexico which include the Colibri, Carina, Victoria, 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 claims.

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.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION - continued

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

2015	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,331,353
- Expenditure recoveries	-	-	-	(206,329)
Other, Canada	-	18,658	18,658	279,685
- Expenditure recoveries	-	(10,646)	(10,646)	(32,433)
Sandra and Escobar, Mexico	11,152	203,826	214,978	1,652,280
- Option payments received	(500,000)	-	(500,000)	(500,000)
- Expenditure recoveries	-	(52,386)	(52,386)	(52,386)
La Esperanza, Mexico	-	192,625	192,625	1,491,126
- Expenditure recoveries	-	(1,434)	(1,434)	(262,373)
- Option payments received	-	-	-	(300,000)
Colibri, Mexico	-	21,490	21,490	1,828,176
Salamandra, Mexico	90,969	1,215,853	1,306,822	5,747,651
- Expenditure recoveries	-	-	-	(223,652)
- Option payments received	(200,000)	-	(200,000)	(553,989)
Victoria, Mexico	-	292	292	421,069
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	44,306	44,306	280,970
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	80,219	80,219	627,129
	\$ (597,879)	\$ 1,712,803	\$ 1,114,924	\$ 12,263,460

2014	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,331,353
- Expenditure recoveries	-	-	-	(206,329)
Other, Canada	-	35,383	35,383	261,027
- Expenditure recoveries	-	(1,207)	(1,207)	(21,787)
Sandra and Escobar, Mexico	2,326	55,688	58,014	1,437,302
La Esperanza, Mexico	-	166,850	166,850	1,298,501
- Expenditure recoveries	-	-	-	(260,939)
- Option payments received	-	-	-	(300,000)
Colibri, Mexico	-	46,090	46,090	1,806,686
Salamandra, Mexico	54,294	2,822,920	2,877,214	4,440,829
- Expenditure recoveries	(54,294)	(30,653)	(84,947)	(223,652)
- Option payments received	(150,000)	-	(150,000)	(353,989)
Victoria, Mexico	-	21,823	21,823	420,777
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	54,997	54,997	236,664
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	81,332	81,332	546,910
	\$ (147,674)	\$ 3,253,223	\$ 3,105,549	\$ 11,148,536

CANASIL RESOURCES INC.
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4. EXPLORATION AND EVALUATION - *continued*

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

	2015	2014
Acquisition and option payments	\$ 102,121	\$ 56,620
Administration	183,176	289,987
Assays	118,155	363,068
Consulting	174,565	452,783
Drilling	580,044	1,288,685
Field costs	56,917	146,695
Geological	90,853	103,554
Geophysical	-	3,930
Land holding costs	433,951	395,504
Legal	82,120	19,311
Mapping and surveying	6,996	16,583
Road building	4,788	-
Transportation and rentals	45,704	204,983
Expenditure recoveries	(64,466)	(86,154)
Option payments received	(700,000)	(150,000)
	<u>\$ 1,114,924</u>	<u>\$ 3,105,549</u>

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
December 31, 2013	\$ 31,686	\$ 63,175	\$ 21,816	\$ 31,971	\$ 29,672	\$ 178,320
Additions	-	-	1,162	-	1,552	2,714
December 31, 2014	31,686	63,175	22,978	31,971	31,224	181,034
Additions	-	-	-	-	2,844	2,844
December 31, 2015	31,686	63,175	22,978	31,971	34,068	183,878
Accumulated Depreciation						
December 31, 2013	-	46,471	19,464	28,661	23,070	117,666
Additions	-	5,011	1,320	993	1,476	8,800
December 31, 2014	-	51,482	20,784	29,654	24,546	126,466
Additions	-	3,508	987	695	1,620	6,810
December 31, 2015	-	54,990	21,771	30,349	26,166	133,276
Net Book Value						
December 31, 2014	\$ 31,686	\$ 11,693	\$ 2,194	\$ 2,317	\$ 6,678	\$ 54,568
December 31, 2015	\$ 31,686	\$ 8,185	\$ 1,207	\$ 1,622	\$ 7,902	\$ 50,602

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6. SHARE CAPITAL

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

Private placements

In January 2014, the Company closed the third and final tranche of a private placement announced in December 2013 and issued 370,000 units at a price of \$0.09 per unit for cash proceeds of \$33,300. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.15 for a period of one year. On November 6, 2014, the exercise price of 140,150 of these warrants was reduced to \$0.08 per share; 40,150 of these warrants were exercised during December 2014 and the balance expired unexercised on February 17, 2015.

In August 2015, the Company closed a private placement by issuing 3,000,000 units at a price of \$0.05 per unit for cash proceeds of \$150,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share of the Company at a price of \$0.10 for a period of one year.

In August 2015, the Company closed a private placement by issuing 600,000 shares at price of \$0.045 per share for cash proceeds of \$27,000.

Subsequent to December 31, 2015, the Company completed two private placements for net proceeds of \$1,169,000 (*Note 15*).

Shareholder rights plan

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

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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, 2013	6,511,999	\$ 0.20	4,375,000	\$ 0.21
Issued/granted	185,000	\$ 0.15	375,000	\$ 0.10
Exercised	(2,821,999)	\$ 0.08	-	\$ -
Expired	<u>(3,730,150)</u>	\$ 0.08	<u>(75,000)</u>	\$ 0.20
Outstanding, December 31, 2014	144,850	\$ 0.10	4,675,000	\$ 0.21
Issued/granted	3,000,000	\$ 0.10	5,000,000	\$ 0.06
Expired	<u>(144,850)</u>	\$ 0.10	<u>(2,625,000)</u>	\$ 0.22
Outstanding, December 31, 2015	3,000,000	\$ 0.10	7,050,000	\$ 0.10
Exercisable, December 31, 2015	3,000,000	\$ 0.10	7,050,000	\$ 0.10

At December 31, 2015, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	200,000	\$ 0.35	January 13, 2016 (expired unexercised)
	1,175,000	\$ 0.20	January 20, 2017
	300,000	\$ 0.18	October 29, 2017
	375,000	\$ 0.10	January 4, 2019
	<u>5,000,000</u>	\$ 0.06	December 21, 2020
	<u>7,050,000</u>		

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7. STOCK OPTIONS AND WARRANTS – continued

	Number of Shares	Exercise Price	Expiry Date
Warrants	2,400,000	\$ 0.10	July 16, 2016
	<u>600,000</u>	\$ 0.10	August 6, 2016
	3,000,000		

At December 31, 2015, the weighted-average remaining life of the outstanding stock options was 3.95 years; 0.54 years for the outstanding warrants. Subsequent to December 31, 2015, the Company granted 450,000 options to employees and consultants (Note 15).

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.

	2015	2014
Total options granted	<u>5,000,000</u>	<u>375,000</u>
Average exercise price	\$ 0.06	\$ 0.10
Estimated fair value of options granted	\$ 143,635	\$ 17,428
Estimated fair value per option	\$ 0.03	\$ 0.05

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:

	2015	2014
Risk-free interest rate	<u>0.72%</u>	<u>1.91%</u>
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	65%	84%
Expected forfeiture rate	0.00%	0.00%
Expected option life in years	<u>5.00</u>	<u>5.00</u>

The Company has recorded share-based compensation as follows:

	2015	2014
Number of options vested in year	<u>5,000,000</u>	<u>375,000</u>
Compensation recognized in year	\$ 143,635	\$ 17,428

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8. CONVERTIBLE DEBENTURE AND RESTRICTED CASH

Under the terms of its option agreement on the Salamandra project (*Note 4*), MAG funded certain exploration expenditures on the Salamandra project by advancing funds to CRD under an unsecured, non-interest bearing convertible debenture. To December 31, 2015, MAG had advanced a total of \$4,323,549 (2014 - \$3,179,030) under the convertible debenture. Funds received under the debenture were used solely for incurring such qualifying exploration expenditures on the Salamandra project. Included in cash at December 31, 2015 is \$171,382 (2014 - \$36,366) that was advanced by MAG and will be applied to related accounts payable of \$31,484 (2014 - \$26,024). The balance of \$139,898 (2014 - \$10,342) represents the additional funds advanced by MAG that are restricted for future qualifying exploration expenditures at Salamandra. Included in receivables is \$126,380 (2014 - \$404,723) in value-added taxes incurred on expenditures made at Salamandra. This amount has been funded under the convertible debenture and upon refund by the government of Mexico, will be available for further expenditures at Salamandra.

The terms of the option agreement provided MAG with the right to convert the debenture into a fixed number of common shares of CRD such that MAG would hold either a 55% or 70% interest in CRD upon exercise of the option. The agreement also provided that should MAG withdraw from the agreement prior to earning an interest, it would forfeit its interest in the convertible debenture without repayment. Subsequent to December 31, 2015, MAG advised the Company that it intended to withdraw from the agreement and not earn an interest in the project.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

	2015		2014	
Cash				
Cash on deposit	\$	63,396	\$	114,884
Cash restricted (<i>Note 8</i>)		139,898		10,342
	\$	203,294	\$	125,226
Marketable securities	\$	371,000	\$	-
Receivables				
Value-added taxes (<i>Note 8</i>)	\$	152,690	\$	448,056
Goods and services tax and other		9,616		10,874
	\$	162,306	\$	458,930
Reclamation bonds	\$	28,000	\$	28,000
Accounts payable and accrued liabilities				
Accounts payable	\$	175,558	\$	80,910
Accrued audit, legal, exploration and other		124,083		240,000
	\$	299,641	\$	320,910
Due to related parties	\$	519,000	\$	185,000

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9. FINANCIAL INSTRUMENTS – *continued*

Cash is classified as fair value through profit or loss and carried at fair value measured using a Level 1 fair value measurement. Marketable securities are classified as available-for-sale financial assets and carried at fair value measured using a Level 1 fair value measurement. The Company's receivables and reclamation bonds are classified as loans and receivables and carried at amortized cost; the Company's accounts payable and due to related parties are classified as other financial liabilities. The carrying values approximate their fair values due to the short-term nature of these instruments. The advances due to related parties are non-interest bearing and have no fixed terms of repayment. The Company has no derivatives, forward contracts, or hedges.

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 its 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 received IVA refunds during the year totalling \$519,923. Management continues to use its best efforts to obtain such refunds.

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, 2015, the Company held the equivalent of \$177,511 in cash, \$152,690 in receivables, and \$137,434 in accounts payable, all of which are denominated in pesos; the Company held only a nominal amount of cash and accounts payable denominated in U.S. dollars. Based on the Company's peso denominated monetary assets and liabilities as at December 31, 2015, each 1% fluctuation in the exchange rate with the Canadian dollar would result in a gain or loss of approximately \$1,928. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration and evaluation expenditures. 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 \$764,600, represents the Company's maximum exposure to credit and market risk as at December 31, 2015.

The Company is exposed to liquidity risk due to its limited cash resources such that it may not be able to meet its obligations under its financial instruments as they fall due (*Note 1*). The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. 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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10. 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 as follows:

- accounts payable includes \$18,132 (2014 – \$864) in legal fees due to a law firm in which an officer of the Company is a partner, \$nil (2014 - \$150,000) in salaries due to the chief executive officer, and \$80,000 (2014 – \$60,000) in management fees due to the chief financial officer;
- due to related parties consists of loan advances totaling \$519,000 (2014 – \$185,000) made to the Company by a director, an officer, and a company with a director in common. The loan advances are unsecured, non-interest bearing, and have no fixed terms of repayment (*Note 15*);
- 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:

	2015	2014
Salaries and wages	\$ 150,000	\$ 150,000
Management fees	60,000	60,000
Legal fees	18,239	27,842
Share-based compensation <i>(i)</i>	127,835	9,295
	\$ 356,074	\$ 247,137

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

11. COMMITMENT

The Company has entered into a three-year lease agreement for office premises that expires on September 30, 2018. As at December 31, 2015, monthly payments included basic rent of \$1,663 and common operating costs of \$1,547 per month.

Minimum future annual lease payments (based on 2015 common operating costs) are as follows:

	Amount
2016	\$ 38,753
2017	39,681
2018	30,283
	\$ 108,717

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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:

	2015	2014
Loss before income taxes for accounting purposes	\$ (1,640,993)	\$ (3,577,456)
Expected tax recovery for the year	(427,000)	(930,000)
Change in statutory, foreign tax, foreign exchange rates and other	(311,000)	(267,000)
Permanent differences	35,000	15,000
Share issuance costs	(2,000)	32,000
Change in unrecognized deductible temporary differences and other	705,000	1,150,000
Tax recovery for the year	\$ -	\$ -

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

	2015	2014
Deferred Tax Assets		
Non-capital loss carry-forwards	\$ 2,297,000	\$ 1,923,000
Exploration expenditures	4,423,000	4,087,000
Equipment	38,000	36,000
Share issuance costs	6,000	13,000
Unrecognized Deferred Tax Assets	\$ 6,764,000	\$ 6,059,000

The Company's deferred tax assets expire as follows:

	2015	Expiry Date Range	2014
Share issuance costs	\$ 12,000	2036 to 2039	\$ 50,000
Non-capital losses	\$ 8,379,000	2016 to 2035	\$ 7,069,000
Equipment	\$ 141,000	Not applicable	\$ 134,000
Exploration expenditures	\$ 15,103,000	Not applicable	\$ 13,979,000
Investment tax credits	\$ 55,000	2027 to 2033	\$ 55,000

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13. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has short-term advances due to related parties, no 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.

14. SEGMENTED INFORMATION

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

2015	Canada	Mexico	Total
Property and equipment	\$ 6,921	\$ 43,681	\$ 50,602

2014	Canada	Mexico	Total
Property and equipment	\$ 5,942	\$ 48,626	\$ 54,568

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2015, the Company:

- sold 700,000 Orex shares for net cash proceeds of \$213,480 and a gain on sale of \$143,524 (Note 3);
- completed a non-brokered private placement of 2,000,000 shares of the Company at a price of \$0.15 per share for proceeds of \$300,000
- completed a non-brokered private placement of 4,100,000 shares of the Company at a price of \$0.22 per share for gross proceeds of \$902,000. The Company paid a cash finder's fee of \$33,000 representing a 6% fee on subscriptions for 2,500,000 shares;
- repaid \$80,000 of advances due to related parties;
- granted 450,000 five-year incentive stock options to employees and consultants of the Company at an exercise price of \$0.21 per share;
- was advised by MAG that it would withdraw from the Salamandra option agreement without earning an interest in the property (Note 4).

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2015

This Annual Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated April 26, 2016, and provides information on the Company's activities for the year ended December 31, 2015, 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, 2015 and 2014, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2014.

Overview

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

On September 15, 2015, the Company signed an option agreement with Orex Minerals Inc. ("Orex") on its Sandra-Escobar project in Durango State, Mexico. Orex has a first option to earn a 55% interest in the project by making a payment of \$500,000 to Canasil (received) and incurring US\$2,000,000 in exploration expenditures over three years. The first year expenditure requirement of US\$675,000 is a firm commitment. Thereafter, Orex has a second option to earn an additional 10% interest, for a cumulative 65% interest in the project, by paying the Company \$500,000 in cash or shares and incurring a further US\$2,000,000 in exploration expenditures within two years of exercising the first option. In October 2015, Orex undertook an initial surface sampling program at the project to confirm Canasil's earlier surface sampling results and applied for a drill permit to commence drilling at the project. The results of the initial surface sampling program were announced by Orex and Canasil on November 9, 2015. On December 15, 2015, Orex began a 2,000-metre Phase-1 drill program at Sandra-Escobar, which was completed in February 2016 with 17 core drill holes. Results were announced on January 25, February 16, March 23, and April 14, 2016. The results of the Phase-1 drill program were very encouraging with 15 of the 17 drill holes returning consistent near surface silver mineralized intercepts ranging from 28.01 metres (true thickness) with 63 grams per tonne ("g/t") silver ("Ag") to 43.1 metres (true thickness) with 359 g/t Ag. In March 2016 Orex started the Phase-2 drill program planned for 3,000 metres in 20 to 25 core drill holes.

During 2015, the Company's exploration activities at the Salamandra project in Durango State, Mexico, were focused on the analysis and interpretation of the results of the earlier Phase-1 and Phase-2 drill programs completed in 2014, and the completion of a Phase-3 drill program under the option agreement with MAG Silver Corp. ("MAG"). A total 10,112 metres of diamond drilling was completed in 17 drill holes in 2014 under MAG's direction. These two programs returned encouraging mineralized intercepts, including high-grade silver-copper mineralization spatially adjacent to extensive zones of zinc mineralization with thick higher-grade intervals, as well as significant or strongly anomalous intercepts of silver, copper, zinc and lead. These results suggest the presence of a large mineralized system at Salamandra. The Phase-3 drill program commenced in July 2015, and was completed in September 2015, with 4,270 metres in six follow-up drill holes for a total of 14,382 metres in 23 drill holes. The Phase-3 drilling was designed to test for mineralization within limestone units that were projected to occur at depth beneath the strongest silver-copper-antimony mineralization with associated skarn alteration seen at surface and in earlier drilling. No limestones were encountered and, as in Phase-1 and Phase-2 drilling, appreciable widths of strongly anomalous zinc mineralization were cut in three of the new holes. MAG's Phase-3 drilling intersected strongly anomalous copper with no appreciable silver in three of the holes, and also encountered very anomalous gold and tungsten mineralization in the final hole. A broad zone of dispersed zinc mineralization also occurs just above the gold-bearing interval (see additional details in "*Mineral Properties*"). In February 2016, MAG elected not to continue with the Salamandra option and as a result the Company retains a 100% interest in the Salamandra project.

In Mexico and British Columbia, all core mineral claims were maintained in good standing and the Company continued discussions on additional cooperation agreements to advance its projects.

Gary Nordin, P. Geo. British Columbia and a director of Canasil until September 15, 2015, was the Company's designated Qualified Person in accordance with National Instrument 43-101 in relation to data provided with regards to exploration programs undertaken by the Company up to September 15, 2015. On projects under option with MAG and Orex, the Company relies on the Qualified Persons at these companies who are responsible for the exploration programs under the terms of option agreements. For any data resulting from work carried out by Canasil after September 15, 2015, as well as review of data provided by MAG and Orex under their exploration programs, Jerry Blackwell, P. Geo. British Columbia and Advisor to the Board of Canasil, is the designated Qualified Person in accordance with National Instrument 43-101.

As at December 31, 2015, the Company had a working capital deficiency of \$74,687. During the year, the Company received advances of \$1,144,519 from MAG under a convertible debenture pursuant to the Salamandra option agreement, the proceeds of which were used to fund exploration expenditures on the Salamandra project. In May 2015, the Company received \$200,000 from MAG, for the second anniversary option payment due under the agreement. In August 2015, the Company completed two non-brokered private placements issuing a total of 3,600,000 shares and 3,000,000 warrants for cash proceeds of \$177,000. In September 2015, the Company received an option payment from Orex in the amount of \$500,000 due under the Sandra-Escobar option agreement. The Company acquired 1,400,000 shares of Orex under a private placement for \$350,000 – the private placement was completed prior to the reorganization of Orex, following which these shares were converted into 1,400,000 new shares of Orex and 1,400,000 shares of Barsele Minerals Corp (see "*Liquidity and Capital Resources*"). Subsequent to December 31, 2015, the Company sold 700,000 Orex shares for net cash proceeds of \$213,480 and a gain of \$143,524, completed two private placements for total net cash proceeds of \$1,169,000 (see "*Outstanding Share Data*"), and repaid \$80,000

of advances due to related parties.

Gold and silver prices continued to trade at relatively low levels during the year. After increasing to over \$18 per ounce in January, the Silver price fluctuated between \$14.50 and \$17.50 per ounce on a declining path through the year before closing at \$14.50 per ounce by December 31, 2015. Many analysts have forecasted that gold, silver and commodity prices are at cyclical lows and should move higher. Since December 2015, gold, silver and metal prices have staged a gradual recovery with silver currently trading up to \$17 per ounce. This has resulted in a more optimistic environment for the resource and exploration sectors, and together with the encouraging results from the Sandra-Escobar drill program, a marked increase in the Company's share price and market capitalization. Furthermore, larger and mid-tier mining companies are increasingly aware that cut-backs to their direct exploration programs as well as lack of funding for junior explorers has resulted in a lack of new discoveries to replace reserves. Consequently there is greater interest in striking cooperation agreements to advance exploration projects and in acquiring new projects, as well as a higher number of acquisitions of companies with mineral assets. These are positive factors given the Company's strong portfolio of exploration projects.

Outlook

The Company continues to focus on attracting additional high quality joint venture partners for its drill-ready projects providing income through property payments and allowing for further work and results without additional dilution. The Company has also had discussions with regard to the potential sale of certain exploration properties as a further avenue for non-dilutive funding. Discussions are currently in progress with a number of potential partners and interested parties to conclude agreements which would create value for shareholders and enhance the value of the Company's assets. The option payment received from MAG in May 2015, the closing of two private placements in August 2015, and the option payment received from Orex in September 2015 improved the Company's working capital position during 2015. The sale of Orex shares and the completion of two private placements in early 2016 further strengthened the Company's working capital and will assist management in continuing with new initiatives in 2016. In addition, the Company continues to receive encouraging results from the ongoing drill program being conducted by Orex at the Company's Sandra-Escobar project. These developments together with the more positive outlook for the resource and exploration sector and strengthening metal prices have created conditions under which the Company can now consider limited plans to advance and create value on its earlier stage exploration projects, continue efforts to conclude option and cooperation agreements on its more advanced projects with favourable terms as well as strengthen its working capital further in a manner which would be minimally dilutive.

Mineral Properties

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

Durango and Zacatecas, Mexico:	British Columbia, Canada
<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% in part, plus option to earn 100%, subject to option agreement with MAG, which was terminated in February 2016 • La Esperanza silver-zinc-lead project – 100% • Carina silver project – 100% • Colibri silver-zinc-lead-copper project – 100% • Vizcaino silver-gold project – 100% • Victoria zinc-silver project – 100% • Nora silver-gold-copper project – 100% 	<ul style="list-style-type: none"> • Brenda, gold-copper property – 100% • Vega, gold-copper property – 100% • Granite, gold property – 100% • LIL, silver property – 100%

Exploration Projects in Mexico

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

The 100%-owned Sandra project covers 6,342 hectares, and is located 200 kilometres northwest of the City of Durango. The Company also holds 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 silver-gold-base metal veins.

The Company's previous exploration programs have included extensive geological mapping and surface sampling, a 420 line-kilometre ZTEM airborne geophysical survey, petrographic analysis of surface samples, high resolution satellite imaging and topographic mapping surveys, a 1,848-metre diamond drill program in eleven drill holes, ASTER satellite alteration imaging survey and an 11.8 line-kilometre ground IP survey. These programs suggest a large hydrothermal system centred on an intrusive source, and identified seven significant silver-gold-base metal drill targets over an area of 25 square kilometres. The results indicate a similar geologic setting to other significant silver and gold deposits in northern Durango State such as Silver Standard Resources' La Pitarrilla deposit and Argonaut Gold's San Agustin deposit.

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 can 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. The first year expenditure requirement of US\$675,000 is a firm commitment with optional minimum annual expenditures of US\$500,000 in subsequent years. Upon vesting its 55% interest, Orex can 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 October 2015, Orex undertook an initial surface sampling program at the project to confirm Canasil's earlier sampling results and applied for a drill permit to commence drilling at the project. The results of the initial surface sampling program were announced by Orex and Canasil on November 9, 2015, and confirmed both high-grade and disseminated near surface silver mineralization in the south-east of the project area. In mid-December 2015 Orex began a 2,000-metre Phase-1 core drilling program in this zone. This 17-hole program was completed in mid-February 2016, and results were announced January 25, February 16, March 23, and April 14, 2016. Fifteen of the 17 drill holes drilled over a strike distance of 550 metres and a width of approximately 150 metres returned significant near surface disseminated silver mineralization in a tabular body with a thickness varying between approximately 25 metres to 45 metres. The highest grade intercept was drill hole SA-15-001 returning a 61-metre core length (43.1 metres true thickness) grading 359 g/t Ag, starting from surface. Within this was a sub-interval of 18 metres (12.73 metres true thickness) grading 748 g/t Ag, which includes 9 metres (6.36 metres true thickness) grading 1,204 g/t Ag and 3 metres (2.12 metres true thickness) grading 2,271 g/t Ag. The lowest grade intercept was SA-16-014 returning 29 metres (true thickness 28.01 metres) grading 63 g/t Ag, including 12 metres (true thickness 11.59 metres) grading 84 g/t Ag. The consistency of grades within the mineralized intervals is favourable and suggests that silver mineralization is continuous through the mineralized zone and through individual drill intercepts. In addition, initial mineralogical information from three surface rock samples and one core sample observed that silver occurs as fine-grained native silver. Several grains of galena were also observed, but overall sulphide minerals are notably very rare. These observations are in keeping with field observations and geochemical results so far. In March 2016 Orex began a Phase-2 core drilling program planned for 3,000 metres in 20 to 25 holes and at the time of this report had completed approximately 12 holes.

Silver mineralization in the current drill zone is hosted along the flank of a rhyolite volcanic dome in an area of the project which has no previous drilling. Mineralization is hosted in an altered and highly permeable volcanoclastic unit, with disseminations of silver bearing minerals and broadly spaced stockwork veinlets. The Orex current working model has a porphyritic rhyolite unit as an impermeable cap, which may have focused mineralizing fluids into the host permeable volcanoclastic unit. Geochemical analyses indicate no significant gold, lead, zinc, arsenic and antimony associated with the silver mineralization.

Developments at Sandra-Escobar are very encouraging and, while still in the early stages of the exploration drill program, confirm the discovery of and indicate the potential for a significant near-surface mineralized zone.

Salamandra zinc-silver project, Durango State, Mexico

The Salamandra 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, acquired through staking of claims and an option to purchase a 100% interest in the central 900 hectares of claims, subject to a net smelter returns royalty of 2%. The Company can make option payments based on a specific schedule of payments that total US\$600,000 over a period of eight years from 2012 to 2019, of which US\$175,000 has been paid to date.

Past exploration by Canasil at Salamandra includes extensive geological mapping and surface sampling, 3D-IP ground geophysics, ZTEM airborne geophysics and twelve diamond drill holes for a total of 3,595 metres. Eleven out of the twelve drill holes intersected zinc-silver mineralized zones, including high grade silver and zinc intercepts of up to 12.00% zinc ("Zn") over 7.45 metres and 102 g/t Ag over 9.85 metres within wider mineralized sections. The ZTEM airborne geophysics and detailed surface sampling identified a large electromagnetic signature over an area of 3.5 kilometres by 2.5 kilometres, a vein exposure where a 0.90 metre sample returned 2,150 g/t Ag, 5.39% copper ("Cu") and 1.89% Zn, and significant silver-copper-zinc-lead as well as arsenic-antimony geochemical anomalies providing indications of the potential for a buried intrusive hosted mineralized system. The principal target at Salamandra is centered upon a funnel-shaped granitic intrusive and dyke complex that cuts highly folded mudstones, greywacke and limestone. The older sedimentary rocks have been contact metamorphosed by the intrusive complex, resulting in limestone converting to skarn and the older units becoming hornfels. The geology and style of mineralization observed at Salamandra are similar to the San Martin-Sabinas silver-base metal mines, located 80 kilometres southeast of the project.

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. MAG could earn an initial 55% interest by paying the Company \$750,000 and incurring \$5,500,000 in exploration expenditures over a four-year period. Thereafter, MAG could earn an additional 15% interest by delivering a feasibility study on the project or by incurring an additional \$20,000,000 in exploration expenditures within four years. The Company has received cash payments under the MAG agreement totaling \$500,000.

The Salamandra property is held by Minera CRD S.A. de C.V. ("Minera CRD"), a wholly-owned subsidiary of CRD Minerals Corp. ("CRD"), a wholly-owned subsidiary of the Company. Under the agreement, MAG had the option to incur qualifying expenditures on the Salamandra property either directly, or by advancing funds to CRD under a non-interest bearing convertible debenture, which funds would be used to incur expenditures on the property by Minera CRD. Were MAG to earn an interest in the Salamandra property, the convertible debenture would be converted into common shares of CRD such that MAG would hold either a 55% or 70% interest in CRD. The agreement also provided that should MAG withdraw from the agreement prior to

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earning an interest, it would forfeit its interest in the convertible debenture without repayment. In February 2016, MAG advised the Company that it would withdraw from the agreement and not earn an interest in the project.

MAG reported completion of \$5.8 million in cumulative qualifying expenditures up to December 31, 2015. The exploration programs included surface sampling and data review in 2013, followed by Phase-1, Phase-2, and Phase-3 diamond drill programs for a total of 14,382 metres in 23 drill holes in 2013, 2014 and 2015. The surface sampling and data review identified indications of a large carbonate replacement deposits at Salamandra. Results of the Phase-1 drill program were reported on March 17, 2014, the Phase-2 drill program on July 21, 2014, and the Phase-3 drill program in December 2015. The drill programs reported encouraging high-grade silver-copper-zinc intercepts, pervasive zinc mineralization, and finally an interesting interval of gold-tungsten mineralization as detailed below.

In the Phase-1 drill program, hole SA14-15 intersected high-grade silver-copper mineralization over 7.89 metres, assaying 166 g/t Ag and 1.2% Cu, including: 2.3 metres grading 393 g/t Ag and 3.6% Cu with anomalous lead and zinc. Hole SA13-13 cut 31.72 metres grading 3.5% Zn including 17.72 metres grading 5.0% Zn with no other anomalous metals. Notably, SA13-13 contained zinc mineralization for almost its entire length, with 810 metres averaging 0.6% Zn including several thick zones grading over 1.5% Zn. Drill Hole SA14-14 returned two intercepts, one with 0.48 metres of 197 g/t Ag, 0.4% Cu and 1.1% Zn, and the second with 0.42 metres of 108 g/t Ag, 0.5% Cu, and 0.6% Zn. The remaining three holes cut strongly anomalous silver, copper, zinc and lead.

The Phase-2 drill program consisted of five follow-up drill holes from the Phase-1 program and seven exploration drill holes. The best follow-up hole was SA14-20, which cut 0.63 metres grading 258 g/t (7.5 ounces per tonne) Ag with 0.27% Cu lying immediately above 9.9 metres grading 2.3% Zn. These values and relative position are very similar to that seen 380 metres deeper in SA14-15 and appear to reflect the same mineralized zone. Hole SA14-22, also drilled to off-set hole 15, cut several zinc-rich zones but appears to have been drilled above and parallel to the mineralized zone cut in holes 15 and 20. Similarly, the first two of the three follow-up holes (SA14-19, 24 and 29) drilled to offset the broad zinc-zone cut in hole SA13-13 each cut significant widths of zinc mineralization but the intercept geometries prevent correlation. The seven exploration holes tested the remaining previously undrilled half of the circumference of the intrusive centre. Hole SA14-28 was the best of these exploration holes, cutting 173.46 metres of 1.0% Zn starting 20 metres below the surface. Holes SA14-19, 20, 21, 22, 24 and 25 also hit notable widths of zinc mineralization. Drill holes SA14-25 and SA14-18, were drilled away from the intrusive centre to test under a cover of young basalt flows that flank the entire project area; both cut major faults interpreted to be the reactivated western margin of the Central Mexico Basin, the principal regional structural control on several major CRD-skarn systems. MAG commented on the pervasive zinc mineralization intersected in most of the drill holes and the high-grade silver-copper intercepts, noting that these results indicated the presence of a large metaliferous system at Salamandra.

The Phase-3 drill program consisted of 4,270 metres in six drill holes to test for skarn mineralization in more favorable host rocks (limestones) at depth beneath the strongest silver-copper-antimony mineralization with associated skarn alteration seen at surface and in earlier drilling. No limestones were encountered and, as in Phase-1 and Phase-2 drilling, appreciable widths of strongly anomalous zinc mineralization were cut in three of the new holes (SA15-32, 34, and 35). The best dispersed zinc interval was hole SA15-34 with 28 metres grading 1.43% Zn. The best narrow high-grade zinc zone was in Hole SA15-31 with 0.79 metres grading 7.79% Zn. Strongly anomalous copper with no appreciable silver was cut in three holes. Unlike any previous drilling, strongly anomalous gold and tungsten was intersected in the final hole, which was drilled farther east than any previous drilling on the principal target area. Hole SA15-35 cut two zones of coherent gold mineralization at 895–931 metres downhole depth: 9.33 metres grading 1.01 g/t Au; including 0.88 metres grading 3.6 g/t Au and 8.07 metres grading 1.36 g/t Au, including 2.31 metres grading 2.96 g/t Au. These zones occur in hornfels that extend from approximately 650 metres to 931 metres downhole. The highest grade tungsten is 0.9 metres of 0.38%. A broad zone of dispersed zinc mineralization (29.9 metres grading 0.5% Zn) lies just above the gold zone.

Salamandra continues to manifest signs of an extensive, complex system with a strong metals endowment. The broad pervasive multi-stage mineralization, now including gold, in relatively unfavorable host rocks, supports interest in the system and warrants additional analysis to track it into the favorable limestones that regional work indicates should lie at depth. Eighteen of 23 holes drilled thus far by MAG during its three phases of exploration have cut appreciable widths of strongly anomalous zinc mineralization and lesser intervals of silver-copper mineralization. The new intersection of appreciable gold and tungsten mineralization is a first at Salamandra and may suggest that the system remains open for expansion through additional drilling. Based on regional reconnaissance, MAG believes potentially more favorable limestone host rocks do underlie the system but that the hornfelsed shales that host the mineralization encountered to date in the drilled area are structurally repeated and overthickened. MAG recommended another round of geophysical surveying and re-evaluation to determine if limestone can be located.

In February 2016, MAG decided not to continue with the Salamandra option and as a result Canasil retains a 100% interest in the project.

Qualified Person, Quality Assurance and Control: The above results have been compiled and provided by MAG; for details regarding the Qualified Person and Quality Assurance and Control procedures, please refer to the MAG news release dated March 17, 2014 for the Phase-1 results, and July 21, 2014, for the Phase-2 results, and December 17, 2015, for the Phase-3 results.

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

The 100% owned La Esperanza project claims cover 14,916 hectares and are located on the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. Prior exploration has been conducted by Canasil and also by MAG under an option agreement between August 2010 and May 2013. Canasil's initial Phase-1 drill program included 1,432 metres in nine drill holes, returned wide high-grade silver-lead-zinc intercepts from the La Esperanza vein which is open in all directions. Further geological mapping and surface sampling identified four high-grade silver vein occurrences in the northwest of the project area.

MAG completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey, a Phase-1 drill program of 3,247 metres in eleven drill holes on the La Esperanza vein, and a Phase-2 drill program of twelve diamond drill holes for a total of 3,049 metres to test two of the veins located in the northwest of the project area. The results reported additional high-grade drill intercepts from three drill holes on the La Esperanza vein and potential for significant silver-lead-zinc mineralization associated with the two veins tested in the northwest area.

Other projects, Mexico

There was no significant activity on these projects during the year. All core project claims were maintained in good standing with all required claim taxes paid on these core claims.

Exploration projects in British Columbia, Canada

Brenda gold-copper project

The Brenda gold-copper project covers 4,450 hectares, and is located in north-central British Columbia, Canada, 25 kilometers northwest of the past producing Kemess South Mine. Cumulative exploration expenditures of over \$3.8 million 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 have confirmed the potential for a deep-seated porphyry gold-copper system at the Brenda project, possibly similar in style to mineralization found at the nearby Kemess Underground (North Kemess) deposit being advanced by AuRico Metals Inc.

Two previous 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 Au and 0.079% Cu over a combined intercept length of 394 metres, and the average grade of three intercepts below 450 metres returning 0.68 g/t Au and 0.116% Cu over a combined intercept length of 93 metres. A significant number of drill core samples returned assays of over 1.0 g/t Au and 0.15% Cu. 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 indicated by 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-97-04 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. The mineralized intercepts and post mineral intrusions observed in drilling to date reflect the characteristic signature observed in large porphyry systems. Further review will be required to determine the structural setting based on the prior data and deeper penetrating geophysical surveys are needed to define prospective mineralized zones.

There was no field work carried out on the Brenda project during the year. Assessment filings based on exploration work completed in 2013 were completed to extend the claim validity on all Brenda claims to the maximum allowable to May 30, 2024.

Other projects in British Columbia, Canada

In British Columbia, short field evaluation programs were completed during 2014 at the Vega and Granite projects and high resolution satellite imaging surveys undertaken at the Vega and Lil projects. These programs allowed for filing of required assessment work to maintain the core claims at these projects in good standing. The claim areas for all three projects were reduced to cover the main areas of interest.

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Mineral Properties – Exploration and Evaluation Expenditures

The Company expenses exploration and evaluation expenditures in the period incurred. A summary of the Company's exploration and evaluation expenditures for the years ended December 31 follows:

	2015	2014
Canada		
Other Properties		
Assays	\$ -	\$ 1,841
Field costs	-	1,843
Geological	-	8,619
Geophysical	-	3,930
Land holding costs	11,662	2,887
Mapping and surveying	6,996	16,263
Expenditure recoveries	(10,646)	(1,207)
	8,012	34,176
Mexico		
Sandra-Escobar Property		
Acquisition and option payments	11,152	2,326
Administration	62,222	15,190
Field costs	5,788	2,264
Geological	40,276	12,322
Land holding costs	83,911	25,592
Legal	7,484	-
Mapping and surveying	-	320
Road building	2,349	-
Transportation and rentals	1,796	-
Expenditure recoveries	(52,386)	-
Option payments received	(500,000)	-
	(337,408)	58,014
Salamandra Property		
Acquisition and option payments	90,969	54,294
Administration	26,438	177,171
Assays	117,767	361,227
Consulting	174,565	452,783
Drilling	580,044	1,288,685
Field costs	48,862	141,348
Geological	12,866	20,278
Land holding costs	139,467	157,364
Legal	74,636	19,644
Transportation and rentals	41,208	204,420
Expenditure recoveries	-	(84,947)
Option payments received	(200,000)	(150,000)
	1,106,822	2,642,267
La Esperanza Property		
Administration	55,795	43,909
Field costs	1,893	1,240
Geological	26,403	44,773
Land holding costs	105,931	76,365
Road building	2,439	-
Transportation and rentals	164	563
Expenditure recoveries	(1,434)	-
	\$ 191,191	\$ 166,850

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Exploration and Evaluation Expenditures for the years ended December 31 – *continued*

	2015	2014
Mexico – continued		
Carina Property		
Administration	\$ 11,023	\$ 14,463
Geological	1,009	3,409
Land holding costs	32,274	37,125
	<u>44,306</u>	<u>54,997</u>
Victoria Property		
Administration	73	5,409
Field costs	219	-
Geological	-	2,283
Land holding costs	-	14,131
	<u>292</u>	<u>21,823</u>
Colibri Property		
Administration	6,227	12,111
Geological	3,884	6,603
Land holding costs	11,379	27,376
	<u>21,490</u>	<u>46,090</u>
Other Properties		
Administration	21,398	21,401
Assays	388	-
Field costs	218	-
Geological	6,415	5,267
Land holding costs	49,327	54,664
Transportation and rentals	2,473	-
	<u>80,219</u>	<u>81,332</u>
Total costs for year	\$ 1,114,924	\$ 3,105,549

Exploration and evaluation expenditures for the years ended December 31, by activity, are as follows:

	2015	2014
Acquisition and option		
Payments	\$ 102,121	\$ 56,620
Administration and legal	183,176	289,987
Assays	118,155	363,068
Consulting	174,565	452,783
Drilling	580,044	1,288,685
Field costs	56,917	146,695
Geological	90,853	103,554
Geophysical	-	3,930
Land holding costs	433,951	395,504
Legal	82,120	19,311
Mapping and surveying	6,996	16,583
Road building	4,788	-
Transportation and rentals	45,704	204,983
Expenditure recoveries	(64,466)	(86,154)
Option payments received	(700,000)	(150,000)
	<u>\$ 1,114,924</u>	<u>\$ 3,105,549</u>

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Selected Annual Information

The information in the following table provides selected financial information of the Company for 2015 and the two preceding years. This information is derived from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information is presented in accordance with IFRS.

Year Ended December 31	2015	2014	2013
Total Revenue	\$nil	\$nil	\$nil
Share-Based Compensation Expense	\$143,635	\$17,428	\$nil
Exploration and Evaluation Expense	\$1,114,924	\$3,105,549	\$823,181
Loss for the Year	\$1,640,993	\$3,577,456	\$1,282,686
Comprehensive Loss for the Year	\$1,619,993	\$3,577,456	\$1,282,686
Loss per Share – Basic and Diluted	\$0.02	\$0.05	\$0.02
Total Assets	\$822,556	\$671,638	\$451,427
Working Capital (Deficiency)	\$(74,687)	\$83,160	\$199,012
Long-Term Liabilities	\$nil	\$nil	\$nil
Dividends per Share	\$nil	\$nil	\$nil
Shareholders' Equity	\$3,915	\$165,728	\$287,666

With the persistently difficult market conditions of the last few years, the Company has reduced expenses and conserved resources wherever possible. During 2015, the Company was active at its Salamandra project, under the MAG option agreement, completing a third round of drilling and analyzing results from the extensive work completed to date. In 2014, the Company was much more active at Salamandra and also completed short field programs on its Vega, Lil, and Granite projects. During 2013, the Company conducted a drill program on the Brenda project and a sampling and prospecting program on the Lil and Vega projects to fulfill its flow-through expenditure requirements. During 2015, the Company granted 5,000,000 stock options (2014 – 375,000; 2013 – nil options). The options granted in 2015, in part, replaced 2,625,000 options that expired during the year. Until December 2015, the Company had not granted any significant number of stock options since January 2012.

Results of Operations

The Company had a loss for the current year of \$1,640,993, which compares to a loss of \$3,577,456 for the comparative year. Significant items included in results of operations are as follows:

	2015	2014
Accounting and audit	\$ 31,943	\$ 33,328
Exploration and evaluation	\$ 1,114,924	\$ 3,105,549
Interest income	\$ (10,588)	\$ (13,039)
Legal fees	\$ 13,651	\$ 9,023
Management fees	\$ 60,000	\$ 60,000
Office rent, services and supplies	\$ 68,947	\$ 76,134
Salaries and wages	\$ 158,444	\$ 192,146
Share-based compensation	\$ 143,635	\$ 17,428

The current loss includes general and administrative expenses of \$526,069 (2014 - \$471,907) and exploration and evaluation expenditures of \$1,114,924 (2014 - \$3,105,549). Management has reduced general and administrative expenses wherever possible with most line-items being lower in the current year compared to the prior year. The Company also continued to receive value-added tax ("IVA") refunds in Mexico, which provided a small amount of interest income for each year. The largest reductions in the current administrative expenses were in salaries and wages, due to a reduction in staff made in 2014. General and administrative expenses include share-based compensation, a non-cash item, of \$143,635 which compares to \$17,428 for the prior year. During the current year, the Company granted 5,000,000 incentive stock options – 2,625,000 options expired unexercised during 2015. There were 375,000 options granted in the prior year when 75,000 options expired unexercised.

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Exploration and evaluation expenditures of \$1,114,924 (2014 - \$3,105,549), which are net of option payments received of \$700,000 (2014 - \$150,000) and expenditure recoveries of \$64,466 (2014 - \$86,154). Total gross exploration and evaluation expenditures of \$1,879,390 (2014 - \$3,341,703) were significantly lower than those incurred in 2014 due to the reduced amount of drilling conducted under the Salamandra option agreement - drilling completed at Salamandra during 2015 was 4,270 metres compared to 10,112 metres completed in 2014.

Exploration and evaluation costs include \$1,306,822 (2014 - \$2,877,214) that were incurred on the Salamandra project; \$1,244,619 (2014 - \$2,731,312) of these costs were funded by advances from MAG under its convertible debenture (see "Liquidity and Capital Resources"). The Company received an option payment of \$200,000 (2014 - \$150,000) and exploration expenditure recoveries of \$nil (2014 - \$84,947) from MAG in respect of the Salamandra project.

Expenditures at Sandra-Escobar totalled \$214,978 (2014 - \$58,014) for the year with the increase being due to more activity on the project and higher claim fees for 2015. In accordance with the option agreement signed with Orex during the year, the Company received an option payment of \$500,000 and recovered expenditures of \$52,386 on the Sandra-Escobar project.

Exploration expenditures on the Company's other projects totalled \$345,510 (2014 - \$405,268).

The Company had other comprehensive income of \$21,000 during the year (\$nil in 2014), which resulted from unrealized gains on available-for-sale marketable securities (see "Liquidity and Capital Resources"). Comprehensive loss for the current year totalled \$1,619,993, which compares to a comprehensive loss of \$3,577,456 for the prior year.

Net cash used for operating activities during the year, before changes in non-cash working capital items, was \$1,490,548 (2014 - \$3,551,228), which includes \$1,114,924 (2014 - \$3,105,549) in net exploration and evaluation expenditures. The decrease in cash used for operations is primarily due to the lower exploration and evaluation costs incurred given the reduced amount of drilling conducted at the Salamandra project during the year. Changes in non-cash working capital items for the current year include a decrease in value-added taxes recoverable of \$296,624, which relates primarily to the recovery of value-added taxes relating to expenditures at Salamandra, and an increase in accounts payable of \$253,731. Cash used in investing activities totalled \$352,844 and includes \$350,000 invested in Orex shares under a private placement (see "Liquidity and Capital Resources"). Net cash provided by financing activities during the period was \$1,373,545 (2014 - \$3,578,090) as a result of the Company receiving \$59,000 (2014 - \$140,000) in loan advances from related parties, and \$1,144,519 (2014 - \$3,179,030) in advances from MAG under the convertible debenture. The Company also received net cash proceeds of \$170,026 from share issuances under two private placements that closed in August 2015 (in 2014, the Company received \$259,060 for the final tranche of a private placement completed in February 2014 and for the exercise of warrants).

Summary of Quarterly Information

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

Year	2015				2014			
	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	\$103,831	\$1,165,646	\$233,222	\$312,225	\$619,382	\$388,204	\$926,962	\$1,321,001
Option payments received	\$nil	\$500,000	\$200,000	\$nil	\$nil	\$nil	\$150,000	\$nil
Share-based compensation expense	\$143,635	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$17,428
Loss for the period	\$342,048	\$770,924	\$147,778	\$380,243	\$723,081	\$477,484	\$899,601	\$1,477,290
Other comprehensive loss (income)	\$133,000	\$(154,000)	-	-	-	-	-	-
Comprehensive loss for the period	\$475,048	\$616,924	\$147,778	\$380,243	\$723,081	\$477,484	\$899,601	\$1,477,290
Loss per share: basic and diluted	\$0.00	\$0.01	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.02
Weighted-average shares	84,659,872	83,857,698	81,059,872	81,059,872	79,635,525	79,022,656	78,237,873	78,044,651

Discussion of Quarterly Information

In the first quarter of 2014, the Company conducted minimal exploration work, except at its Salamandra project, which was being directed and funded by MAG under the option agreement. The Company maintained its core properties in good standing. Exploration and evaluation expenditures for the first quarter of 2014 include land holding costs of \$162,057, which compares to \$151,583 for the same quarter of 2013. The Company recorded \$1,162,544 in exploration costs on its Salamandra project relating primarily to the drill program overseen by MAG during the quarter. During the second quarter of 2014, with the drill program at Salamandra being completed in May, exploration costs were less than those incurred in the first quarter. The Company recorded \$883,332 in exploration costs on its Salamandra project during the quarter. The Company also received the first-anniversary payment of \$150,000 from MAG under the Salamandra agreement. During the third quarter of 2014, the Company undertook field programs on its Vega, Lil, and Granite projects and maintained core properties. Exploration and evaluation expenditures for the third quarter of 2014 include land holding and surface access costs of \$217,010, which compares to \$152,414 for the same quarter of 2013. There was no drilling completed on Salamandra during the quarter. During the fourth quarter of 2014, analytical and interpretive work continued at Salamandra with costs of \$548,088 being recorded; work on the Company's other properties was limited as it endeavoured to conserve cash.

In the first quarter of 2015, the Company conducted minimal exploration work except for modelling and interpretative work on its Salamandra project in preparation for the Phase-3 drill program. The Company maintained its core properties in good standing. Exploration and evaluation expenditures for the first quarter of 2015 include land holding costs of \$164,506, which compares to \$162,057 for the same quarter of 2014. During the second quarter of 2015, the Company remained relatively inactive, but continued with modelling and interpretative work on its Salamandra project in preparation for the Phase-3 drill program, which began in July 2015. The Company received the second-anniversary option payment of \$200,000 from MAG on the Salamandra project in May 2015. In the third quarter of 2015, the Company recorded \$957,682 in exploration costs on its Salamandra project relating primarily to the Phase-3 drill program overseen by MAG during the quarter. The Company incurred \$212,391 in land holding and surface access costs, which compares to \$217,010 for the same quarter of 2014. In September 2015, the Company received the initial option payment of \$500,000 from Orex under its option agreement on the Sandra-Escobar project. The Company also recorded an unrealized gain of \$154,000 on marketable securities during this quarter (see "*Liquidity and Capital Resources*"). During the fourth quarter of 2015, the Company was relatively inactive as it continued to conserve cash while it monitored Orex's progress at Sandra-Escobar and awaited further results from the Phase-3 drill program at Salamandra, which were received in mid-December. The Company granted 5,000,000 incentive stock options during the quarter and recorded share-based compensation of \$143,635. Due to a decrease in the prices of the Company's marketable securities, it recorded an unrealized loss of \$133,000 on marketable securities during this quarter.

Discussion of Fourth Quarter

The loss for the fourth quarter includes general and administrative expenses of \$238,217 (2014 - \$103,699) and exploration and evaluation expenditures of \$103,831 (2014 - \$619,382), which are net of expenditure recoveries of \$53,820 (2014 - \$22,555). While there was a small decrease in cash general and administrative costs for the current quarter, the overall increase results from recording share-based compensation, a non-cash item, of \$143,635. The Company granted 5,000,000 incentive stock options, in part, replacing 2,625,000 options that expired unexercised during 2015. Total gross exploration and evaluation expenditures of \$157,651 (2014 - \$641,937) were significantly lower than those incurred in 2014 due to the reduced activity at Salamandra – exploration and evaluation costs include \$69,170 (2014 - \$570,643) that were incurred on the Salamandra project. The Company incurred exploration and evaluation expenditures totalling \$34,661 (2014 - \$71,294) on its other projects.

Net cash used for operating activities during the quarter, before changes in non-cash working capital items, was \$196,581 (2014 - \$720,697), which includes \$103,831 (2014 - \$619,382) in exploration and evaluation expenditures. The decrease in cash used for operations is primarily due to the reduced activity at Salamandra. Significant changes in non-cash working capital items for the current quarter include a decrease in IVA receivable of \$226,199 relating primarily to the collection of IVA refunds relating to Salamandra expenditures, a reduction in accounts payable of \$520,003, which relates primarily to the payment of Salamandra drilling and assay costs accrued in the third quarter, and an increase in accounts payable - related parties of \$53,047. Cash provided by financing activities during the quarter includes advances received from MAG under its convertible debenture of \$9,309 (2014 - \$610,208).

Liquidity and Capital 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) in order to finance further acquisitions, undertake exploration and development of mineral properties, and meet general and administrative expenses. Accordingly, management has identified certain conditions that cast significant doubt upon the Company's ability to continue as a going concern (see Note 1 to the December 31, 2015 consolidated financial statements). While the Company has significantly improved its working capital position at the date of this report, the Company currently has limited cash resources and there can be no assurance that it will be successful in securing the financing required to continue operations and advance its mineral projects in the long-term.

The Company had cash on hand of \$203,294 as at December 31, 2015 (2014 - \$125,226), marketable securities of \$371,000 (2014 - \$nil), receivables of \$162,306 (2014 - \$458,930), accounts payable and accrued liabilities of \$201,509 (2014 - \$110,046),

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and accounts payable and accrued liabilities – related parties of \$98,132 (2014 - \$210,864). As at December 31, 2015, the Company had short-term debt consisting of loan advances due to related parties totalling \$519,000 (2014 - \$185,000) . These advances are unsecured, non-interest bearing, and have no fixed repayment terms. The Company had a working capital deficiency at December 31, 2015 of \$74,687 (2014 – positive working capital of \$83,160).

In September 2015, the Company acquired 1,400,000 common shares of Orex under a private placement at a cost of \$350,000. These shares were subject to a four-month hold period. On September 25, 2015, Orex and Barsele Minerals Corp. (“Barsele”) completed a plan of arrangement such that each old share of Orex was exchanged for one new share of Orex plus one common share of Barsele. At the time of the exchange, the fair value of the Barsele shares was estimated at \$210,088 with a residual value of \$139,912 being attributed to the new Orex shares. At December 31, 2015, the market values of the 1,400,000 new Orex shares and 1,400,000 Barsele shares were \$210,000 and \$161,000, respectively, resulting in an unrealized gain of \$21,000. This balance has been recorded as accumulated other comprehensive income.

To December 31, 2015, the Company had received \$4,823,549 (2014 - \$3,179,030) in advances under the convertible debenture with MAG (see “*Mineral Properties*”). Funds received under the debenture are used solely for incurring certain qualifying exploration expenditures on the Salamandra project under the option agreement with MAG. Cash as at December 31, 2015 includes \$171,382 that was advanced by MAG and will be applied towards related accounts payable of \$31,484. The balance of \$139,898 represents the additional funds advanced by MAG that are available only for future qualifying exploration expenditures at Salamandra. Receivables include \$126,380 in value-added taxes on expenditures made at Salamandra. This amount has been funded under the convertible debenture and once refunded by the government of Mexico will be available solely for further expenditures at Salamandra. Were MAG to have earned an interest in the Salamandra property, the convertible debenture would have been converted into common shares of the Company's subsidiary, CRD Minerals Corp. The agreement provided that should MAG withdraw from the agreement prior to earning an interest, it will forfeit its interest in the convertible debenture without repayment. In February 2016, MAG advised the Company that it would withdraw from the agreement without earning an interest in the project.

During the current year, the Company experienced cash administrative expenses of approximately \$376,000, cash exploration and evaluation expenses of approximately \$1,879,000, and received cash option payments and expenditure recoveries of approximately \$764,000. Approximately \$1,245,000 in exploration and evaluation expenses relate to Salamandra, the majority of which were funded by MAG. In May 2015, the Company received an option payment of \$200,000 from MAG and in September 2015, received an option payment of \$500,000 from Orex. There will be no further option payments made by MAG, and the next payment due from Orex in the amount of \$500,000 would be due should Orex elect to proceed with the second option on the Sandra-Escobar project (see “*Mineral Properties*”).

The Company has an underlying option agreement on certain of the Salamandra claims that requires scheduled future cash payments to maintain its interest, however, these payments may be made at the discretion of the Company and are not firm commitments. Land holding costs are incurred at management's discretion. In January 2016, the Company signed employment and management agreements with its chief executive officer and chief financial officer. These contracts for aggregate monthly compensation totalling \$19,000 per month also provide for severance provisions should the contracts be terminated without cause or should there be a change of control of the Company or a sale of substantially all of its assets.

As at December 31, 2015, the Company did not have sufficient working capital to meet its overhead and minimum exploration and land holding requirements for the ensuing twelve months. However, in 2016, the Company closed two private placements to raise net proceeds of \$1,169,000 and repaid \$80,000 of advances due to related parties. In addition, the Company sold 700,000 Orex shares for net proceeds of \$213,480. As at the date of this report, the market value of the remaining Orex and Barsele shares totals \$651,000. Consequently, management considers the Company's current working capital resources to be sufficient to meet its overhead requirements and minimum exploration expenditures for the balance of 2016. The administrative budget and the 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. Given the current uncertainty in the capital markets, the extent of such programmes will be tailored to available cash resources.

Given the Company's large portfolio of prospective projects, management is focused on arranging further option and joint venture agreements to advance its exploration projects through the coming year in a non-dilutive manner as far as possible, or sales of certain assets to generate required funding. A successful outcome of such efforts is not assured.

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 as follows:

Accounts payable and accrued liabilities – related parties include \$18,132 (2014 – \$864) in legal fees due to Vector Corporate Finance Lawyers, a firm at which Graham Scott, an officer of the Company, is a partner; \$nil (2014 – \$150,000) in salaries due to the Bahman Yamini, chief executive officer, and \$80,000 (2014 - \$60,000) in management fees due to Kerry Spong, chief financial officer;

Due to related parties includes loan advances totalling \$519,000 (2014 – \$185,000) made to the Company by Bahman Yamini, a director, Kerry Spong, an officer, and Essec Enterprises Ltd., a company of which Bahman Yamini is a director. The loan

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advances are unsecured, non-interest bearing, and have no fixed terms of repayment;

Key management includes executive and non-executive directors and officers. The compensation paid or payable to key management for the years ended December 31, 2015 is as follows:

	2015	2014
Salaries and wages – Bahman Yamini	\$ 150,000	\$ 150,000
Management fees – Kerry Spong	60,000	60,000
Legal fees – Vector Corporate Finance Lawyers	18,239	27,842
Share-based compensation (i)	127,835	9,295
	\$ 356,074	\$ 247,137

(i) A non-cash item, calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 7 to the December 31, 2015 consolidated financial statements.

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

Changes in Accounting Policies

There were no changes in accounting policies during the year ended December 31, 2015.

New accounting pronouncements

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's initiative to replace IAS 39 *Financial Instruments – Recognition and Measurement*. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, according to which all leases will be presented on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact on its consolidated financial statements of adopting this standard.

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 is currently in various discussions with other companies with respect to the funding and advancement of its projects, however, it does not have any proposed transactions as at the date of this report.

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 highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value

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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.

Financial Instruments

	2015		2014	
Cash				
Cash on deposit	\$	63,396	\$	114,884
Cash restricted (see "Liquidity and Capital Resources")		139,898		10,342
	\$	203,294	\$	125,226
Marketable securities				
	\$	371,000	\$	-
Receivables				
Value-added taxes (see "Liquidity and Capital Resources")	\$	152,690	\$	458,048
Goods and services tax and other		9,616		882
	\$	162,306	\$	458,930
Reclamation bonds				
	\$	28,000	\$	28,000
Accounts payable and accrued liabilities				
Accounts payable (see "Liquidity and Capital Resources")	\$	175,558	\$	80,910
Accrued audit, legal, exploration and other		124,083		240,000
	\$	299,641	\$	320,910
Due to related parties				
	\$	519,000	\$	185,000

Cash is classified as fair value through profit or loss and carried at fair value measured using a Level 1 fair value measurement. Marketable securities are classified as available-for-sale financial assets and carried at fair value measured using a Level 1 fair value measurement. The Company's receivables and reclamation bonds are classified as loans and receivables and carried at amortized cost; the Company's accounts payable and due to related parties are classified as other financial liabilities. The carrying values approximate their fair values due to the short-term nature of these instruments. The advances due to related parties are non-interest bearing and have no fixed terms of repayment. The Company has no derivatives, forward contracts, or hedges.

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 its 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 IVA refunds receivable from the government of Mexico. The Company received IVA refunds during the year totalling \$519,923. Management continues to use its best efforts to obtain such refunds.

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, 2015, the Company held the equivalent of \$177,511 in cash, \$152,690 in receivables, and \$137,434 in accounts payable, all of which are denominated in pesos; the Company held only a nominal amount of cash and accounts payable denominated in U.S. dollars. Based on the Company's peso denominated monetary assets and liabilities as at December 31, 2015, each 1% fluctuation in the exchange rate with the Canadian dollar would result in a gain or loss of approximately \$1,928. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration and evaluation expenditures. 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

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to significant interest rate risk in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements, totalling \$764,600, represents the Company's maximum exposure to credit and market risk as at December 31, 2015.

The Company is exposed to liquidity risk due to its limited cash resources such that it may not be able to meet its obligations under its financial instruments as they fall due. The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Disclosure for Venture Issuers without Significant Revenue

The Company has no source of operating revenue. The Company's consolidated financial statements for the year ended December 31, 2015 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2015, the Company had 84,659,872 common shares issued and outstanding (diluted – 94,709,872) compared to 81,059,872 common shares issued and outstanding (diluted – 85,879,722) as at December 31, 2014.

During the year, the Company completed two private placements by issuing a total of 3,600,000 shares and 3,000,000 warrants and granted 5,000,000 incentive stock options during the year; 144,850 warrants and 2,625,000 stock options expired unexercised. Notes 6 and 7 to the Company's December 31, 2015 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

Options

As at December 31, 2015, a total of 7,050,000 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.35	January 13, 2016 (expired unexercised)
1,175,000	\$ 0.20	January 20, 2017
300,000	\$ 0.18	October 29, 2017
375,000	\$ 0.10	January 4, 2019
5,000,000	\$ 0.06	December 21, 2020
7,050,000		

As at December 31, 2015 and the date hereof, the Company had 3,000,000 warrants outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
2,400,000	\$ 0.10	July 16, 2016
600,000	\$ 0.10	August 6, 2016
3,000,000		

Subsequent to December 31, 2015, the Company closed non-brokered private placements of 2,000,000 common shares at a price of \$0.15 per share, and 4,100,000 common shares at a price of \$0.22 per share. In addition, the Company issued 450,000 incentive stock options at a price of \$0.21 per share to employees and consultants; 200,000 stock options expired unexercised.

As at the date of this report, the Company had 90,759,872 common shares issued and outstanding (diluted – 101,059,872), with 7,300,000 stock options and 3,000,000 warrants outstanding.

Investor Relations

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations.

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 following the global financial crisis of 2008, the subsequent increase to record levels by March 2011, and subsequent drops 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. Following a short period of improving conditions between mid-December 2013 to mid-March 2014, as well as in January 2015, precious and base metal prices suffered further significant drops to close at an annual low in December 2015. However in 2016 to date there has been a gradual recovery, particularly in the prices for gold and silver. Silver has improved from a low of \$14.50 per ounce to approximately \$17 per ounce at the time of this report. In addition to this modest recovery in precious metal prices, there has been a marked change in market sentiment, particularly with regards to precious metals mining and exploration companies. Many mid-tier silver miners, royalty companies and exploration companies with recognized assets have seen their share prices increase by over 50% to 100% since mid-January 2016. This more positive sentiment has resulted in renewed interest in the exploration sector and in the acquisition and funding of high quality precious metals exploration projects. This has been a positive development given the Company's large 100% owned portfolio of high quality precious and base metals exploration projects.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects has improved markedly since January 2016, following a prolonged period of decline since early March 2011 due to lower metal prices and slowing growth rates, particularly in Europe and Asia. The general forecast is for these conditions and market conditions for the resource sector and the mining industry to improve which is being driven by the need to replace reserves which have been depleted due to the extended downturn in the industry and cut-backs in exploration and replacement of reserves over the past five years.

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, 2015, 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, or companies controlled by related parties. The Company, through its wholly-owned Mexican subsidiary, Minera Canasil SA de CV., maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the period ended December 31, 2015, the Company did not acquire or dispose of any mineral properties. In September 2015, the Company signed an option agreement with Orex providing Orex with the right to earn up to a 65% interest in the Sandra-Escobar project (see "*Mineral Properties*"). Due to limited funding, the Company has allowed certain claim payments on non-core properties to fall into arrears and may allow certain claims to lapse. Should the Company's capital resources improve, such claims may or may not be re-instated depending on the circumstances.

Risk Factors relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

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

Environmental Factors

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

Title to Assets

Although the Company has or 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, Iain MacPhail, Kerry Spong, Graham Scott, and Erme Enriquez. The loss of any of these persons could have an adverse effect on the Company. Gary Nordin resigned as a director of the Company on September 15, 2015; however, he has remained on the Company's advisory board. Jerry Blackwell was appointed to the Company's advisory board effective September 15, 2015. The Company does not maintain key person insurance on any of its management.

Conflicts of Interest

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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, 2015, the Company's accumulated deficit was \$23,713,223.

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 \$0.03 to a high of \$0.28 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 90,759,872 common shares of the Company are issued and outstanding. There are 7,300,000 stock options and 3,000,000 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

Forward Looking Statements

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

Approval

The Board of Directors of the Company has approved the disclosure contained in this 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.