



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

Expressed in Canadian Dollars

Unaudited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

"Bahman Yamini"

"Kerry Spong"

President and Chief Executive Officer

Vice President, Finance & CFO

August 26, 2014

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CANASIL RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Expressed in Canadian Dollars
Unaudited

ASSETS	June 30, 2014	December 31, 2013
Current		
Cash	\$ 415,664	\$ 119,692
Restricted cash <i>(Note 6)</i>	53,227	-
Receivables	410,956	223,886
Prepaid expenses	22,431	19,195
	<u>902,278</u>	<u>362,773</u>
Reclamation bonds	28,000	28,000
Property and equipment	56,462	60,654
	<u>\$ 986,740</u>	<u>\$ 451,427</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities <i>(Notes 6 and 7)</i>	\$ 516,017	\$ 118,761
Due to related parties <i>(Note 7)</i>	120,000	45,000
	<u>636,017</u>	<u>163,761</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 4)</i>	17,193,091	17,159,791
Convertible debenture <i>(Note 6)</i>	2,389,220	-
Contributed surplus	1,640,077	1,622,649
Deficit	<u>(20,871,665)</u>	<u>(18,494,774)</u>
	<u>350,723</u>	<u>287,666</u>
	<u>\$ 986,740</u>	<u>\$ 451,427</u>

Nature and continuance of operations *(Note 1)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY**

Expressed in Canadian Dollars
Unaudited

	Number of Shares	Share Capital (Notes 4,5)	Convertible Debenture (Note 6)	Contributed Surplus (Note 5)	Subscriptions Received in Advance (Note 4)	Deficit	Total
Balance – December 31, 2012	68,930,874	\$ 16,128,607	\$ -	\$ 1,622,649	\$ 397,500	\$ (17,212,088)	\$ 936,668
Private placement	4,476,999	671,550	-	-	(397,500)	-	274,050
Share issuance costs	-	(37,866)	-	-	-	-	(37,866)
Comprehensive loss for the period	-	-	-	-	-	(526,230)	(526,230)
Balance – June 30, 2013	73,407,873	16,762,291	-	1,622,649	-	(17,738,318)	646,622
Private placement	4,070,000	366,300	-	-	-	-	366,300
Warrants exercised	390,000	31,200	-	-	-	-	31,200
Comprehensive loss for the period	-	-	-	-	-	(756,456)	(756,456)
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
Convertible debenture	-	-	2,389,220	-	-	-	2,389,220
Share-based compensation	-	-	-	17,428	-	-	17,428
Comprehensive loss for the period	-	-	-	-	-	(2,376,891)	(2,376,891)
Balance – June 30, 2014	78,237,873	\$ 17,193,091	\$ 2,389,220	\$ 1,640,077	\$ -	\$ (20,871,665)	\$ 350,723

- See Accompanying Notes -

CANASIL RESOURCES INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF LOSS AND COMPREHENSIVE LOSS**Expressed in Canadian Dollars
Unaudited

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2014	2013	2014	2013
Expenses				
Accounting and audit	\$ 9,970	\$ 8,325	\$ 17,470	\$ 16,275
Conferences and conventions	-	2,808	4,332	17,170
Depreciation	2,096	2,961	4,192	5,833
Exploration and evaluation <i>(Note 3)</i>	776,962	6,043	2,097,963	241,189
Foreign exchange loss (gain)	3,438	4,097	14,130	(7,872)
General exploration	925	1,640	2,184	2,549
Interest income	(4,574)	-	(8,271)	-
Investor relations and promotions	884	7,913	6,677	25,346
Legal fees	16,742	5,430	21,268	6,169
Listing and filing fees	2,478	4,353	9,939	10,903
Management fees	15,000	15,000	30,000	30,000
Office services and supplies	18,954	26,712	39,181	53,055
Salaries and wages	49,800	55,528	104,454	116,825
Shareholder communications	2,978	2,808	5,381	5,766
Share-based compensation <i>(Note 5)</i>	-	-	17,428	-
Transfer agent fees	3,948	1,268	5,863	2,680
Travel and accommodation	-	142	4,700	6,913
	(899,601)	(145,028)	(2,376,891)	(532,801)
Other item				
Deferred flow-through premium realized	-	6,571	-	6,571
Loss and comprehensive loss for the period	\$ (899,601)	\$ (138,457)	\$ (2,376,891)	\$ (526,230)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.01)
Weighted-average shares Outstanding – basic and diluted	78,237,873	73,407,873	78,141,796	73,261,845

- See Accompanying Notes -

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

Expressed in Canadian Dollars
Unaudited

CASH RESOURCES PROVIDED BY (USED IN)	2014	2013
Operating activities		
Loss for the period	\$ (2,376,891)	\$ (526,230)
Items not involving cash		
Depreciation	4,192	5,833
Deferred flow-through premium realized	-	(6,571)
Share-based compensation	17,428	-
	<u>(2,355,271)</u>	<u>(526,968)</u>
Changes in non-cash working capital		
Restricted cash	(53,227)	-
Receivables	(187,070)	4,688
Prepaid expenses	(3,236)	14,048
Accounts payable and accrued liabilities	397,256	(50,866)
	<u>(2,201,548)</u>	<u>(559,098)</u>
Investing activities		
Purchase of equipment	-	(2,416)
Financing activities		
Share capital issued for cash	33,300	274,050
Share issuance costs	-	(37,866)
Convertible debenture	2,389,220	-
Due to related parties, net	75,000	-
	<u>2,497,520</u>	<u>236,184</u>
Change in cash and cash equivalents for the period	295,972	(325,330)
Cash and cash equivalents - beginning of period	<u>119,692</u>	<u>772,600</u>
Cash and cash equivalents - end of period	<u>\$ 415,664</u>	<u>\$ 447,270</u>

- See Accompanying Notes -

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

Expressed in Canadian Dollars
Unaudited

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 915 – 700 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interest in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The Company's continuing operation is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

These 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.

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

	June 30, 2014	December 31, 2013
Deficit	\$ 20,871,665	\$ 18,494,774
Working capital	\$ 266,261	\$ 199,012

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and basis of presentation

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

These condensed interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2013. All financial information presented herein is unaudited. The Company's board of directors approved these condensed interim consolidated financial statements for issue on August 26, 2014.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

Expressed in Canadian Dollars
Unaudited

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of measurement

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

Principles of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CRD Minerals Corp., Minera Canasil, S.A. de C.V. and Minera CRD S.A. de C.V. CRD Minerals Corp. was incorporated in British Columbia on August 13, 2013 and Minera CRD S.A. de C.V. was incorporated in Mexico on December 12, 2013. All significant inter-company transactions, balances, and unrealized 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.

3. EXPLORATION AND EVALUATION

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

Salamandra project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the Salamandra project located in Durango State, Mexico, subject to an NSR of 2%. The Company can purchase one-half of the NSR for US\$1,000,000. The agreement required the Company to make cash payments totalling US\$500,000 over a period of five years and provided for an option to extend the final payment over an additional three or five years. The Company completed payments of US\$50,000 and in May 2012 elected to extend the final payment of US\$450,000 over a period of five years based on a specific schedule of payments totalling US\$550,000. In February 2013, the Company and the optionor amended the agreement to provide for a further option to extend the final payment over a period of eight years based on a specific schedule of payments totalling \$600,000. To June 30, 2014, the Company has made total payments of US\$150,000 under the agreement. The Company has also staked additional claims to increase the project area.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

Expressed in Canadian Dollars
Unaudited

3. EXPLORATION AND EVALUATION - *continued*

Salamandra project, Mexico - *continued*

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. MAG can 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 can 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. Upon executing a binding letter agreement, the Company received the initial cash payment of \$150,000. In May 2014, the Company received the first-anniversary option payment of \$150,000.

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 has 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 will be used to incur expenditures on the property by Minera CRD (*Note 6*). Should MAG comply with the terms of the agreement and earn an interest in the Salamandra property, the convertible debenture will be converted into common shares of CRD such that MAG will hold either a 55% or 70% interest in CRD. Further development of the property would be done jointly by the Company and MAG through CRD and Minera CRD.

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the La Esperanza project, subject to a Net Smelter Returns royalty ("NSR") of up to 1%, which can be purchased by the Company for US\$100,000. The claims are located in Zacatecas State, Mexico. The Company acquired its 100% interest in 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.

In August 2010, the Company signed an agreement with MAG providing it with the option to earn a 60% interest in the La Esperanza project by making cash payments of \$500,000 to the Company and completing \$5,000,000 in exploration expenditures over a period of four years. MAG completed the first three cash payments totalling \$300,000 and subscribed for private placements totalling \$350,000 in accordance with the agreement. In May 2013, MAG terminated the option agreement.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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Unaudited

3. EXPLORATION AND EVALUATION - *continued*

Sandra and Escobar projects, 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"), in 2012 the Company also earned a 40% interest in Pan American's Escobar claims, which are contiguous with the Sandra claims. During 2013, the Company entered into a further agreement to purchase various additional claims in the area for approximately \$25,000.

Other projects

The Company has staked other claims located in Durango and Sinaloa States, Mexico which include the Colibri, Carina, Victoria, Vizcaino, Nora, Los Azules, San Fransisco, and Buenavista projects. The Company has also staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in all of these claims.

During 2011, the Company signed an agreement to acquire a 100% interest in the Candelaria claims that now form part of the Nora project. The agreement provides for a 1% NSR and calls for semi-annual lease payments which started at US\$5,000 in 2011 and gradually increase to US\$20,000 by 2014 and thereafter. All such lease payments made will be credited towards the Company's purchase of the NSR for an agreed price of US\$3,000,000. During 2012, the Company and the optionor amended the agreement to suspend further semi-annual lease payments until such time as the Company either enters into an option or joint venture agreement with a third party, or commences active exploration activities, including drilling, on the Candelaria property.

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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

Expressed in Canadian Dollars
Unaudited

3. EXPLORATION AND EVALUATION - continued

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

2014	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,331,353
- Expenditure recoveries	-	-	-	(206,329)
Other, Canada	-	1,622	1,622	227,266
- Expenditure recoveries	-	-	-	(20,580)
Sandra and Escobar, Mexico	1,504	24,975	26,479	1,405,767
La Esperanza, Mexico	-	87,565	87,565	1,219,216
- Expenditure recoveries	-	-	-	(260,939)
- Option payments received	-	-	-	(300,000)
Colibri, Mexico	-	7,646	7,646	1,768,242
Salamandra, Mexico	54,294	2,053,974	2,108,268	3,671,883
- Expenditure recoveries	-	(62,392)	(62,392)	(201,097)
- Option payments received	(150,000)	-	(150,000)	(353,989)
Victoria, Mexico	-	1,230	1,230	400,184
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	44,636	44,636	226,303
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	32,909	32,909	498,487
	\$ (94,202)	\$ 2,192,165	\$ 2,097,963	\$ 10,140,950

2013	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ 1,538	\$ 1,538	\$ 2,019,990
- Expenditure recoveries	-	-	-	(203,180)
Other, Canada	-	33,195	33,195	179,057
- Expenditure recoveries	-	-	-	(18,661)
Sandra and Escobar, Mexico	21,536	94,091	115,627	1,327,308
La Esperanza, Mexico	-	40,156	40,156	1,065,551
- Expenditure recoveries	-	-	-	(235,782)
- Option payments received	-	-	-	(300,000)
Colibri, Mexico	-	26,173	26,173	1,732,922
Salamandra, Mexico	26,189	110,332	136,521	1,461,707
- Expenditure recoveries	-	(54,401)	(54,401)	(73,083)
- Option payments received	(150,000)	-	(150,000)	(203,989)
Victoria, Mexico	-	5,941	5,941	391,437
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	24,984	24,984	143,689
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	61,455	61,455	438,846
	\$ (102,275)	\$ 343,464	\$ 241,189	\$ 7,460,995

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014**

Expressed in Canadian Dollars

*Unaudited***3. EXPLORATION AND EVALUATION** - *continued***Expenditures for the period ending June 30, by activity, are as follows:**

	2014	2013
Acquisition and option payments	\$ 55,798	\$ 47,725
Administration	129,053	59,400
Assays	321,140	20,147
Consulting	156,323	-
Drilling	1,279,476	-
Field costs	56,235	12,157
Geology	49,559	63,740
Geophysical	-	34,264
Land holding costs	166,672	176,337
Legal	17,383	29,928
Mapping and surveying	263	1,026
Transportation and rentals	78,453	866
Expenditure recoveries	(62,392)	(54,401)
Option payments received	(150,000)	(150,000)
	<u>\$ 2,097,963</u>	<u>\$ 241,189</u>

4. SHARE CAPITAL

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

Private placements

In January 2013, the Company issued 4,476,999 units at price of \$0.15 per unit for gross proceeds of \$671,550. 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 \$0.225 until January 4, 2014, as to 3,176,999 warrants, and January 14, 2014 as to 1,300,000 warrants. The expiry date of these warrants was subsequently extended to July 15, 2014 and the exercise price was reduced to \$0.08 per share. Subscriptions totalling \$397,500 in respect of these shares were received during December 2012. The Company paid finders' fees of \$27,000 and legal and filing fees of \$10,866.

In December 2013, the Company closed two tranches of a private placement and issued a total of 4,070,000 units at price of \$0.09 per unit for gross proceeds of \$366,300. 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 until December 6, 2014, as to 1,500,000 warrants, and December 31, 2014 as to 535,000 warrants.

In January 2014, the Company closed the third and final tranche of a private placement and issued 370,000 units at price of \$0.09 per unit for gross 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 until February 17, 2015.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014**

Expressed in Canadian Dollars

*Unaudited***5. STOCK OPTIONS AND WARRANTS**

The Company has an Incentive Stock Option Plan (the "Plan") which complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares, and providing that at no time may more than 5% of the outstanding issued common shares be reserved for incentive stock options granted to any one individual. The Plan provides for the issuance of options to directors, officers, employees and consultants of the Company and its subsidiary to purchase common shares of the Company. The stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding 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, 2012	1,500,000	\$ 0.35	4,925,000	\$ 0.22
Issued	6,511,999	\$ 0.20	-	\$ -
Exercised	(390,000)	\$ 0.08	-	\$ -
Forfeited	-	\$ -	(112,500)	\$ 0.18
Expired	<u>(1,110,000)</u>	\$ 0.08	<u>(437,500)</u>	\$ 0.30
Outstanding, December 31, 2013	6,511,999	\$ 0.20	4,375,000	\$ 0.22
Issued/granted	185,000	\$ 0.15	375,000	\$ 0.10
Expired	<u>-</u>	\$ -	<u>(75,000)</u>	\$ 0.20
Outstanding, June 30, 2014	6,696,999	\$ 0.18	4,675,000	\$ 0.21
Exercisable, June 30, 2014	6,696,999	\$ 0.18	4,675,000	\$ 0.21

At June 30, 2014, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	875,000	\$ 0.10	January 27, 2015
	1,750,000	\$ 0.28	November 23, 2015
	200,000	\$ 0.35	January 13, 2016
	1,175,000	\$ 0.20	January 20, 2017
	300,000	\$ 0.18	October 29, 2017
	<u>375,000</u>	\$ 0.10	January 4, 2019
	4,675,000		

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014**

Expressed in Canadian Dollars

*Unaudited***5. STOCK OPTIONS AND WARRANTS – continued**

Warrants	3,176,999	\$	0.08	July 15, 2014 (i)
	1,300,000	\$	0.08	July 15, 2014 (i)
	1,500,000	\$	0.15	December 6, 2014
	535,000	\$	0.15	December 31, 2014
	<u>185,000</u>	\$	0.15	February 17, 2015
	<u>6,696,999</u>			

(i) On June 17, 2014, the Company reduced the exercise price of these warrants from \$0.225 to \$0.08 and extended the expiry date from June 30, 2014 to July 15, 2014. Subsequent to June 30, 2014, 950,000 of these warrants were exercised for cash proceeds of \$76,000; 3,526,999 expired unexercised.

Share-based compensation

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

	2014	2013
Total options granted	<u>375,000</u>	-
Average exercise price	\$ 0.10	\$ -
Estimated fair value of options granted	\$ 17,428	\$ -
Estimated fair value per option	\$ 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:

	2014	2013
Risk-free interest rate	1.91%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	84%	-
Expected forfeiture rate	0.00%	-
Expected option life in years	<u>5.00</u>	-

The Company has recorded share-based compensation during the period as follows:

	2014	2013
Number of options vested in period	<u>375,000</u>	<u>37,500</u>
Compensation recognized in period	\$ 17,428	\$ -

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014**

Expressed in Canadian Dollars

*Unaudited***6. CONVERTIBLE DEBENTURE AND RESTRICTED CASH**

Under the terms of its option agreement on the Salamandra project (*Note 3*), MAG is funding exploration expenditures on the Salamandra project by advancing funds to CRD under an unsecured, non-interest bearing convertible debenture. To June 30, 2014, MAG had advanced a total of \$2,389,220 under the convertible debenture. Funds received under the debenture are used solely for incurring qualifying exploration expenditures on the Salamandra project and period-end balances, net of related accounts payable, are presented in these financial statements as restricted cash. Included in cash as at June 30, 2014 is \$321,535 that was advanced by MAG and will be applied to related accounts payable of \$268,308. The restricted cash balance of \$53,227 represents the additional funds advanced by MAG that are available only for future qualifying exploration expenditures at Salamandra.

The terms of the option agreement provide the right for MAG to convert the debenture into a fixed number of common shares of CRD such that MAG will hold either a 55% or 70% interest in CRD upon exercise of the option. Should MAG withdraw from the agreement prior to earning an interest, it will forfeit its interest in the convertible debenture without repayment.

7. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had related party transactions with associated persons or corporations, which were undertaken in the normal course of operations as follows:

- accounts payable includes \$19,893 (2013 – \$nil) in legal fees due to a law firm in which an officer of the Company is a partner, \$5,513 (2013 - \$nil) in geological consulting fees due to a company controlled by a director of the Company, and \$105,000 (2013 – \$nil) in salaries and management fees due to the chief executive officer and the chief financial officer;
- due to related parties includes loan advances totaling \$120,000 (2013 – \$nil) made to the Company by 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.
- key management includes executive and non-executive directors and officers. The compensation paid or payable to key management is as follows:

	2014	2013
Salaries and wages	\$ 75,000	\$ 75,000
Management fees	30,000	30,000
Legal fees	26,339	37,794
Share-based compensation (i)	9,295	-
	<u>\$ 140,634</u>	<u>\$ 142,794</u>

(i) Calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 5.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2014**

Expressed in Canadian Dollars

Unaudited

8. SEGMENTED INFORMATION

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

2014	Canada		Mexico		Total
Plant and equipment	\$	7,081	\$	49,381	\$ 56,462

2013	Canada		Mexico		Total
Plant and equipment	\$	9,653	\$	56,833	\$ 66,486

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2014

This Interim Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated August 26, 2014, and provides information on the Company's activities for the six months ended June 30, 2014, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the six months ended June 30, 2014, and the audited annual consolidated financial statements and related notes for the years ended December 31, 2013 and 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2013.

Overview and Outlook

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

During the period, Phase 1 and Phase 2 diamond drill programs were completed on the Company's Salamandra silver-copper-zinc-lead project in Durango State, Mexico, for a total of 10,110 metres in 17 drill holes under the direction of MAG Silver Corp. and in accordance with an earn-in option agreement signed in May 2013, providing for MAG to earn up to a 70% interest in the project. The Phase 1 drill program included 5 drill holes for a total of 3,609 metres and assay results reported on March 17, 2014 returned encouraging mineralized intercepts, including high-grade silver-copper mineralization, extensive zones of zinc mineralization with thick higher-grade intervals, as well as significant or strongly anomalous amounts of silver, copper, zinc and lead (detailed below). The Phase 2 drill program was completed in late May 2014 for a total of 6,501 metres in 12 drill holes and assay results reported on July 21, 2014. The results reported a further high-grade silver-copper intercept and pervasive zinc mineralization was encountered in almost all of the drill holes, indicating the potential for a large metals-rich mineralized system at Salamandra. MAG noted that Salamandra continues to show structurally-controlled and broad pervasive multi-stage mineralization throughout the area drilled, advancing the understanding of the geometry of the mineralization controls in some areas. Combining the drill results with the existing geophysics is expected to assist with identifying areas with high-grade polymetallic skarn and CRD mineralization. Total qualifying exploration expenditures of \$3,883,741 were reported by MAG up to June 30, 2014.

In Mexico, all core mineral claims were maintained in good standing and the Company continued discussions on additional cooperation agreements to advance its projects. There was no significant work on the Company's projects in British Columbia during the quarter. The Company completed the required assessment filings to extend the validity of its claims based on work completed in 2013. All claims in British Columbia were maintained in good standing.

Gary Nordin, P. Geo. British Columbia and Director of Canasil, is the Company's designated Qualified Person in relation to data provided with regards to the Company's exploration projects in accordance with National Instrument 43-101.

In February 2014, the Company closed the final tranche of a private placement by issuing 370,000 units at \$0.09 per unit to raise cash proceeds of \$33,300. In May 2014, the Company received \$150,000 from MAG for its first anniversary option payment on the Salamandra project (see "*Mineral Properties*"). In July 2014, the Company received cash proceeds of \$76,000 from the exercise of 950,000 warrants (see "*Outstanding Share Data*").

As at June 30, 2014, the Company had working capital of \$266,261, which includes loan advances payable of \$120,000 received from an officer and a company with a director in common with the Company. During the period, the Company received advances of \$2,389,220 from MAG under a convertible debenture as part of the Salamandra earn-in option, the proceeds of which are being used to fund exploration expenditures on the Salamandra project (see "*Mineral Properties*").

Gold and silver prices continued to trade at relatively low levels during the period. Silver declined from \$22 per ounce in January 2014 to a low of \$19 per ounce by the end of May 2014. After a recovery to \$21.50 per ounce in June, silver has slipped back to \$19.50 per ounce at the time of this report. Due to the current uncertainties in the resource sector, financial markets and low share prices, the Company will endeavour to preserve its financial position and will not undertake direct high cost exploration expenditures such as drilling (except for at Salamandra, which is currently being funded by MAG), which would be highly dilutive if financed at current share prices. The Company has a very strong project portfolio with seven drill-ready projects in Mexico and BC, Canada, providing opportunities for further cooperation agreements and non-dilutive sources of funding to advance its mineral exploration projects. Consequently the Company's focus is to attract additional high quality joint venture partners on its drill-ready projects allowing for further work and results without additional dilution. Discussions are currently in progress with a number of potential partners.

Mineral Properties

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

Durango, Zacatecas and Sinaloa, Mexico:	British Columbia, Canada
<ul style="list-style-type: none"> • La Esperanza silver zinc lead project – 100%, • Sandra gold silver project – 100% • Escobar gold silver claims – 40% • Salamandra zinc silver project – 100% in part, plus option to earn 100%, subject to option agreement with MAG • Carina silver project – 100% • Colibri silver zinc lead copper project – 100% • Vizcaino silver gold project – 100% • Victoria zinc silver project – 100% • Nora silver gold copper project – 100% in part, plus option to earn 100% • Los Azules copper silver gold project – 100% • San Francisco gold silver project – 100% • Buenavista gold, copper, silver project – 100% 	<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

Salamandra zinc-silver project, Durango State, Mexico

The Salamandra project is located in Durango State, 35 km northeast of the City of Durango, with excellent access via 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 an NSR of 2%, by making option payments over a period of five years totaling US\$500,000. The Company and the optionor have amended the payment schedule with a further option based on a specific schedule of payments that total \$600,000 over a period of eight years.

Initial exploration at Salamandra included extensive geological mapping and surface sampling and 3D-IP ground geophysics, followed by 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 over 7.45 metres and 102 g/t silver over 9.85 metres within wider mineralized sections. The mineralized zones appeared to be part of a potentially large mineralized system open along strike and to depth. This work was followed by a 617 line-kilometre ZTEM airborne geophysical survey, which highlighted a large electromagnetic signature over an area of 3.5 kilometres by 2.5 kilometres located east of the area of previous drilling. Surface sampling in this area identified old workings with a vein exposure where a 0.90 metre sample returned 2,150 g/t silver, 5.39% copper and 1.89% zinc. Further detailed surface sampling and mapping programs over the area of ZTEM anomaly returned significant silver-copper-zinc-lead as well as arsenic-antimony geochemical anomalies providing further indications of the potential for a buried intrusive hosted mineralized system. The geology and style of mineralization observed at Salamandra are similar to the San Martin silver-base-metal mine of Grupo Mexico, located 80 kilometres southeast of the project, and the largest underground mining operation in Mexico.

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 can 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 can 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. Upon executing a binding letter agreement, the Company received the initial cash payment of \$150,000 and in May 2014 received the first-anniversary option payment of \$150,000.

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 has 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 will be used to incur expenditures on the property by Minera CRD (see "*Liquidity and Capital Resources*"). Should MAG comply with the terms of the agreement and earn an interest in the Salamandra property, the convertible debenture will be converted into common shares of CRD such that MAG will hold either a 55% or 70% interest in CRD. Further development of the property would be done jointly by the Company and MAG through CRD and Minera CRD. Should MAG withdraw from the agreement prior to earning an interest, it will forfeit its interest in the convertible debenture without repayment.

MAG reported cumulative qualifying expenditures of \$3,883,741 at Salamandra up to June 30, 2014 (US\$1,065,075 at December 31, 2013). The exploration program included surface sampling and data review in 2013, followed by Phase 1 and Phase 2 diamond drill programs for a total of 10,110 metres in 17 drill holes to date. The surface sampling and data review identified all major indicators of large carbonate replacement deposits at Salamandra. Results of the Phase 1 drill program were reported on March 17, 2014, and the Phase 2 drill program on July 21, 2014. The drill programs reported encouraging high-grade silver-copper-zinc intercepts as well as pervasive zinc mineralization as detailed below, further confirming potential for a large metals-rich mineralized system at Salamandra.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2014

In the Phase 1 drill program, hole SM14-15 intersected high-grade silver-copper mineralization over 7.89 metres, which reported 166 grams/tonne ("g/t") silver ("Ag") and 1.2% copper ("Cu"), including: 2.3 metres grading 393 g/t Ag and 3.6% Cu with appreciable lead ("Pb") and zinc ("Zn"). Hole SM13-13 cut 31.72 metres grading 3.5% Zn including 17.72 metres grading 5.0% Zn with no other appreciable metals. Notably, SM13-13 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 SM-14-14 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 significant or strongly anomalous amounts of 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 is SA14-20, which cut 0.63 metres grading 258 grams per tonne ("gpt") (7.5 ounces per ton ("opt")) silver with 0.27% copper lying immediately above 9.9 metres grading 2.3% zinc (see Table 2). 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 center. Hole SA14-28 was the best of these exploration holes, cutting 173.46 metres of 1.0% zinc mineralization 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 the recent 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 the results to date indicate the potential for a large metals-rich mineralized system at Salamandra.

Table 1: Salamandra - MAG Phase 1 Drill Program Assay Results

Hole Number	Interval – Metres From	Metres To	Width* Metres	Gold g/t	Silver g/t	Silver oz/t	Copper %	Zinc %	Lead %
SA13-13	20.65	830.81	810.16	0.01	2	0.05	0	0.6	0
SA13-13	288.63	351.87	63.24	0.00	2	0.05	0	1.6	0
SA13-13	455.89	465.67	9.78	0.05	0	0.01	0	2.6	0
SA13-13	483.45	491.85	8.40	0.01	0	0.01	0	1.7	0
SA13-13	637.50	669.22	31.72	0.00	1	0.04	0.1	3.6	0
SA13-13	641.08	658.80	17.72	0.00	2	0.05	0.1	5.0	0
SA13-13	681.48	691.57	10.09	0.03	1	0.04	0.1	1.8	0
SA14-14	146.30	152.18	5.88	0.00	3	0.08	0	1.7	0
SA14-14	165.99	182.88	16.89	0.01	29	0.84	0	1.8	0.2
SA14-14	182.40	182.88	0.48	0.04	197	5.75	0.4	1.1	0.6
SA14-14	184.78	185.28	0.50	0.01	53	1.55	0.1	0.5	0.9
SA14-14	186.38	186.80	0.42	0.07	108	3.15	0.5	0.6	1.4
SA14-15	605.74	613.63	7.89	0.08	166	4.86	1.2	1.2	0.6
SA14-15	607.50	609.80	2.30	0.25	393	11.45	3.6	2.8	0.4
SA14-16	6.52	58.11	51.59	0.00	3	0.09	0	0.4	0
SA14-16	89.10	102.61	13.51	0.00	12	0.36	0	0.4	0
SA14-17	171.45	176.58	5.13	0.00	10	0.30	0	1.2	0.3

**True widths cannot be determined for any of the intercepts at this time*

Table 2: Salamandra - MAG Phase 2 Drill Program Assay Results

Hole-ID	Interval – Metres		Width Metres	Gold (g/t)	Silver (g/t)	Silver (opt)	Copper (ppm)	Zinc (%)	lead (%)
	From	To							
SA14-18	214.53	214.83	0.30	0.01	2	0.1	139	1.6	0.0
SA14-19	128.87	130.22	1.35	0.00	59	1.7	31	0.9	1.1
And	349.87	388.36	37.99	0.01	1	0.0	219	1.6	0.0
SA14-20	8.14	28.35	20.21	0.00	12	0.4	309	1.0	0.4
And	305.45	306.08	0.63	0.04	258	7.5	2736	0.4	3.7
And	307.32	318.11	10.79	0.01	8	0.2	156	2.3	0.3
SA14-21	208.00	221.95	13.95	0.02	4	0.1	437	2.0	0.0
And	262.30	299.00	36.70	0.00	12	0.4	3239	0.4	0.0
SA14-22	12.66	22.36	9.70	0.00	16	0.5	148	0.8	0.3
And	110.65	173.04	62.39	0.01	2	0.1	88	0.8	0.0
including	110.65	114.38	3.73	0.00	4	0.1	185	3.2	0.0
And	163.12	173.04	9.92	0.03	2	0.1	154	2.0	0.0
SA14-23	No Significant Values								
SA14-24	231.30	300.20	68.90	0.00	1	0.0	210	0.8	0.0
including	281.54	299.09	17.55	0.00	1	0.0	188	1.5	0.0
including	293.76	299.09	5.33	0.00	1	0.0	261	3.0	0.0
And	300.20	304.90	4.70	0.00	39	1.1	2712	0.1	0.0
SA14-25	113.00	143.51	30.51	0.00	25	0.7	164	0.8	0.4
including	121.36	126.73	5.37	0.00	41	1.2	225	1.7	0.7
including	138.58	143.51	4.93	0.00	77	2.3	286	1.9	1.3
SA14-26	No Significant Values								
SA14-27	358.40	366.00	7.60	0.01	2	0.1	278	2.2	0.2
including	358.40	360.68	2.28	0.01	5	0.1	444	3.5	0.2
including	364.12	366.00	1.88	0.02	2	0.1	462	4.4	0.4
SA14-28	19.90	193.36	173.46	0.00	4	0.1	80	1.0	0.1
including	161.54	185.96	24.42	0.01	10	0.3	204	2.2	0.2
SA14-29	108.77	109.07	0.30	0.00	53	1.5	237	3.3	1.5

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

The 100% owned La Esperanza project claims covering 18,954 hectares, located on the border of Durango and Zacatecas States, 100 km south-southeast of the City of Durango. Prior exploration has been conducted by Canasil and by MAG Silver Corp. under an option agreement between August 2010 and May 2013. Canasil's initial Phase 1 drill program included 1,432 metres in 9 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 newly acquired claim areas.

The option agreement with MAG provided for MAG to earn a 60% interest in the project for expenditures of \$5,000,000 and cash payments to Canasil of \$500,000 over a period of four years, as well as subscribing for private placements of up to \$350,000 in Canasil shares. During the option period MAG initially completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey, upgrades of access roads, and geological mapping and surface sampling on the four vein systems to define drill targets. MAG then completed a Phase-1 drill program of 3,247 metres in 11 drill holes on the La Esperanza vein, reporting encouraging high-grade drill intercepts from three drill holes on a blind section 100 metres northwest along strike from previous drilling completed by Canasil. MAG also completed a Phase-2 drill program of 12 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 indicate potential for significant silver-lead-zinc mineralization associated with these veins. MAG reported total expenditures of \$2,468,380 incurred on La Esperanza under the option agreement, which was terminated in May 2013.

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

The 100%-owned Sandra project covers 7,512 hectares, located 183 kilometres northwest of the City of Durango. The Company has advanced exploration on its claims, as well as on the adjoining 634 hectare Escobar claims of Pan American Silver Corp., under an option agreement with Pan American between 2008 and 2012. As a result the Company holds a 40% interest in Pan American's Escobar claims. Compilation and analysis of historical data and surface sampling and geological mapping in the project area outlined a high level gold-silver system centered on a large altered rhyolite dome complex, with extensive evidence of gold, silver and base metal mineralization, indicating potential for disseminated mineralization, as well as several high-grade silver-gold-base metal veins.

The Company has also completed a 420 line-kilometre ZTEM airborne geophysical survey, petrographic analysis of 23 surface samples, a high resolution satellite imaging survey to prepare detailed contour maps, and a 1,848-metre diamond drill program in

eleven drill holes. These programs were followed by an ASTER satellite alteration imaging survey, further surface sampling and mapping over the areas of ZTEM anomaly, and an 11.8 line-kilometre ground IP survey, which confirmed evidence of a large hydrothermal system centred on an intrusive source and the potential for hosting both high-grade vein style and disseminated mineralization. The narrow high-grade veins are similar to those in the Guanacevi district being mined by Endeavour Silver Corp. The exploration programs to date at the Sandra-Escobar project have outlined seven significant silver-gold-base metal targets over an area of 25 square km for future drilling. These results indicate a similar geologic setting to some major silver and gold deposits in northern Durango State such as Silver Standard Resources' La Pitarrilla deposit.

Company has entered into a further agreement to purchase various additional claims in the area for approximately \$25,000. In 2013 The Company also added two further claim blocks for a total of 10,000 hectares to cover additional prospective zones adjacent to the project area.

Carina Project, Durango State, Mexico

The Carina project covers 12,147 hectares and is located 45 kilometres northeast of the City of Durango. The project lies 6.5 kilometres southwest of the La Preciosa project, recently acquired by Coeur d'Alene Mines from Orko silver Corp. for over \$350 million. The area has excellent road access and infrastructure. The project hosts a number of quartz veins, breccias and stockwork zones, striking northwest-southeast and composed of a series of parallel quartz and fluorite veins with bladed textures and widths of 1.5 metres to 2.5 metres. A broad zone of quartz stockwork and breccia structures covers an area of 500 metres by 800 metres. Surface sampling and geological mapping programs over this area, returned anomalous gold and silver values indicating a high level epithermal system. Under an option agreement with Pan American between August 2010 and April 2012, Pan American completed 1,008 metre drill program in 6 drill holes returning anomalous silver and gold values.

Other projects, Mexico

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

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 km northwest of the past producing Kemess South Mine. Cumulative exploration expenditures of over \$3,800,000 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, similar to the nearby Kemess Underground (North Kemess) deposit advancing through feasibility by AuRico Gold Corp. with indicated resources of 3 million ounces gold and 1 billion pounds copper (185 million tonnes with an average grade of 0.48 g/t Au and 0.25% Cu).

At Brenda, the two previous deepest drill holes intersected broad gold-copper mineralized zones with increasing grades to a depth of 560 metres. In these drill holes, the average grade of 5 intercepts above a depth of 450 metres was 0.48 g/t gold and 0.079% copper over a combined intercept length of 393.72 metres. The average grade of 3 intercepts below 450 metres was 0.68 g/t gold and 0.116% copper over a combined intercept length of 92.84 metres. These results compare favourably with the average grades of the Kemess Underground deposit. A significant number of drill core samples returned assays of over 1.0 g/t gold and 0.15% copper. 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 the 3-Dimensional Induced Polarisation geophysical survey. A 962 metre diamond drill hole, BR-13-01 completed in August 2013 to twin BR-07-04 and investigate the possibility of higher grade gold-copper mineralization at depth. 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 period. 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

No field work was carried out on the Vega copper-gold, Lil silver, and Granite gold projects in north-central British Columbia, Canada. Assessment filings were completed based on 2013 field work to extend the claim validities for these projects, and the required assessment reports were completed and filed.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2014

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 periods ended June 30 follows:

	2014	2013
Canada		
Brenda Property		
Geophysical	\$ -	\$ 1,069
Mapping and surveying	-	469
	-	1,538
Other Properties		
Geophysical	-	33,195
Land holding costs	1,622	-
	1,622	33,195
Mexico		
Salamandra Property		
Acquisition and option payments	54,294	26,189
Administration	82,009	17,728
Assays	321,140	-
Consulting	156,323	-
Drilling	1,279,476	-
Field costs	53,731	5,562
Geological	12,962	9,450
Land holding costs	52,164	50,530
Legal	17,716	27,062
Transportation and rentals	78,453	-
Expenditure recoveries	(62,392)	(54,401)
Option payments received	(150,000)	(150,000)
	1,895,876	(67,880)
Sandra and Escobar Properties		
Acquisition and option payments	1,504	21,536
Administration	6,165	15,864
Assays	-	20,147
Field costs	1,423	5,009
Geological	5,011	35,240
Land holding costs	12,113	13,578
Legal	-	2,866
Mapping and surveying	263	557
Transportation and rentals	-	830
	26,479	115,627
La Esperanza Property		
Administration	20,568	6,529
Field costs	1,081	1,622
Geological	19,247	6,512
Land holding costs	46,669	25,493
	87,565	40,156
Carina Property		
Administration	10,491	4,064
Geological	1,478	1,373
Land holding costs	32,667	19,547
	\$ 44,636	\$ 24,984

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Exploration and evaluation expenditures for the periods ended June 30 – *continued*

	2014	2013
Mexico – continued		
Victoria Property		
Administration	\$ 289	\$ 960
Geological	941	4,981
	<u>1,230</u>	<u>5,941</u>
Colibri Property		
Administration	1,797	4,257
Geological	5,849	2,454
Land holding costs	-	19,462
	<u>7,646</u>	<u>26,173</u>
Other Properties		
Administration	7,734	9,998
Geological	3,738	3,730
Land holding costs	21,437	47,727
	<u>32,909</u>	<u>61,455</u>
Total costs for the period	\$ 2,097,963	\$ 241,189

Exploration and evaluation expenditures for the periods ending June 30, by activity, are as follows:

	2014	2013
Acquisition and option payments	\$ 55,798	\$ 47,725
Administration	129,053	59,400
Assays	321,140	20,147
Consulting	156,323	-
Drilling	1,279,476	-
Field costs	56,235	12,157
Geology	49,559	63,740
Geophysical	-	34,264
Land holding costs	166,672	176,337
Legal	17,383	29,928
Mapping and surveying	263	1,026
Transportation and rentals	78,453	866
Expenditure recoveries	(62,392)	(54,401)
Option payments received	(150,000)	(150,000)
	<u>\$ 2,097,963</u>	<u>\$ 241,189</u>

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Results of Operations

The Company had a loss (and comprehensive loss) for the current six-month period of \$2,376,891, which compares to a loss (and comprehensive loss) of \$526,230 for the comparative six-month period. Significant items included in the current loss are as follows:

	2014	2013
Accounting and audit	\$ 17,470	\$ 16,275
Exploration and evaluation	\$ 2,097,963	\$ 241,189
Legal fees	\$ 21,268	\$ 6,169
Management fees	\$ 30,000	\$ 30,000
Office services and supplies	\$ 39,181	\$ 53,055
Salaries and wages	\$ 104,454	\$ 116,825
Share-based compensation	\$ 17,428	\$ -

The current loss includes general and administrative expenses of \$278,928 (2013 - \$285,041) and exploration and evaluation expenditures of \$2,097,963 (2013 - \$241,189). While overall general and administrative expenses have remained fairly consistent, exploration and evaluation expenditures have increased significantly due to the drill program conducted under the direction of MAG in accordance with the Salamandra earn-in option agreement (see "*Mineral Properties*"). Exploration and evaluation costs include \$2,108,268 (2013 - \$136,521) that were incurred on the Salamandra project and were funded by advances from MAG under its convertible debenture (see "*Liquidity and Capital Resources*"). The Company also received exploration expenditure recoveries of \$62,392 (2013 - \$54,401) and option payments of \$150,000 (2013 - \$150,000) from MAG in respect of the Salamandra project. Exploration expenditures on the Company's other projects were down compared to the prior period and totalled \$202,087 (2013 - \$309,069).

Due to adverse market conditions, the Company has endeavoured to reduce operating and exploration expenditures wherever possible, except for expenditures on the Salamandra project, which are currently being funded by MAG. The Company has reduced staffing costs, office expenses, investor relations, and conference costs. The Company experienced higher legal fees in 2014 due to the work required on the agreement with MAG on the Salamandra project. During the current period, the Company granted 375,000 incentive stock options; no options were granted in the prior-year period.

Net cash used for operating activities during the period, before changes in non-cash working capital items, was \$2,355,271 (2013 - \$526,968), which includes \$2,097,963 (2013 - \$241,189) in exploration and evaluation expenditures. The increase in cash used for operations is primarily due to the drill program conducted at the Salamandra project during the period. Significant changes in non-cash working capital items for the current period include an increase in restricted cash of \$53,227, an increase in value-added taxes recoverable of \$187,070, and an increase in accounts payable of \$397,256, all of which relate primarily to the drill program at the Salamandra project. Net cash provided by financing activities was \$2,497,520 as a result of the Company receiving \$33,300 for the final tranche of a private placement completed in February 2014, \$75,000 in loan advances from related parties, and \$2,389,220 in advances from MAG under its convertible debenture during the period.

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Summary of Quarterly Information

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

Year	2014		2013				2012	
Quarter ended:	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Revenue	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Exploration and evaluation expenses	\$926,962	\$1,321,001	\$79,443	\$502,549	\$156,043	\$235,146	\$70,214	\$130,933
Option payments received	\$150,000	\$nil	\$nil	\$nil	\$150,000	\$nil	\$nil	\$150,000
Share-based compensation expense	\$nil	\$17,428	\$nil	\$nil	\$nil	\$nil	\$44,142	\$nil
Loss and comprehensive loss	\$899,601	\$1,477,290	\$190,933	\$565,523	\$138,457	\$387,773	\$281,144	\$106,826
Loss per share: basic and diluted	\$0.01	\$0.02	\$0.00	\$0.01	\$0.00	\$0.01	\$0.00	\$0.00
Weighted-average shares	78,237,873	78,044,651	74,434,503	73,407,873	73,407,873	73,114,195	66,941,428	66,827,092

Discussion of Quarterly Information

In order to conserve cash resources due to a continuing negative resource market environment, expenditures for the third quarter of 2012 were reduced to a minimum, which included land holding costs on the Company's Mexican properties. During this quarter, the Company also received an option payment of \$150,000 from MAG on the La Esperanza project, producing a net exploration and evaluation expense recovery for this quarter. The Company continued to minimize its expenses and expenditures in the fourth quarter of 2012 and granted 450,000 stock options, recognizing \$44,142 in share-based compensation.

In the first and second quarters of 2013, the Company conducted minimal exploration work but maintained all of its properties in good standing. Exploration and evaluation expenditures for the first quarter of 2013 include land holding costs of \$151,583, which compares to \$165,174 for the same quarter of 2012. During the second quarter of 2013, the Company completed exploration and evaluation expenditures of \$156,043 and received an option payment of \$150,000 from MAG on the Salamandra project. In the third quarter of 2013, the Company conducted limited exploration on its Mexican properties, however incurred \$152,414 in land holding costs, which compares to \$135,823 for the same quarter of 2012. During this quarter, the Company also incurred \$284,478 on a 962-metre drill program at Brenda and \$32,334 to complete prospecting and surface sampling programs on the Lil and Vega properties. During this quarter, the Company also realized \$67,081 of the deferred flow-through premium relating to its issuance of flow-through shares in 2012. During the fourth quarter of 2013, the Company continued to minimize expenses and conserve its cash resources.

In the first quarter of 2014, the Company conducted minimal exploration work, except for exploration at its Salamandra project, which is being conducted by MAG under the earn-in 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 conducted 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.

Discussion of Current Quarter

The loss for the current quarter includes general and administrative expenses of \$122,639 (2013 - \$132,414) and exploration and evaluation expenditures of \$776,962 (2013 - \$6,043). Exploration and evaluation costs include \$883,332 (2013 - \$100,145) that were incurred on the Salamandra project. The Company also received exploration expenditure recoveries of \$nil (2013 - \$54,401) and option payments of \$150,000 (2013 - \$150,000) from MAG in respect of the Salamandra project. The Company incurred exploration and evaluation expenditures totalling \$43,630 (2013 - \$110,299) on its other projects.

Net cash used for operating activities during the quarter, before changes in non-cash working capital items, was \$897,505 (2013 - \$142,067), which includes \$776,962 (2013 - \$6,043) in exploration and evaluation expenditures. The increase in cash used for operations is primarily due to the drill program conducted at the Salamandra project during the period. Significant changes in non-cash working capital items for the current period include an increase in restricted cash of \$32,923, an increase in value-added taxes recoverable of \$81,043, and a reduction in accounts payable of \$425,418, all of which relate primarily to the drill program at the Salamandra project. Cash provided by financing activities was \$1,033,058, which relates to advances received from MAG under its convertible debenture during the period.

Liquidity and Capital Resources

The Company has no material income from operations and is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sales) in order to finance further acquisitions, undertake exploration and development of mineral properties, and meet general and administrative expenses. Accordingly, management has identified certain conditions that cast significant doubt upon the Company's ability to continue as a going concern (see Note 1 to the June 30, 2014 condensed interim consolidated financial statements). The Company currently has limited cash resources and there can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

The Company had cash on hand of \$415,664 as at June 30, 2014 (December 31, 2013 - \$119,692), restricted cash of \$53,227 (December 31, 2013 - \$nil) and accounts payable of \$516,017 (December 31, 2013 - \$118,761). As at June 30, 2014, the Company had short-term debt consisting of loan advances totalling \$120,000 (December 31, 2013 - \$45,000) received from related parties. These advances are unsecured, non-interest bearing, and have no fixed repayment terms. The Company had working capital at June 30, 2014 of \$266,261 (December 31, 2013 of \$199,012), which includes \$410,956 in value added taxes receivable primarily from the government of Mexico. The increase in the Company's cash, receivables, and accounts payable balances is due to the current drill program on the Salamandra project, which is being funded by MAG as detailed below.

To June 30, 2014, the Company had received \$2,389,220 in advances under a convertible debenture with MAG (see "*Mineral Properties*"). Funds received under the debenture are used solely for incurring qualifying exploration expenditures on the Salamandra project under the option agreement with MAG. Residual balances of these cash advances, net of related accounts payable, are presented in the Company's financial statements as restricted cash. Included in cash as at June 30, 2014, is \$321,535 that was advanced by MAG and will be applied to related accounts payable of \$268,308. The restricted cash balance of \$53,227 represents the additional funds advanced by MAG that are available only for future qualifying exploration expenditures at Salamandra. Should MAG earn an interest in the Salamandra property, the convertible debenture will be converted into common shares of the Company's subsidiary, CRD Minerals Corp. Should MAG withdraw from the agreement prior to earning an interest, it will forfeit its interest in the convertible debenture without repayment.

During current the six-month period, the Company experienced cash administrative expenses of approximately \$257,000 and cash exploration and evaluation expenses of approximately \$2,098,000, approximately \$1,896,000 of which relate to Salamandra; the costs relating to Salamandra are currently being funded by MAG. The Company has option agreements that require certain future cash payments to maintain its interest in mineral properties, however, these payments can be made at the discretion of the Company and are not firm commitments. Land holding costs are incurred at management's discretion. In May 2014, the Company received an option payment of \$150,000 from MAG; should MAG continue to keep the Salamandra agreement in good standing, the next scheduled payment of \$200,000 is due in May 2015. Management considers the Company's current working capital resources to be insufficient to meet its 2014 overhead and minimum exploration and land holding requirements. Accordingly, the Company will need to raise additional equity funding, or realize sale or option proceeds from its portfolio of properties. 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.

Related Party Transactions and Key Management Compensation

The Company had related party transactions with associated persons or corporations, which were undertaken in the normal course of operations as follows:

Accounts payable includes \$19,893 (2013 - \$nil) in legal fees due to a law firm in which an officer of the Company is a partner, \$5,513 (2013 - \$nil) in geological consulting fees due to a company controlled by a director of the Company, and \$105,000 (2013 - \$nil) in salaries and management fees due to the chief executive officer and the chief financial officer;

Key management includes executive and non-executive directors and executive officers. The compensation paid or payable to key management is as follows:

	2014	2013
Salaries and wages	\$ 75,000	\$ 75,000
Management fees	30,000	30,000
Legal fees	26,339	37,794
Share-based compensation (i)	9,295	-
	\$ 140,634	\$ 142,794

(i) Calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 5 to the June 30, 2014 condensed interim consolidated financial statements.

Due to related parties includes loan advances totaling \$120,000 (2013 - \$45,000) made to the Company by 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.

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

Changes in Accounting Policies

There were no changes in accounting policies during the period ended June 30, 2014.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates 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. 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 consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. The Company inputs such assumptions in a consistent manner following accepted industry practice. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

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 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

The Company's financial instruments consist of cash, restricted cash, receivables, reclamation bonds, and accounts payable. Cash and restricted cash is classified as fair value through profit or loss and is carried at fair value measured using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values

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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 speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash, restricted 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 Mexican pesos and the U.S. dollar, which is held in a major bank 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 due to delays in receiving certain of its IVA refunds from the government of Mexico. The Company received IVA refunds during the period totalling \$104,589 and the Company continues to use its best efforts to obtain such refunds.

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 June 30, 2014, the Company held the equivalent of \$73,203 in cash, \$407,117 in receivables, and \$145,145 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of \$293,924 in cash and \$178,529 in accounts payable, which are denominated in U.S. dollars. Due to the size and nature of these balances and the volatility of the exchange rate between the Canadian dollar and the peso/U.S. dollar, such currency risk could result in future losses to the Company. Based on the Company's peso denominated monetary assets and liabilities as at June 30 2014, each 1% fluctuation in the exchange rate with the Canadian dollar would result in a gain or loss of approximately \$3,350. Based on the Company's U.S. dollar denominated monetary assets and liabilities as at June 30 2014, each 1% fluctuation in the exchange rate with the Canadian dollar would result in a gain or loss of approximately \$1,150. 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.

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, currency, or market risks in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements represents the Company's maximum exposure to credit and market risk as at June 30, 2014. The Company is exposed to liquidity risk due to its limited cash resources. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current period.

Disclosure for Venture Issuers without Significant Revenue

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's condensed interim consolidated financial statements for the period ended June 30, 2014 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 voting shares without par value. As at June 30, 2014, the Company had 78,237,873 common shares issued and outstanding (diluted – 89,609,872) compared to 77,867,873 common shares issued and outstanding (diluted – 88,754,872) as at December 31, 2013.

During the period, the Company completed the final tranche of a private placement by issuing 370,000 shares and 185,000 warrants, granted 375,000 stock options, and had 75,000 stock options expire unexercised. Notes 4 and 5 to the Company's June 30, 2014 condensed interim consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the period.

As at the date hereof, the Company had 79,187,873 common shares issued and outstanding (diluted – 86,082,873). The increase in the outstanding and decrease in the diluted shares outstanding since June 30, 2014 results from 950,000 share purchase warrants being exercised and 3,526,999 warrants expiring in July 2014.

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Options

As at June 30, 2014 and the date hereof, a total of 4,675,000 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
875,000	\$ 0.10	January 27, 2015
1,750,000	\$ 0.28	November 23, 2015
200,000	\$ 0.35	January 13, 2016
1,175,000	\$ 0.20	January 20, 2017
300,000	\$ 0.18	October 29, 2017
375,000	\$ 0.10	January 4, 2019
4,675,000		

As at June 30, 2014, a total of 6,696,999 share purchase warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
3,176,999	\$ 0.08	July 15, 2014 (i)
1,300,000	\$ 0.08	July 15, 2014 (i)
1,500,000	\$ 0.15	December 6, 2014
535,000	\$ 0.15	December 31, 2014
185,000	\$ 0.15	January 17, 2015
6,696,999		

(i) On June 17, 2014, the Company reduced the exercise price of these warrants from \$0.225 to \$0.08 and extended the expiry date from June 30, 2014 to July 15, 2014. Subsequent to June 30, 2014, 950,000 of these warrants were exercised and 3,526,999 expired unexercised leaving a balance of outstanding warrants totalling 2,220,000.

The warrants are subject to an accelerated exercise clause such that the Company has the right to accelerate the expiry date of the warrants upon 30 days written notice should the trading price of the Company's shares, for a period of ten consecutive trading days, exceed a certain threshold price.

Investor Relations

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. During the period, the Company exhibited at the Vancouver Resource Investment Conference in January 2014 and attended the Prospectors' and Developers' Association Conference in Toronto in March 2014.

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 2013 have 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, precious and base metal prices have declined again to the previous levels. Lower share prices and interest in resource companies has continued due to continued uncertainty in the financial markets and generally lower global economic growth forecasts, particularly in Europe and Asia.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects had deteriorated 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

instability to continue, although the longer term outlook is more positive with higher forecasted demand for resources and commodities driven by a growing middle class in the Asian economies.

Environmental Protection

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

Number of Employees

As of June 30, 2014, the Company had three employees. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants, or companies controlled by related parties. The Company, through its wholly-owned Mexican subsidiary Minera Canasil SA de CV, maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the period ended June 30, 2014, the Company did not acquire or dispose of any mineral properties.

Risk Factors relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as environmental protection, health, safety and labour; mining law reform; restrictions on production; price

controls; tax increases; maintenance of claims; tenure; and expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Environmental Factors

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

Title to Assets

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

Foreign Operations

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

Management and Directors

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

Conflicts of Interest

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

Limited Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of June 30, 2014, the Company's accumulated deficit was \$20,871,665.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the period, and to the date of this report, the price of the Company's shares fluctuated from a low of \$0.06 to a high of \$0.135 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date hereof, a total of 79,187,873 common shares of the Company are issued and outstanding. There are 4,675,000 stock options and 2,220,000 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

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costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis and other risks and uncertainties, including those described under Risk Factors in each management discussion and analysis. In addition, forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of precious and base metals, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment, sufficient labour and subcontractors, and that the political environment within the Company's operating jurisdictions will continue to support the development of environmentally safe mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Approval

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