

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2016

This Annual Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated April 25, 2017, and provides information on the Company's activities for the year ended December 31, 2016, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the audited annual consolidated financial statements and related notes for the years ended December 31, 2016 and 2015, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2015.

Overview

The Company is engaged in the exploration and development of mineral properties with prospects for silver, gold, copper, zinc and lead in Durango and Zacatecas States, Mexico, and in British Columbia, Canada. The Company's project portfolio includes seven silver focused projects in Mexico, and four projects in British Columbia, two of which are prospective for hosting copper-gold porphyry mineralized systems.

During 2016 the majority of the Company's exploration activities were focused on the Sandra-Escobar project in Durango State, Mexico. The project was advanced by Orex Minerals Inc. (Orex) under an option agreement signed on September 15, 2015, providing for Orex to earn up to a 65% interest in the project. To date, Orex has completed extensive surface sampling and geological mapping, a helicopter borne radiometric survey, and four phases of core drilling for a total of 65 holes and 9,953 metres. On October 31, 2016, Orex announced an initial independent 43-101 compliant resource estimate for the Bolas Deposit, in the southeastern area of the Sandra-Escobar project, for an Inferred Resource of 9.8 million tonnes grading 106 g/t silver for a total of 33.3 million ounces of silver at a "Base Case" of 45 g/t silver cut-off. *(Note: Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability – refer to detailed note under Sandra-Escobar Resource Estimate below).* On December 15, 2016, Orex announced metallurgical testing results, which indicated very low recoveries from the lower grade disseminated zones of the deposit. Orex has reported cumulative expenditures of US\$ 2.1 million, and on January 10, 2017, Orex advised the Company that it would be electing to earn a 55% interest in the Sandra-Escobar project to form a 55:45 joint venture and would forego the second option to earn up to 65% interest in the project.

In February 2016, after completing three phases and 14,382 metres of drilling at the Salamandra project under an option agreement signed in May 2013, MAG Silver Corp. ("MAG") elected not to continue with the Salamandra option and as a result the Company retains its 100% interest in this project.

In December 2016, the Company commenced a core drilling program at its La Esperanza project to test the La Esperanza vein. To date, the Company has completed eight holes for a total of 2,452 metres of drilling. Highlights from this program include holes ES-17-16 and ES-17-17, which returned high grade and wide mineralized intervals respectively as detailed below. All eight drill holes intersected the La Esperanza vein structure, significantly increasing the vein zone to a strike distance of 400 metres and to a depth of 425 metres, which is open for further expansion along strike to the southeast and northwest and to depth.

In British Columbia, the Company carried out prospecting work on its Vega, Granite and Lil projects in September 2016, and in November 2016 completed airborne magnetic surveys on the Vega and Granite projects. Observations from the prospecting program at the Vega project together with the results of the airborne survey were encouraging, suggesting the potential for hosting multiple copper-gold porphyry targets on this project. The Company also completed a comprehensive review of the Brenda project database resulting in a proposed exploration program to further test the porphyry gold-copper targets identified on this project.

Concurrent with the option agreement with Orex, the Company acquired shares in Orex and, subsequently, Barsele Minerals Corp. ("Barsele") for \$350,000. In February 2016, the Company sold half of its Orex shares for \$213,480 and as at the date of this report, the remaining shares are valued at \$1,386,000. During the year, the Company also completed three private placements for net cash proceeds of \$3,559,166, and received \$320,250 in proceeds from the exercise of warrants and options. These activities resulted in a significant improvement to the Company's working capital position and possibilities for maintaining and advancing its projects.

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

Outlook

After December 2015, gold, silver and metal prices staged a marked recovery with silver trading up to over US\$20 per ounce by June/July 2016, up from US\$14 per ounce at the beginning of the year. Since then, and to the date of this report, precious metal prices have gradually declined, with silver currently trading around US\$18 per ounce, due to prospects of higher interest rates in the United States and the increase in the value of the U.S. dollar following the U.S. elections in November 2016. This has dampened some of the earlier optimism for the resource and exploration sectors. However, larger and mid-tier mining companies are still interested in opportunities to advance exploration projects and in acquiring new projects, which are positive factors given the Company's strong portfolio of exploration projects.

The partial sale of Orex shares, the completion of three private placements, and the proceeds from the exercise of warrants and options in 2016 significantly strengthened the Company's working capital and will assist management in considering new initiatives. The Company is advancing the La Esperanza project with drilling, with encouraging results, and intends to undertake additional exploration work to advance its more advanced and earlier-stage exploration projects in Mexico to define additional targets. While the initial metallurgical results at the Sandra-Escobar project are disappointing, the Boleras deposit is located on less than 1.0 square kilometre of the over 60.0 square-kilometre project area, leaving additional targets and areas for further investigation. The Company and Orex continue to assess this project for ways to unlock additional potential on this large and prospective property. In British Columbia, the review of the Brenda project data and prospecting and airborne magnetics survey at Vega have highlighted the potential of these projects for hosting multiple targets for copper-gold porphyry mineralization. The generally more positive resource environment presents opportunities for concluding financing and cooperation arrangements to actively advance the Company's project portfolio, both in Mexico and British Columbia.

Mineral Properties

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

Durango and Zacatecas, Mexico:	British Columbia, Canada
- Sandra silver-gold project – 100%, and Escobar silver-gold claims – 40%, subject to option agreement with Orex - Salamandra zinc-silver project – 100% in part, plus option to earn 100% - La Esperanza silver-zinc-lead project – 100% - Carina silver project – 100% - Colibri silver-zinc-lead-copper project – 100% - Vizcaino silver-gold project – 100% - Victoria zinc-silver project – 100% - Nora silver-gold-copper project – 100%	- Brenda, gold-copper property – 100% - Vega, gold-copper property – 100% - Granite, gold property – 100% - LIL, silver property – 100%

Exploration Projects in Mexico

Sandra-Escobar

The 100%-owned Sandra silver-gold project covers 6,333 hectares, and is located 200 kilometres northwest of the City of Durango. The Company also has a 40% interest in the adjoining 634-hectare Escobar claims of Pan American Silver Corp., earned under an option agreement with Pan American between 2008 and 2012. The project hosts a high-level silver-gold system centered on a large altered rhyolite dome complex, with widespread silver, gold, and base metal mineralization, indicating potential for disseminated mineralization, as well as several high-grade silver-gold-base metal veins.

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

In September 2015, the Company signed an option agreement providing Orex with the right to earn up to a 65% interest in the project. Orex can earn an initial 55% interest by paying the Company \$500,000 (received) and incurring US\$2,000,000 in exploration expenditures over a three-year period (completed). Upon vesting its 55% interest, Orex can earn an additional 10% interest by paying the Company \$500,000 in cash or shares, at Orex's option, and incurring an additional US\$2,000,000 in exploration expenditures within two years. The Company has a director in common with Orex. On January, 10, 2017, Orex advised the Company that it would be electing to earn a 55% interest in the Sandra-Escobar project and form a 55:45 joint venture, and to forego the option to earn up to 65% in the project. Orex reported expenditures of approximately US\$2,100,000 on Sandra-Escobar under the option agreement.

To date Orex has completed extensive surface sampling including 3,652 soil samples and 381 chip samples, and geological mapping over an area of 3,880 hectares. A helicopter borne radiometric survey was completed over an area of 2,400 hectares as well as four phases of core drilling for a total of 65 holes and 9,953 metres of drilling in the southeast of the project area. These drill programs have delineated an area with disseminated near-surface silver mineralization over a strike distance of approximately 750 metres and a width of approximately 250 metres in a tabular body with a thickness varying between approximately 25 metres to 45 metres (the "Main Zone"). The highest-grade intercept from the drill program was drill hole SA-15-001 returning a 61-metre core length (43.1 metres true thickness) grading 359 grams per tonne ("g/t") silver ("Ag"), starting from surface. The drill program returned consistently wide mineralized intercepts starting close to surface. Typical of these intercepts were SA-16-019 returning 49.15 metres true thickness with 205 g/t Ag, SA-16-023 returning 40.50 metres true thickness grading 218 g/t Ag, and SA-16-041 returning 67.00 metres (true width 58.02 metres) of 192 g/t Ag. Drilling to the west and south of the Main Zone returned generally lower grade intercepts such as SA-16-048 with 65.00 metres (56.00 metres true width) of 114 g/t Ag and SA-16-057 with 41.00 metres (33.58 metres true width) of 108 g/t Ag.

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Several drill holes reported high-grade intervals within the overall mineralized intercept, such as SA-15-001 with 6.36 metres of 1,204 g/t Ag, SA-16-005 with 10.86 metres of 374 g/t Ag, SA-16-006 with 12.68 metres of 596 g/t Ag, SA-16-009 with 8.44 metres of 678 g/t Ag and SA-16-019 with 12.29 metres of 375 g/t Ag (all of these high grade intervals are true widths). The consistency of grades within the mineralized intervals of the Main Zone is favourable, with continuous silver mineralization throughout the mineralized zone and within individual drill intercepts. Step-out holes drilled in adjacent zones to the west and northwest of the Main Zone indicated potential for additional mineralized zones in these areas.

On October 31, 2016, Orex released the results of an initial resource estimate completed by Mining Plus Consultants focused on the Main Zone for an Inferred Resource of 9.8 million tonnes grading 106 g/t Ag for a total of 33.3 million ounces Ag at a "Base Case" of 45 g/t Ag cut-off, as detailed in the table below and in Canasil and Orex news releases dated October 31, 2016.

Boleras Silver Deposit – Inferred Resource Estimate by Cut-Off Grade					
Cut-off Grade	Tonnes	Grade	Grade	Silver	Silver
Ag (g/t)		Ag (g/t)	Ag (oz/t)	(M-g)	(oz)
15	12,100,000	92	3.0	1,120	35,800,000
30	11,500,000	96	3.0	1,100	35,400,000
45	9,800,000	106	3.4	1,040	33,300,000
60	8,000,000	118	3.8	950	30,400,000
75	6,400,000	131	4.2	840	26,900,000
90	5,000,000	145	4.7	720	23,100,000

Note: Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability.

The technical report containing the foregoing Resource Estimate is available on SEDAR (www.sedar.com). The report titled "Sandra-Escobar Project Technical Report, Boleras Mineral Resource Estimate", dated December 1, 2016 (the "Technical Report") was prepared for Orex by J.M. Collins, P. Geo., A. Fowler, MAusIMM CP (Geo), and S. Butler, P. Geo., of Mining Plus Canada consulting Ltd. Messrs. Collins, Fowler and Butler are qualified persons as defined under National Instrument 43-101 of the Canadian Securities Administrators – Standards of Disclosure for Minera Projects.

On December 15, 2016, Orex announced that metallurgical testing returned very low recoveries from lower grade samples representing the average grades reported in the Boleras deposit. These tests reported better results from the higher-grade material tested. Following SO₂ reduction pre-treatment, a sample with 98 g/t Ag returned 8.1% Ag recovery from cyanidation. This improved to 58.7% for a sample carrying 361 g/t Ag and 83% for a sample carrying 1,812 g/t Ag, as summarized in the tables below:

Boleras Main Zone – Metallurgy – SO₂ Reduction Pre-treatment			Boleras Main Zone - Metallurgy - SO₂	
Preliminary SO₂ Leach Results			Silver Recovery - Ag (%)	Head Grade - Ag (g/t)
Sample	Head Grade - Ag (g/t)	Recovery - Ag (%) - KR		
1 #SE	54	4.6		
2 #SE	98	8.1		
3 #SE	143	22.7		
4 #SE	192	24.5		
5 #SE	361	58.7		
6 #SE	1812	83.0		

Silver mineralization in the Boleras deposit is hosted along the flank of a rhyolite volcanic dome in an area of the project where prior to December 2015 there had been no drilling. Mineralization is hosted in an altered and highly permeable volcanoclastic unit, with disseminations of silver bearing minerals and broadly spaced stockwork veinlets. Orex's working model has the porphyritic rhyolite unit acting as an impermeable cap, which may have focused mineralizing fluids into the host permeable volcanoclastic unit. Geochemical analyses indicate no significant gold, lead, zinc, arsenic and antimony associated with the silver mineralization. The Boleras deposit is located on a very small area of less than 1.0 square kilometre in the southeast of the overall project area which covers over 60.0 square kilometres. There are several other prospective zones and mineralized targets within the project area which were not tested by the Orex exploration program to date that could be investigated in future programs.

Salamandra

The Salamandra zinc-silver project is located in Durango State, 35 kilometres northeast of the City of Durango, with excellent access by paved and gravel roads. The project area covers 14,719 hectares, and was acquired through staking of claims and entering into an option agreement to purchase a 100% interest in the central 900 hectares of claims, subject to a net smelter returns royalty of 2%. The option agreement required the Company to make option payments based on a specific schedule of payments that totalled US\$600,000 over a period of eight years from 2012 to 2019, of which US\$225,000 has been paid to date. Subsequent to December 31, 2016, this agreement was amended to provide for the Company to acquire a 100% interest in the 900 hectares within the project area by making a final payment of US\$25,000, for a total of US\$250,000 over the term of the agreement. The claims will be subject to a 0.5% NSR that can be purchased from the owner for US\$500,000.

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

In May 2013, the Company signed an option agreement with MAG on the Salamandra project providing MAG with the right to earn up to a 70% interest in the property. In February 2016, MAG withdrew from the agreement without earning an interest in the project and as a result Canasil retains a 100% interest in Salamandra. The Company received cash payments totaling \$500,000 from MAG during the period of the agreement.

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

Highlights of the MAG drill programs at Salamandra included the following drill holes:

- SA14-15 intersected high-grade silver-copper mineralization over 7.89 metres, assaying 166 g/t Ag and 1.2% Cu, including 2.3 metres grading 393 g/t Ag and 3.6% Cu with anomalous lead and zinc;
- SA13-13 cut 31.72 metres grading 3.5% Zn including 17.72 metres grading 5.0% Zn with no other anomalous metals. Notably, SA13-13 contained zinc mineralization for almost its entire length, with 810 metres averaging 0.6% Zn including several thick zones grading over 1.5% Zn;
- SA14-14 returned two intercepts, one with 0.48 metres of 197 g/t Ag, 0.4% Cu and 1.1% Zn, and the second with 0.42 metres of 108 g/t Ag, 0.5% Cu, and 0.6% Zn;
- SA14-20 cut 0.63 metres grading 258 g/t Ag with 0.27% Cu lying immediately above 9.9 metres grading 2.3% Zn;
- SA14-19, 22, and 24 all cut significant widths of zinc mineralization; hole SA14-28 cut 173.46 metres of 1.0% Zn starting 20 metres below the surface;
- SA14-25 and SA14-18 were drilled away from the intrusive centre to test under a cover of young basalt flows that flank the entire project area; both cut major faults interpreted to be the reactivated western margin of the Central Mexico Basin, the principal regional structural control on several major CRD-skarn systems;
- SA15-32, 34 and 35 cut appreciable widths of strongly anomalous zinc mineralization, with the best dispersed zinc interval in hole SA15-34 with 28 metres grading 1.43% Zn, and the best narrow high-grade zinc zone in hole SA15-31 with 0.79 metres grading 7.79% Zn;
- SA15-35 cut two zones of coherent gold mineralization at 895–931 metres downhole depth: 9.33 metres grading 1.01 g/t gold ("Au") including 0.88 metres grading 3.6 g/t Au and 8.07 metres grading 1.36 g/t Au, including 2.31 metres grading 2.96 g/t Au. These zones occur in hornfels that extend from approximately 650 to 931 metres. The highest-grade tungsten is 0.9 metres of 0.38%. A broad zone of dispersed zinc mineralization (29.9 metres grading 0.5% Zn) lies just above the gold zone.

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

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

La Esperanza

The 100%-owned La Esperanza silver-zinc-lead project claims cover 14,916 hectares and are located on the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. The project is located in a prolific mining district on the major Fresnillo silver trend, 80 kilometres northwest of the Fresnillo mine, and approximately 35 kilometres from Pan American Silver's la Colorada mine, and First Majestic Silver's La Parrilla and Del Toro mines. Systematic and comprehensive exploration programs have been conducted on the project, including satellite imaging and high resolution mapping, 1,330 line-kilometre ZTEM airborne geophysical survey, extensive geological mapping and sampling and 7,728 metres of drilling in 32 diamond drill holes. Drilling to date has returned wide high-grade silver-lead-zinc intercepts from the La Esperanza vein, which is open in all directions. The highest grade and widest intercept was from ES-06-05 which returned 10.30 metres true width of 396 g/t Ag, 0.71% Zn and 1.96% lead ("Pb"). Drilling below a blind section approximately 100 metres northwest of the La Esperanza vein outcrop intersected the higher levels of the vein system with increasing widths and grades with depth. The lowest intercept approximately 250 metres below surface intersected 8.20 metres true width with 98 g/t Ag, 0.19 g/t Au, 1.16% Pb and 2.42% Zn, which included 1.96 metres grading 278 g/t Ag, 0.17 g/t Au, 2.84% Pb and 5.82% Zn.

Four high-grade silver-lead-zinc vein occurrences have also been identified in the northwest of the project area. Two of these have been tested with initial drill programs, which indicated potential for significant silver-lead-zinc mineralization. In November 2016, the Company received a drill permit covering up to 30 drill holes in the La Esperanza vein area. On December 20, 2016, the Company commenced a drill program to test the La Esperanza vein along strike and to depth from previous drill intercepts, planned for 1,500 to 2,000 metres in four to five drill holes. The Company increased the program to eight drill holes for 2,452 metres, which have now all been completed, within the originally planned budget. All eight drill holes intercepted the La Esperanza vein extending the confirmed envelope to over 400 metres along strike and 425 metres to depth. Results have been received for the first six drill holes and were announced in news releases dated February 9, March 23, and April 5, 2017. Results from drill holes ES-17-16 and ES-17-17 which returned high-grade and wide mineralized intervals are listed in the table below. Results are pending for drill holes ES-17-18 and ES-17-19.

La Esperanza 2016-17 Drill Program										
Hole ES-17-16										
	Interval - Metres		Width - Metres		Gold	Silver	Zinc	Lead	Copper	*Silver Eq
	From	To	Interval	True	Au g/t	Ag g/t	Zn %	Pb %	Cu %	*Ag Eq g/t
	139.41	145.35	5.94	4.92	0.01	257	0.64	0.63	0.03	321
Including	143.00	145.35	2.35	1.95	0.03	628	0.90	1.52	0.08	750
Including	144.20	145.35	1.15	0.95	0.06	1,133	1.56	2.98	0.16	1,362
Hole ES-17-17										
HW 1 Vn	240.15	242.48	2.33	2.02	0.00	89	1.82	1.00	0.01	228
HW 2 Vn	248.33	248.60	0.27	0.23	0.04	236	0.28	8.43	0.06	618
HW 3 Vn	250.02	252.00	1.98	1.71	0.03	225	1.30	0.59	0.12	332
Including	250.02	251.21	1.19	1.03	0.03	277	2.01	0.81	0.19	438
Main Vn	258.70	265.41	6.71	5.81	0.10	204	1.83	1.46	0.07	376
Including	259.25	260.60	1.35	1.17	0.03	233	0.98	1.03	0.08	338
And	261.84	262.75	0.91	0.79	0.11	347	2.98	2.20	0.02	606
And	264.51	265.41	0.90	0.78	0.10	244	3.00	2.04	0.03	498
FW Vein	272.60	272.72	0.12	0.10	0.12	30	3.61	1.84	0.04	310
<i>*Silver equivalents calculated assuming 100% recoveries (for Ag Eq calculation only – may not reflect actual recoveries) and Ag US\$17/oz, Au US\$1,250/oz, Cu US\$2.50/lb, Zn US\$1.30/lb, and Pb US\$1.00/lb</i>										

These results are encouraging and suggest that the La Esperanza vein remains open for further expansion along strike to the northwest and particularly to the southeast where surface alteration is mapped for over five kilometres, and to depth.

Other projects, Mexico

The Company maintains a full-time exploration team based in Durango, Mexico, and is evaluating new areas within its mineral claims in Mexico to identify new prospective targets as part of its exploration program.

Exploration projects in British Columbia, Canada

Brenda

The Brenda gold-copper project covers 4,450 hectares, and is located in north-central British Columbia, 25 kilometres northwest of the past producing Kemess South Mine. Cumulative exploration expenditures of over \$3.8 million to date include satellite surveys, airborne and ground geophysics, extensive geological mapping and sampling and 11,000 metres of diamond drilling in 64 drill holes. These programs highlight the potential for a deep-seated porphyry gold-copper system at the Brenda project, possibly similar in style to mineralization found at the nearby Kemess Underground (North Kemess) deposit being advanced by AuRico Metals Inc.

Two deep drill holes intersected broad gold-copper mineralized zones with increasing grades to a depth of 560 metres, with the average grade of five intercepts above a depth of 450 metres returning 0.48 g/t Au and 0.079% Cu over a combined intercept length of 394 metres; the average grade of three intercepts below 450 metres returned 0.68 g/t Au and 0.116% Cu over a combined intercept length of 93 metres. The mineralized system averages 300 to 400 metres in width, and has been traced along a strike length of 400 metres by drilling, with a potential strike length in excess of 1,000 metres indicated by the chargeability anomalies observed in a 3-Dimensional Induced Polarization geophysical survey. In August 2013, a 962-metre diamond drill hole, BR-13-01, was completed to twin BR-07-04 and investigate the possibility of higher grade gold-copper mineralization at depth. This drill hole returned lower grades than the equivalent intercepts in BR-97-04 from 504 metres to 572 metres, and the intercepts below 570 metres returned no significant gold-copper mineralization with only low copper and gold values over certain intervals. The mineralized intercepts and post mineral intrusions observed in drilling to date reflect the characteristic signature observed in large porphyry systems. Further review will be required to determine the structural setting based on the prior data and deeper penetrating geophysical surveys are needed to define prospective mineralized zones.

In late 2016 and early 2017, the Company undertook a comprehensive technical review of the Brenda project data. All historical data has been reviewed and checked prior to modelling and analysis using modelling software. Detailed analysis of the data has identified targets for further exploration including additional mapping and sampling, deeper sensing ground and airborne geophysics and drill testing. The Company will be preparing a detailed technical report covering the results of this work and proposed exploration programs and has applied for a five-year exploration permit including 10,000 metres of drilling. There has been increasing interest in copper-gold porphyry systems in British Columbia from larger mining and exploration companies. The recent favourable ruling on the Environmental Assessment for the neighbouring Kemess Underground deposit of AuRico Metals Inc. has also drawn added attention to the area. The Brenda project remains an attractive prospect based on the results to date, excellent road access and proximity to Kemess with over \$500 million investments in infrastructure including power grid, year-round airfield, and the Kemess mining camp. There was no field work carried out on the Brenda project during the period. Assessment filings based on exploration work completed to date at the Brenda project have extended the claim validity on all Brenda claims to May 30, 2024.

Vega

The Vega project is located in north-central British Columbia, approximately 300 kilometres northwest of Prince George, BC, with access via the Omineca Mines Access Road and logging roads. The project covers 9,002 hectares on the Quesnel trough trend running through central British Columbia and hosting the Mount Milligan, Chuchi, Kwanika, Lorraine and Cat porphyry deposits. There are several showings in the eastern and western sectors of the Vega property prospective for hosting copper-gold porphyry mineralization. Most of the past exploration work done by Canasil has been focused on the eastern Vega showings where there are historical workings and adits with high gold and copper samples, as well as zones of anomalous gold and copper geochemistry identified from surface sampling. More recent work has identified additional gold/copper showings on the western side of the property, most notably the Pluto showing.

In September 2016, the Company carried out prospecting field work on the Pluto and Vega showings. This work confirmed past observations on the Vega showing, and in particular highlighted the Pluto showing identifying the surface signature typical of the upper levels of porphyry copper-gold mineralized systems. The Company conducted an airborne Magnetics geophysical survey covering the Vega property area in November 2016. This survey returned very encouraging results highlighting structural corridors which are prospective for hosting porphyry mineralized systems both in the east and west of the project area.

The Company plans to follow up on this work in the 2017 field season with further surface sampling and evaluation of these zones to define drill targets. Total expenditures on the Vega property in 2016 amounted to \$70,977, which included staking of additional claims to cover prospective trends, and allowed assessment filings to extend the validity of the project claims to September-October 2018.

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Other projects in British Columbia, Canada

In British Columbia, the Company carried out prospecting work on the Granite and Lil projects in September 2016, with a total budget of approximately \$20,000. In November 2016, an airborne magnetic survey was completed on the Granite project. The Granite and Lil project claims were extended through assessment filings covering these programs to April 2020 and April 2019 respectively.

Mineral Properties – Exploration and Evaluation Expenditures

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

	2016	2015
Mexico		
Sandra-Escobar		
Acquisition and option payments	\$ 20,659	\$ 11,152
Administration	42,196	62,222
Consulting	20,777	-
Field costs	2,371	5,788
Geological	13,594	40,276
Land holding costs	33,369	83,911
Legal	811	7,484
Mapping and surveying	318	-
Road building	-	2,349
Transportation and rentals	80	1,796
Expenditure recoveries	(34,223)	(52,386)
Option payments received	-	(500,000)
	<u>99,952</u>	<u>(337,408)</u>
Salamandra		
Acquisition and option payments	-	90,969
Administration	34,072	26,438
Assays	-	117,767
Consulting	20,351	174,565
Drilling	-	580,044
Field costs	13,257	48,862
Geological	20,076	12,866
Land holding costs	130,745	139,467
Legal	-	74,636
Transportation and rentals	7,957	41,208
Option payments received	-	(200,000)
	<u>226,458</u>	<u>1,106,822</u>
La Esperanza		
Acquisition and option payments	20,232	-
Administration	97,036	55,795
Consulting	5,718	-
Drilling	36,117	-
Field costs	5,847	1,893
Geological	39,314	26,403
Land holding costs	44,575	105,931
Legal	1,160	-
Road building	4,856	2,439
Transportation and rentals	382	164
Expenditure recoveries	-	(1,434)
	<u>\$ 255,237</u>	<u>\$ 191,191</u>

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Mineral Properties – Exploration and Evaluation Expenditures – continued

	2016	2015
Mexico – continued		
Other		
Administration	\$ 58,962	\$ 38,721
Assays	5,502	388
Consulting	5,694	-
Field costs	1,092	437
Geological	26,086	11,308
Land holding costs	59,557	92,980
Mapping and surveying	893	-
Transportation and rentals	74	2,473
	<u>157,860</u>	<u>146,307</u>
Canada		
Brenda		
Field costs	5,084	-
Geological	6,100	-
Mapping and surveying	650	-
	<u>11,834</u>	<u>-</u>
Vega		
Assays	1,473	-
Field costs	1,409	-
Geological	8,188	-
Geophysical	27,334	-
Land holding costs	20,967	8,747
Mapping and surveying	1,706	6,996
Transportation and rentals	8,882	-
Travel and accommodation	1,018	-
Expenditure recoveries	(2,256)	(6,196)
	<u>68,721</u>	<u>9,547</u>
Other		
Assays	1,474	-
Field costs	1,409	-
Geological	7,191	-
Geophysical	4,449	-
Land holding costs	6,114	2,915
Mapping and surveying	1,214	-
Transportation and rentals	9,772	-
Travel and accommodation	1,018	-
Expenditure recoveries	-	(4,450)
	<u>32,641</u>	<u>(1,535)</u>
Total costs for year	<u>\$ 852,703</u>	<u>\$ 1,114,924</u>

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Mineral Properties – Exploration and Evaluation Expenditures – continued

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

	2016	2015
Acquisition and option payments	\$ 40,891	\$ 102,121
Administration and legal	232,266	183,176
Assays	8,449	118,155
Consulting	52,540	174,565
Drilling	36,117	580,044
Field costs	30,469	56,917
Geological	120,549	90,853
Geophysical	31,783	-
Land holding costs	295,327	433,951
Legal	1,971	82,120
Mapping and surveying	4,781	6,996
Road building	4,856	4,788
Transportation and rentals	27,147	45,704
Travel and accommodation	2,036	-
Expenditure recoveries	(36,479)	(64,466)
Option payments received	-	(700,000)
	\$ 852,703	\$ 1,114,924

Selected Annual Information

The information in the following table provides selected financial information of the Company for 2016 and the two preceding years. This information derives from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information is presented in accordance with IFRS.

Year Ended December 31	2016	2015	2014
Total Revenue	\$nil	\$nil	\$nil
Share-Based Compensation Expense	\$64,997	\$143,635	\$17,428
Exploration and Evaluation Expense	\$852,703	\$1,114,924	\$3,105,549
Gain on Sale of Marketable Securities	\$143,524	\$nil	\$nil
Loss for the Year	\$1,261,636	\$1,640,993	\$3,577,456
Comprehensive Loss for the Year	\$82,944	\$1,619,993	\$3,577,456
Loss per Share – Basic and Diluted	\$0.01	\$0.02	\$0.05
Total Assets	\$4,058,174	\$822,556	\$671,638
Working Capital (Deficiency)	\$3,845,390	\$(74,687)	\$83,160
Long-Term Liabilities	\$nil	\$nil	\$nil
Dividends per Share	\$nil	\$nil	\$nil
Shareholders' Equity	\$3,920,577	\$3,915	\$165,728

With the persistently difficult market conditions of the last few years, the Company reduced expenses and conserved resources wherever possible. In 2016, the Company raised a significant amount of equity financing and completed short field programs on its BC projects, including aerial mag surveys on the Vega and Granite projects, and in December 2016 commenced a drill program at La Esperanza. During 2015, the Company was active at its Salamandra project, under the MAG option agreement, completing a third round of drilling and analyzing results from the extensive work completed to date. In 2014, the Company was much more active at Salamandra and also completed short field programs on its BC projects. The

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Company granted 450,000 stock options in 2016, 5,000,000 in 2015, and 375,000 in 2014. The options granted in 2015, in part, replaced 2,625,000 options that expired during that year. Until December 2015, the Company had not granted a significant number of stock options since January 2012. In 2016, the Company sold 700,000 shares of Orex for a gain of \$143,524.

Results of Operations

The Company had a loss for the current year of \$1,261,636, which compares to a loss of \$1,640,993 for the comparative year. Selected items included in results of operations are as follows:

	2016	2015
Accounting and audit	\$ 44,231	\$ 31,943
Exploration and evaluation	\$ 852,703	\$ 1,114,924
Interest income	\$ (14,768)	\$ (10,588)
Investor relations and promotions	\$ 26,059	\$ 4,779
Legal fees	\$ 41,617	\$ 13,651
Management fees	\$ 150,000	\$ 60,000
Office rent, services and supplies	\$ 77,525	\$ 69,470
Salaries and wages	\$ 235,566	\$ 158,444
Share-based compensation	\$ 64,997	\$ 143,635
Gain on sale of marketable securities	\$ 143,524	\$ -
Deferred income tax recovery	\$ 179,264	\$ -

The current loss includes general and administrative expenses of \$731,721 (2015 - \$526,069) and exploration and evaluation expenditures of \$852,703 (2015 - \$1,114,924). General and administrative expenses include share-based compensation, a non-cash item, of \$64,997 (2015 - \$143,635) – the Company granted 450,000 incentive stock options during the current year; 5,000,000 options were granted in the prior year. The increased financing activities and an increase in corporate and exploration activity during the year resulted in higher general and administrative costs, specifically in professional fees, investor relations, management fees, salaries, and shareholder communications. The Company sold marketable securities during the year and realized a gain of \$143,524. Included in loss for the year is a deferred income tax recovery of \$179,264 relating to unrealized gains of \$1,357,956 on the Orex and Barsele shares (see *"Liquidity and Capital Resources"*), which have been designated as available-for-sale marketable securities.

Exploration and evaluation expenditures of \$852,703 (2015 - \$1,114,924), are net of option payments received of \$nil (2015 - \$700,000) and expenditure recoveries of \$36,479 (2015 - \$64,466). Total gross exploration and evaluation expenditures of \$889,182 were significantly lower than the \$1,879,390 incurred in 2015 primarily due to a decrease in expenditures relating to the Salamandra project due to MAG's withdrawal from the project. Exploration and evaluation costs include \$226,458 (2015 - \$1,306,822) that were incurred on the Salamandra project; the majority of the 2016 and 2015 Salamandra project costs were funded by advances from MAG under its convertible debenture (see *"Liquidity and Capital Resources"*). The Company received an option payment of \$200,000 from MAG in 2015; no option payment was received in 2016.

Expenditures at Sandra-Escobar by the Company totalled \$134,175 (2015 - \$214,978) for the year. In accordance with the option agreement with Orex, the Company received an option payment of \$500,000 in 2015; no option payment was received in 2016. In addition, the Company recovered expenditures of \$34,223 (2015 - \$52,386) on the Sandra-Escobar project. Exploration expenditures on the Company's other projects totalled \$526,293 (2015 - \$345,510), net of recoveries of \$2,256 (2015 - \$12,080). Drilling on the La Esperanza project commenced in December 2016.

The Company had other comprehensive income of \$1,178,692 during the year (2015 - \$21,000), which resulted from unrealized gains on marketable securities, net of deferred income taxes otherwise payable of \$179,264 (2015 - \$nil). Comprehensive loss for the current year totalled \$82,944, which compares to a comprehensive loss of \$1,619,993 for the prior year.

Net cash used for operating activities during the year, before changes in non-cash working capital items, was \$1,513,883 (2015 - \$1,490,548), which includes \$852,703 (2015 - \$1,114,924) in net exploration and evaluation expenditures and \$661,180 (2015 - \$375,624) in general and administrative expenses. The increase in cash used for operations is primarily due to the lower exploration and evaluation costs incurred given the reduced amount of activity at the Salamandra project during the year, offset by higher general and administrative costs as detailed above. Changes in non-cash working capital items for the current year include a decrease in value-added taxes recoverable of \$115,076, which relates primarily to the recovery of value-added taxes relating to expenditures at Salamandra, and a reduction in accounts payable of \$162,044. Cash provided by investing activities consists primarily of the proceeds of \$213,480 received from the sale of 700,000 Orex shares. Net cash provided by financing activities during the period was \$3,415,609 as a result of the Company completing three private placements for net proceeds of \$3,559,166, receiving \$320,250 upon the exercise of warrants and options, repaying \$519,000 in loan advances from related parties, and receiving \$55,193 in advances from MAG under the convertible debenture.

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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	2016				2015			
Quarter ended:	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Revenue	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Exploration and evaluation expenses	\$247,383	\$221,811	\$124,117	\$259,392	\$103,831	\$1,165,646	\$233,222	\$312,225
Option payments received	\$nil	\$nil	\$nil	\$nil	\$nil	\$500,000	\$200,000	\$nil
Share-based compensation expense	\$nil	\$nil	\$nil	\$64,997	\$143,635	\$nil	\$nil	\$nil
Gain on sale of marketable securities	\$nil	\$nil	\$nil	\$143,524	\$nil	\$nil	\$nil	\$nil
Deferred income taxes (recovery)	\$122,850	\$(129,220)	\$(138,320)	\$(34,574)	\$nil	\$nil	\$nil	\$nil
Loss for the period	\$649,768	\$226,349	\$112,901	\$272,618	\$342,048	\$770,924	\$147,778	\$380,243
Other comprehensive loss (income)	\$822,150	\$(864,780)	\$(925,680)	\$(210,382)	\$133,000	\$(154,000)	-	-
Comprehensive loss (income) for the period	\$1,471,918	\$(638,431)	\$(812,779)	\$62,236	\$475,048	\$616,924	\$147,778	\$380,243
Loss per share: basic and diluted	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.01	\$0.01	\$0.00
Weighted-average shares outstanding	101,897,372	101,839,356	91,145,586	86,611,520	84,659,872	83,857,698	81,059,872	81,059,872

Discussion of Quarterly Information

During the first quarter of 2015, the Company conducted minimal exploration work except for modelling and interpretative work on its Salamandra project in preparation for the Phase-3 drill program. During the second quarter of 2015, the Company continued with modelling and interpretative work on its Salamandra project in preparation for the Phase-3 drill program, which began in July 2015. The Company received the second-anniversary option payment of \$200,000 from MAG on the Salamandra project in May 2015. In the third quarter of 2015, the Company incurred \$957,682 in exploration costs on its Salamandra project relating primarily to the Phase-3 drill program overseen by MAG. In September 2015, the Company received the initial option payment of \$500,000 from Orex under its option agreement on the Sandra-Escobar project. During the fourth quarter of 2015, the Company continued to conserve cash while it monitored Orex's progress at Sandra-Escobar and awaited further results from the Phase-3 drill program at Salamandra, which were received in December. The Company granted 5,000,000 incentive stock options during the quarter and recorded share-based compensation of \$143,635.

During the first quarter of 2016, the Company continued to monitor Orex's progress at Sandra-Escobar. The Company sold marketable securities and realized a gain of \$143,524. During the second quarter of 2016, the Company continued to monitor progress at its Sandra-Escobar project and conducted a surface sampling program at its Nora project. Having raised significant equity financing in the first half of 2016, during the third quarter of 2016, the Company continued with sampling programs in Mexico and completed a field program on its Vega, Lil, and Granite projects in BC. During the fourth quarter, the Company planned and commenced a core drilling program at La Esperanza, completing 189 metres before the end of the year. In addition, the Company continued work on compiling comprehensive data packages on its other projects in both Mexico and British Columbia.

Other comprehensive loss (income) for the quarters presented relates to unrealized gains on changes in fair value of the Company's marketable securities, net of deferred income taxes (recoveries).

Discussion of Fourth Quarter

The loss for the fourth quarter includes general and administrative expenses of \$279,535 (2015 - \$238,217) and exploration and evaluation expenditures of \$247,383 (2015 - \$103,831), which are net of expenditure recoveries of \$nil (2015 - \$53,820). The Company was significantly more active in 2016 than in 2015 resulting in a significant increase in general and administrative costs for the current quarter, specifically in consulting, legal, management fees, and salaries. There was a reduction in share-based compensation, a non-cash item, as there were no options granted in the current quarter; the Company recorded \$143,635 in share-based compensation in 2015 upon granting 5,000,000 incentive stock options, in part, replacing 2,625,000 options that expired unexercised during 2015. Total current gross exploration and evaluation expenditures of \$247,383 (2015 - \$157,651) were higher due to the geophysical work done at the BC projects and the start of a drill program at La Esperanza – exploration and evaluation costs include \$4,631 (2015 - \$69,170) that were incurred on the Salamandra project.

Net cash used for operating activities during the quarter, before changes in non-cash working capital items, was \$525,173 (2015 - \$196,581), which includes \$247,383 (2015 - \$103,831) in exploration and evaluation expenditures. The increase in cash used for operations is primarily due to the higher general and administrative costs and the increased activity at the BC projects and La Esperanza. Significant changes in non-cash working capital items for the current quarter include a decrease in value-added tax ("IVA") receivable of \$63,472 resulting from the collection of IVA refunds relating to Salamandra expenditures, and an increase in accounts payable of \$34,599, which relates primarily to La Esperanza drilling costs accrued in the fourth quarter. There were no financing activities during the current quarter.

Liquidity and Capital Resources

The Company has no income from operations and is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by option, joint venture or outright sale) in order to finance further acquisitions, undertake exploration and development of mineral properties, and meet general and administrative expenses. Accordingly, management has identified certain conditions that cast significant doubt upon the Company's ability to continue as a going concern (see Note 1 to the December 31, 2016 consolidated financial statements). During the current year, the Company significantly improved its working capital position through equity financings, the exercise of warrants and options, and the sale and price appreciation of its marketable securities. While the Company currently has sufficient working capital to fund its overhead and planned exploration programs for the ensuing twelve months, in the long-term there can be no assurance that it will be successful in securing the financing required to continue operations and advance its mineral projects.

The Company's working capital position consists of the following:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	2,265,376	\$ 203,294
Marketable securities	1,659,000	371,000
Receivables	47,230	162,306
Prepaid expenses	11,381	7,354
Accounts payable and accrued liabilities	(137,597)	(201,509)
Accounts payable and accrued liabilities – related parties	-	(98,132)
Due to related parties	-	(519,000)
Working capital (deficiency)	3,845,390	\$ (74,687)

At December 31, 2015, the Company held 1,400,000 shares of Orex and 1,400,000 shares of Barsele with market values of \$210,000 and \$161,000, respectively. In February 2016, the Company sold 700,000 Orex shares for cash proceeds of \$213,480. As at December 31, 2016, the market values of the remaining 700,000 Orex shares and 1,400,000 Barsele shares were \$189,000 and \$1,470,000, respectively. As at the date of this report, the market values of these shares were \$126,000 and \$1,260,000 respectively.

During the year ending December 31, 2016, the Company repaid all short-term debt, consisting of loan advances due to related parties, and all accounts payable due to related parties.

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 Salamandra agreement, MAG had the option to incur qualifying expenditures on the property either directly, or by advancing funds to CRD under a non-interest bearing convertible debenture, which funds were used to incur expenditures on the property by Minera CRD. Were MAG to have earned an interest in the Salamandra property, the convertible debenture would have been converted into common shares of CRD such that MAG would have held up to a 70% interest in CRD. The agreement also provided that should MAG withdraw from the agreement prior to earning an interest, MAG would forfeit its interest in the convertible debenture without repayment. In February 2016, MAG withdrew from the agreement without earning an interest in the project. To December 31, 2016, the

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Company had received \$4,378,742 in advances under the convertible debenture with MAG. Accordingly, upon MAG's withdrawal from the agreement, the balance of the convertible debenture was reclassified to contributed surplus within shareholders' equity.

The Company has an underlying option agreement on certain of the Salamandra claims that required scheduled cash payments to maintain its interest. Subsequent to December 31, 2016, this agreement was amended to eliminate all remaining option payments upon the payment of US\$25,000 and an adjustment to the terms of the NSR. Land holding costs on all of the Company's properties are incurred at management's discretion.

In January 2016, the Company signed employment and management agreements with its chief executive officer and chief financial officer for aggregate compensation totalling \$19,000 per month. In December 2016, the Company amended these agreements increasing the compensation to \$31,250 per month. These contracts also provide for severance provisions should the contracts be terminated without cause or should there be a change of control of the Company.

The Company has a lease agreement for its office premises that expires on September 30, 2018; current payments required under the lease are \$3,318 per month.

During the current year, the Company incurred cash administrative expenses of approximately \$661,000 and cash exploration and evaluation expenses of approximately \$853,000. As at December 31, 2016, the Company had sufficient working capital to meet its current overhead and planned exploration and land holding requirements for the ensuing twelve months. 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 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. In addition, the Company is advancing its early-stage exploration projects to define additional targets, and is planning selective focused drill programs on its more advanced drill-ready projects, such as is currently underway at La Esperanza.

Related Party Transactions and Key Management Compensation

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

Accounts payable and accrued liabilities – related parties include \$nil (2015 – \$18,132) in legal fees due to a law firm at which an officer of the Company is a partner, and \$nil (2015 - \$80,000) in management fees due to the chief financial officer;

Due to related parties includes loan advances totalling \$nil (2015 – \$519,000) made to the Company by a director, an officer, and a company with a director in common. The loan advances were unsecured, non-interest bearing, and had no fixed terms of repayment. During the year, the Company received advances of \$50,000 and repaid advances of \$569,000;

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

	2016	2015
Salaries and wages – chief executive officer	\$ 225,000	\$ 150,000
Management fees – chief financial officer	150,000	60,000
Legal fees – law firm in which an officer is a partner	18,285	18,239
Share-based compensation (i)	-	127,835
	<u>\$ 393,285</u>	<u>\$ 356,074</u>

(i) A non-cash item, calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 7 to the December 31, 2016 consolidated financial statements.

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

Changes in Accounting Policies

There were no changes in accounting policies during the year ended December 31, 2016. The Company's significant accounting policies, and recent pronouncements, are provided in Note 2 to the December 31, 2016 audited consolidated financial statements.

New accounting pronouncements

IFRS 9 – *Financial Instruments*

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

IFRS 16 – *Leases*

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

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Critical Accounting Estimates and Judgments

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

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

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

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

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

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Financial Instruments

	2016		2015	
Cash				
Cash on deposit	\$	177,647	\$	203,294
Guaranteed investment certificate		2,087,729		-
	\$	2,265,376	\$	203,294
Marketable securities	\$	1,659,000	\$	371,000
Receivables				
Value-added taxes	\$	19,453	\$	152,690
Goods and services tax and other		27,777		9,616
	\$	47,230	\$	162,306
Reclamation bonds	\$	28,000	\$	28,000
Accounts payable and accrued liabilities				
Accounts payable	\$	54,266	\$	175,558
Accrued audit, legal, exploration and other		83,331		124,083
	\$	137,597	\$	299,641
Due to related parties	\$	-	\$	519,000

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

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

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. A significant market risk to which the Company is exposed is currency risk. The cash balances, receivables, and payables that are denominated in pesos and U.S. dollars are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso/U.S. dollar. At December 31, 2016, the Company held the equivalent of \$99,221 in cash, \$19,421 in receivables, and \$84,439 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of \$72,520 in cash, which is denominated in U.S. dollars. Due to the size and nature of these balances and the volatility of the exchange rates between the Canadian dollar, U.S. dollar, and Mexican peso, such currency risk could result in future gains or losses to the Company. During the year, the Mexican peso weakened against the Canadian dollar by approximately 19%; the U.S. dollar weakened against the Canadian dollar by approximately 3%. Based on the Company's peso and U.S. dollar denominated monetary assets and liabilities as at December 31, 2016, a 10% fluctuation in the exchange rates with the Canadian dollar would result in a gain or loss of approximately \$3,420 and \$7,252, respectively. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in foreign currencies are settled in a timely manner.

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

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements, totalling \$3,999,606, represents the Company's maximum exposure to credit and market risk as at December 31, 2016. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

Disclosure for Venture Issuers without Significant Revenue

The Company has no source of operating revenue. The Company's consolidated financial statements for the year ended December 31, 2016 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2016, the Company had 101,897,372 common shares issued and outstanding (diluted – 113,254,122) compared to 84,659,872 common shares issued and outstanding (diluted – 94,709,872) as at December 31, 2015.

During the year, the Company completed non-brokered private placements of 2,000,000 common shares, 4,100,000 common shares, and 8,000,000 units with each unit consisting of one common share and one-half of one share purchase warrant. In addition, the Company issued 194,250 warrants to finders under the private placement of units and granted 450,000 incentive stock options to employees and consultants; 3,000,000 warrants and 137,500 stock options were exercised, and 200,000 options expired unexercised during the year. Notes 6 and 7 to the Company's December 31, 2016 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

Options

As at December 31, 2016, a total of 7,162,500 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
1,175,000	\$ 0.20	January 20, 2017 (i)
262,500	\$ 0.18	October 29, 2017
375,000	\$ 0.10	January 4, 2019
4,950,000	\$ 0.06	December 21, 2020
400,000	\$ 0.21	March 1, 2021
7,162,500		

As at December 31, 2016, the Company had 4,194,250 warrants outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
762,500	\$ 0.50	June 21, 2018
3,431,750	\$ 0.50	June 29, 2018
4,194,250		

- (i) Subsequent to December 31, 2016, the Company amended these stock options at a price of \$0.20 per share to extend the expiry date five years to January 20, 2022. In addition, the Company granted a further 735,000 five-year stock options to directors, officers, and consultants at an exercise price of \$0.20 per share.

As at the date of this report, the Company had 101,897,372 common shares issued and outstanding (diluted – 113,989,122), with 7,897,500 stock options and 4,194,250 warrants outstanding.

Investor Relations

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. The Company attended the PDAC conference in Toronto in March 2016, arranged institutional investor presentations in Toronto and New York in May 2016, and participated in the Sprott Vancouver Natural Resource Symposium in July 2016.

General Conditions Affecting the Company's Operations

General Trends

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

The volatility in the resources sector caused by the sharp decrease in metals and commodity prices following the global financial crisis of 2008, the subsequent increase to record levels by March 2011, and subsequent drops from 2011 to 2015 resulted in a loss of confidence in the resources sector among investors. This resulted in a general decline in the share prices of resource companies, and in particular for junior explorers, and presented significant constraints on funding exploration companies and programs. Following a short period of improving conditions between mid-December 2013 to mid-March 2014, as well as in January 2015, precious and base metal prices suffered further significant drops to close at an annual low in December 2015. However, in 2016 and to date there has been a gradual recovery, particularly in the prices for gold and silver. Silver has improved from a low of \$14.50 per ounce to approximately \$17.50 per ounce at the time of this report. In addition to this modest recovery in precious metal prices, there has been a marked change in market sentiment, particularly with regards to precious metals mining and exploration companies. Many mid-tier silver miners, royalty companies and exploration companies with recognized assets have seen their share prices increase by over 50% to 100% since mid-January 2016. This more positive sentiment has resulted in renewed interest in the exploration sector and in the acquisition and funding of high quality precious metals exploration projects. This has been a positive development given the Company's large 100%-owned portfolio of high quality precious and base metals exploration projects.

Competitive Conditions

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

Environmental Protection

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

Number of Employees

As of December 31, 2016, the Company had one employee in Canada and five employees in Mexico. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants. The Company, through its wholly-owned Mexican subsidiary, Minera Canasil SA de CV., maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the year ended December 31, 2016, the Company did not dispose of any mineral properties. In September 2015, the Company signed an option agreement with Orex providing Orex with the right to earn up to a 65% interest in the Sandra-Escobar project (see "*Mineral Properties*"). Due to limited funding in the years 2013 to 2015, the Company has allowed certain claim payments on non-core properties to fall into arrears and has allowed certain claims to lapse. With the Company's improved capital resources, such claims may or may not be re-instated depending on the circumstances. During 2016, the Company added to its Vega project by staking additional claims.

Risk Factors relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

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

Environmental Factors

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

Title to Assets

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

Foreign Operations

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

Management and Directors

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

Conflicts of Interest

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

Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of December 31, 2016, the Company's accumulated deficit was \$24,974,859.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the year, and to the date of this report, the price of the Company's shares fluctuated from a low of \$0.045 to a high of \$0.73 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date of this report, a total of 101,897,372 common shares of the Company are issued and outstanding. There are 7,897,500 stock options and 4,194,250 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

Management's Responsibility for Financial Reporting

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

Controls and procedures

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

Disclosure controls and procedures

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

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

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2016

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

Forward Looking Statements

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

Approval

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