



## **Management's Discussion and Analysis For the Year Ended December 31, 2017**

---

### **INTRODUCTION**

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

This Annual Management's Discussion and Analysis ("MD&A") is dated March 27, 2018, and provides information on the Company's activities for the year ended December 31, 2017, 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, 2017 and 2016, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2016.

Discussion of the Company, its operations and associated risks is further described in the Company's filings available for viewing at [www.sedar.com](http://www.sedar.com).

### **HIGHLIGHTS**

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

- completed a 2,452-metre drill program at its La Esperanza project in Durango and Zacatecas States, Mexico and completed a comprehensive review of the drill data;
- undertook a surface sampling program at La Esperanza;
- received notice from Orex Minerals Inc. ("Orex") advising that it had completed the required expenditures to earn a 55% interest in the Sandra-Escobar project in Durango State, Mexico, and would forego the second option to earn an additional 10% interest in the project;
- renegotiated the terms of the option agreement on the central 900 hectares of its Salamandra project in Durango State, Mexico and acquired a 100% interest in all of the project claims;
- continued progress on its comprehensive review and update of the data bases on its BC projects, which included a short inspection program at the Brenda project in September 2017;
- announced its intention to transfer the BC projects to a new public company through a spin-off transaction with shareholder approval received on December 12, 2017 and final court approval received on December 20, 2017;
- completed a trenching and sampling program at the Salamandra project;
- entered into a non-binding letter of intent with Pan American Silver Corp ("Pan American") and Orex to enter into an option agreement whereby the three companies will advance the Sandra-Escobar property.
- in January 2018, the Company sold marketable securities for gross cash proceeds of \$490,000 and in March 2018, received cash proceeds of \$369,480 upon the exercise of 2,309,250 warrants.

## **OUTLOOK**

### **Market Conditions**

Following a protracted downturn in precious metal and commodity prices and the resource sector from mid-2011 to the end of 2015, gold, silver and metal prices staged a marked recovery in 2016. Silver traded up to US\$20 per ounce by June/July 2016, up from US\$14 per ounce at the beginning of the year. However, during the second half of 2016 silver prices were volatile and gradually declined back to US\$16 per ounce by December 2016. This was mainly 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. In 2017 and to the date of this report, silver prices have continued to be volatile, increasing to over US\$18 per ounce in February, April, and September 2017 only to go back to below US\$16 per ounce in early July and late December 2017. The silver price continued to fluctuate during the first quarter of 2018, increasing to US\$17.50 per ounce in late January and falling back down below US\$16.50 per ounce in mid-March 2018. Gold and base metals also have not seen the expected increases in prices in spite of a generally positive economic outlook in the US, Europe and Asia. This has dampened some of the earlier optimism for the resource and exploration sectors seen in the first half of 2016. The Company managed to use the more positive window in 2016 to significantly strengthen its working capital which continues to assist management in considering initiatives such as the drill program completed at the La Esperanza project with positive results. However, the recent uncertainty and relatively low gold, silver and base metal prices have slowed the pace of advance for exploration projects, including the Company's plans.

### **Corporate Outlook**

Larger and mid-tier mining companies remain 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 Company has reviewed the recent encouraging drill results from the La Esperanza project, and completed further surface sampling over the La Esperanza vein area to investigate blind extensions along strike in both directions. This data has been evaluated to plan further drilling at La Esperanza. The Company also intends to advance its other exploration projects in Mexico to define additional targets. This has included surface sampling programs and further geological evaluation at its Salamandra project in late 2017 and early 2018.

In British Columbia, the prospecting and airborne magnetics survey completed at the Vega project in late 2016, and the review of the Brenda project database in late 2016 and 2017 have highlighted the potential of these projects for hosting multiple targets for copper-gold porphyry mineralization. In addition, there has been significant interest by larger gold and copper producers in projects neighboring the Company's Brenda gold-copper project, including Centerra Gold Inc. (Centerra) acquisition of AuRico Metals Inc. (AuRico), owner of the Kemess Underground and Kemess East deposits located 15 km southeast of the Brenda project (Centerra/AuRico Metals news release Nov. 7, 2017). In August 2017, Hudbay Minerals Inc. (Hudbay) entered into a farm-in agreement on Amarc Resources Ltd.'s (Amarc) Joy project, located immediately adjacent to the north and east of the Brenda project (Amarc news release August 22, 2017).

In consideration of the potential of the Company's BC projects and the renewed interest by larger companies in British Columbia exploration and other factors, in July 2017, the Company proposed to undertake a spin-off transaction to segregate its BC properties into a separate company in which the shareholders of Canasil will receive shares in proportion to their shareholdings of Canasil. The transaction received shareholder and final court approval in December 2017. Completion of the transaction is subject to the Company meeting the minimum listing requirements and obtaining a conditional listing of the shares of the new company on the TSX Venture Exchange (see "*Proposed Transactions*").

In September 2017, Pan American Silver Corp. filed a legal action against the Company in the Supreme Court of British Columbia claiming certain rights under the 2009 option agreement on the Sandra-Escobar project. Pan American has not served the Company in respect of this action and the Company believes that the action is without merit. In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies will advance the Sandra-Escobar project jointly. A condition precedent to signing the definitive option agreement is Pan American withdrawing its legal action.

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

The terms of the letter of intent with Pan American and Orex provide for the parties to incur optional expenditures of US\$6,000,000 (US\$5,000,000 by Pan American and US\$1,000,000 jointly by Canasil and Orex) over a period of four years. Following completion of these expenditures, Pan American will hold a 51% interest and Canasil and Orex will jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American will have a further option to increase its interest to 60% in the combined properties by advancing the project to pre-feasibility.

**FINANCIAL CONDITION**

As at December 31, 2017, the Company had working capital of \$1,240,192, compared to working capital of \$3,845,390 at December 31, 2016. As the Company had no financing activities during the year, the decrease in working capital is due to the resources used for operations, changes in the fair value of marketable securities, and an increase in reclamation bonds. The Company's working capital consists of the following:

|                                          | December 31,<br>2017 | December 31,<br>2016 |
|------------------------------------------|----------------------|----------------------|
| Cash and cash equivalents                | \$ 202,029           | \$ 2,265,376         |
| Marketable securities (i)                | 1,060,500            | 1,659,000            |
| Receivables                              | 75,257               | 47,230               |
| Prepaid expenses                         | 11,989               | 11,381               |
| Accounts payable and accrued liabilities | (109,583)            | (137,597)            |
| Working capital                          | \$ 1,240,192         | \$ 3,845,390         |

- (i) At December 31, 2017, the Company held 700,000 shares of Orex and 1,400,000 shares of Barsele Minerals Inc. ("Barsele") with market values of \$94,500 and \$966,000, respectively. In January 2018, the Company sold 700,000 Barsele shares for gross cash proceeds of \$490,000. As at the date of this report, the market values of the 700,000 Orex and 700,000 Barsele shares were \$98,000 and \$525,000 respectively.

The Company had no short or long-term debt at December 31, 2017.

**Liquidity and Financial Resources**

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

During the current year, the Company incurred cash expenses of \$1,992,769, which included administrative expenses of \$757,348 and exploration and evaluation expenses of \$1,235,421. Exploration costs include \$346,365 in drilling costs incurred at La Esperanza. This drill program was completed in April 2017 and therefore such costs would only be incurred in future if further drill programs are undertaken. The administrative budget and exploration and land holding budgets for each of the Company's properties are established depending on expected cash resources and such budgets are regularly adjusted according to actual cash resources.

Management of the Company does not consider its current working capital to be sufficient to meet its budgeted overhead and planned exploration and land holding requirements for the ensuing twelve months. In addition, a substantial portion of its working capital consists of marketable securities that fluctuate in value and may have to be sold to raise cash. In the long-term there can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

**Commitments**

The Company has an employment agreement with the chief executive officer and a management agreement with the chief financial officer for aggregate compensation totalling \$31,250 per month. The agreements provide for termination provisions should the contracts be terminated without cause or should there be a change of control of the Company. The Company has a lease agreement for its office premises that expires on September 30, 2018 and currently requires payments of \$3,442 per month.

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

**FINANCIAL PERFORMANCE**

**Loss**

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

|                                         | 2017       | 2016       |
|-----------------------------------------|------------|------------|
| General and administrative expenses     | \$ 226,915 | \$ 279,535 |
| Exploration and evaluation expenditures | 277,647    | 247,383    |
| Total operating expenses                | 504,562    | 526,918    |
| Deferred income tax expense             | -          | 122,850    |
| Loss for the quarter                    | \$ 504,562 | \$ 649,768 |

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

|                                         | 2017         | 2016         |
|-----------------------------------------|--------------|--------------|
| General and administrative expenses     | \$ 1,018,977 | \$ 731,721   |
| Exploration and evaluation expenditures | 1,235,421    | 852,703      |
| Total operating expenses                | 2,254,398    | 1,584,424    |
| Gain on sale of marketable securities   | -            | (143,524)    |
| Deferred income tax expense (recovery)  | 77,805       | (179,264)    |
| Loss for the year                       | \$ 2,332,203 | \$ 1,261,636 |

The Company was significantly more active both corporately and in the field during 2017 compared to 2016, which resulted in higher administrative and exploration costs. This increase in activity resulted in higher general and administrative costs including increases in legal fees, listing and filing fees, a reinstatement of director fees, and share-based compensation as detailed below. Exploration and evaluation expenditures include drilling, geological, and assay costs incurred on the drilling and surface sampling programs conducted at the La Esperanza project, the trenching and surface sampling program at Salamandra, and the continuing data compilation work on the BC projects. Due to exploration activities being conducted under an option agreement with Orex, the Company had lower direct exploration expenditures on its mineral properties during 2016.

General and administrative expenses for 2017 and 2016 include share-based compensation, a non-cash item, of \$256,829 and \$64,997 respectively. Accordingly, general and administrative expenses, excluding share-based compensation, were \$762,148 in the current year, and \$666,724 for the comparative year. The most notable increases for 2017 were for legal, listing, and filing fees incurred in respect of the Pan American legal claim, the new agreement with Pan American and Orex, and the proposed spin-off transaction. Director fees were reinstated in 2017 after having been suspended since 2012 due to poor market conditions.

No marketable securities were sold in the 2017. In 2016, the Company sold marketable securities and realized a gain of \$143,524.

**Comprehensive Income (Loss)**

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

|                                    | 2017       | 2016         |
|------------------------------------|------------|--------------|
| Loss for the quarter               | \$ 504,562 | \$ 649,768   |
| Other comprehensive loss           | -          | 822,150      |
| Comprehensive loss for the quarter | \$ 504,562 | \$ 1,471,918 |

During the fourth quarter of 2016, the Company experienced unrealized losses on its marketable securities of \$945,000, less deferred income tax expense of \$122,850; there was no change in the fair value of its marketable securities in the fourth quarter of 2017.

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

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

|                                   | 2017           | 2016           |
|-----------------------------------|----------------|----------------|
| Loss for the year                 | \$ (2,332,203) | \$ (1,261,636) |
| Other comprehensive income (loss) | (520,695)      | 1,178,692      |
| Comprehensive loss for the year   | \$ (2,852,898) | \$ (82,944)    |

During 2017, the Company experienced unrealized losses on its marketable securities of \$598,500, less deferred income tax expense of \$77,805, whereas in 2016, the Company experienced unrealized gains of \$1,357,956, less deferred income tax recovery of \$179,264.

**Cash Flows**

Cash used for operating activities during the fourth quarter, before changes in non-cash working capital items, was \$503,362 and compares to \$525,173 used in the comparative quarter. The decrease in cash used for operations is due to a decrease in cash general and administrative expenses of \$52,075 and an increase in cash exploration costs of \$30,264 for the current quarter. The decrease in cash used for general and administrative expenses for 2017 relates primarily to the timing of the payment of salaries and management fees in 2016.

Cash used for operating activities for the year, before changes in non-cash working capital items, was \$1,992,769 and compares to \$1,513,883 used in the comparative year. The increase in cash used for operations is due to an increase in cash general and administrative expenses of \$96,168 and cash exploration costs of \$382,718 as detailed in the discussion of Loss. Cash used in investing activities includes a \$12,000 increase in reclamation bonds required on the BC projects. In 2016, proceeds of \$213,480 were received from the sale of 700,000 Orex shares. There were no financing activities during 2017 – during 2016, the Company issued shares from treasury for three private placements and the exercise of options and warrants for net proceeds of \$3,879,416, received a final payment of \$55,193 under a convertible debenture from MAG, and repaid \$519,000 in loan advances received from related parties in 2015 and previous years.

**SELECTED ANNUAL INFORMATION**

The information in the following table provides selected financial information of the Company for 2017 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                | 2017        | 2016        | 2015        |
|---------------------------------------|-------------|-------------|-------------|
| Total Revenue                         | \$nil       | \$nil       | \$nil       |
| Share-Based Compensation Expense      | \$256,829   | \$64,997    | \$143,635   |
| Exploration and Evaluation Expense    | \$1,235,421 | \$852,703   | \$1,114,924 |
| Gain on Sale of Marketable Securities | \$nil       | \$143,524   | \$nil       |
| Loss for the Year                     | \$2,332,203 | \$1,261,636 | \$1,640,993 |
| Comprehensive Loss for the Year       | \$2,852,898 | \$82,944    | \$1,619,993 |
| Loss per Share – Basic and Diluted    | \$0.02      | \$0.01      | \$0.02      |
| Total Assets                          | \$1,434,091 | \$4,058,174 | \$822,556   |
| Working Capital (Deficiency)          | \$1,240,192 | \$3,845,390 | \$(74,687)  |
| Long-Term Liabilities                 | \$nil       | \$nil       | \$nil       |
| Dividends per Share                   | \$nil       | \$nil       | \$nil       |
| Shareholders' Equity                  | \$1,324,508 | \$3,920,577 | \$3,915     |

***Canasil Resources Inc. - Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

In 2017, the Company completed a drill program and surface sampling program at La Esperanza, a trenching and surface sampling program at Salamandra, and continued with its comprehensive review and update of the data bases on its BC projects, which included a short inspection program at the Brenda project in September 2017. 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.

The Company granted 735,000 stock options and extended 1,175,000 options in 2017, granted 450,000 stock options in 2016, and 5,000,000 in 2015. 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.

**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                                       | 2017        |             |             |             | 2016        |             |             |             |
|--------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 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        | \$277,647   | \$199,005   | \$210,939   | \$547,830   | \$247,383   | \$221,811   | \$124,117   | \$259,392   |
| Option payments received                   | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       |
| Share-based compensation expense           | \$nil       | \$nil       | \$nil       | \$256,829   | \$nil       | \$nil       | \$nil       | \$64,997    |
| Gain on sale of marketable securities      | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       | \$nil       | \$143,524   |
| Deferred income taxes (recovery)           | \$nil       | \$1,365     | \$67,795    | \$8,645     | \$122,850   | \$(129,220) | \$(138,320) | \$(34,574)  |
| Loss for the period                        | \$504,562   | \$404,524   | \$451,759   | \$971,358   | \$649,768   | \$226,349   | \$112,901   | \$272,618   |
| Other comprehensive loss (income)          | \$nil       | \$9,135     | \$453,705   | \$57,855    | \$822,150   | \$(864,780) | \$(925,680) | \$(210,382) |
| Comprehensive loss (income) for the period | \$504,562   | \$413,659   | \$905,464   | \$1,029,213 | \$1,471,918 | \$(638,431) | \$(812,779) | \$62,236    |
| Loss per share: basic and diluted          | \$0.00      | \$0.00      | \$0.00      | \$0.01      | \$0.01      | \$0.00      | \$0.00      | \$0.00      |
| Weighted-average shares outstanding        | 101,897,372 | 101,897,372 | 101,897,372 | 101,897,372 | 101,897,372 | 101,839,356 | 91,145,586  | 86,611,520  |

**DISCUSSION OF QUARTERLY INFORMATION**

During the first quarter of 2016, the Company monitored Orex's progress at Sandra-Escobar and granted 450,000 stock options. 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.

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

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

**MAJOR OPERATING MILESTONES**

During the year under review, the Company completed drill and surface sampling programs at its La Esperanza project, a trenching and sampling program at Salamandra, received notice from Orex advising that it would be electing to earn a 55% interest in the Sandra-Escobar project, renegotiated the terms of the underlying option agreement on a portion of its Salamandra project, initiated arrangements to spin-off the BC projects into a new public company, and signed a non-binding letter of intent with Pan American and Orex to advance the Sandra-Escobar project. The Company did not complete any equity financings or issue any shares from treasury during the year.

**FINANCIAL INSTRUMENTS**

|                                                 | 2017 |           | 2016 |           |
|-------------------------------------------------|------|-----------|------|-----------|
| <b>Cash</b>                                     |      |           |      |           |
| Cash on deposit                                 | \$   | 202,029   | \$   | 177,647   |
| Guaranteed investment certificate               |      | -         |      | 2,087,729 |
|                                                 | \$   | 202,029   | \$   | 2,265,376 |
| <b>Marketable securities</b>                    | \$   | 1,060,500 | \$   | 1,659,000 |
| <b>Receivables</b>                              |      |           |      |           |
| Value-added taxes                               | \$   | 49,527    | \$   | 19,453    |
| Goods and services tax and other                |      | 25,730    |      | 27,777    |
|                                                 | \$   | 75,257    | \$   | 47,230    |
| <b>Reclamation bonds</b>                        | \$   | 40,000    | \$   | 28,000    |
| <b>Accounts payable and accrued liabilities</b> |      |           |      |           |
| Accounts payable                                | \$   | 30,668    | \$   | 54,266    |
| Accrued audit, legal, exploration and other     |      | 78,915    |      | 83,331    |
|                                                 | \$   | 109,583   | \$   | 137,597   |

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 are classified as other financial liabilities. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no derivatives, forward contracts, or hedges.

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

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

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, 2017, the Company held the equivalent of \$70,437 in cash, \$49,527 in receivables, and \$22,903 in accounts payable, all of which are denominated in pesos. In addition, the Company held the equivalent of \$123,661 in cash 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 2.0%; the U.S. dollar weakened against the Canadian dollar by approximately 6.6%. Based on the Company's peso and U.S. dollar denominated monetary assets and liabilities as at December 31, 2017, a 10% fluctuation in the exchange rates with the Canadian dollar would result in a gain or loss of approximately \$9,706 and \$12,366 respectively. To manage currency risk, the Company maintains only the minimum amount of foreign cash that is necessary to fund its ongoing exploration activities. Accounts payable denominated in foreign currencies are settled in a timely manner.

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

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate risk in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements, totalling \$1,377,786, represents the Company's maximum exposure to credit and market risk as at December 31, 2017. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

#### **RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

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

|                                                        | 2017              | 2016              |
|--------------------------------------------------------|-------------------|-------------------|
| Salaries – chief executive officer                     | \$ 225,000        | \$ 225,000        |
| Management fees – chief financial officer              | 150,000           | 150,000           |
| Director fees                                          | 48,000            | -                 |
| Legal fees – law firm in which an officer is a partner | 63,951            | 18,285            |
|                                                        | <u>\$ 486,951</u> | <u>\$ 393,285</u> |

In addition, the Company recorded share-based compensation of \$197,415 (2016 - \$nil), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 7 to the December 31, 2017 consolidated financial statements.

Accounts payable and accrued liabilities includes \$28,282 (2016 - \$nil) in legal fees due to a law firm in which an officer of the Company is a partner; there were no other related party balances as at December 31, 2017.

#### **OUTSTANDING SHARE DATA**

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

|                              | March 27<br>2018   | December 31<br>2017 | December 31<br>2016 |
|------------------------------|--------------------|---------------------|---------------------|
| Shares issue and outstanding | 104,206,622        | 101,897,372         | 101,897,372         |
| Outstanding stock options    | 7,635,000          | 7,635,000           | 7,162,500           |
| Outstanding warrants         | 4,194,250          | 4,194,250           | 4,194,250           |
| Diluted shares outstanding   | <u>116,035,872</u> | <u>113,726,622</u>  | <u>113,254,122</u>  |

During 2017, the Company granted 735,000 new stock options and extended 1,175,000 existing options for a further five years; on October 29, 2017, 262,500 options expired unexercised. Notes 6 and 7 to the Company's December 31, 2017 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

---

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

#### **CHANGES IN ACCOUNTING POLICIES**

There were no changes in accounting policies during the year ended December 31, 2017. The Company's significant accounting policies, and recent pronouncements, are provided in Note 2 to the December 31, 2017 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 has completed an analysis of IFRS 9 and does not expect any significant effect on its consolidated financial statements as a result of adopting this standard.

##### *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 in this regard as at the date of this report.

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

#### **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.

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

---

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.

#### **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, 2017 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

#### **MINERAL PROPERTY SUMMARY**

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

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

During the period under review, the Company completed a drill program and a sampling program at its La Esperanza project, continued with the compilation and review of the data bases on its BC projects, and announced its intention to spin-off the BC projects into a new public company.

#### **La Esperanza**

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

In November 2016, the Company received a drill permit covering up to 30 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 were all completed by April 2017, 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 all eight drill holes and were announced in news releases dated February 9, March 23, April 5, and May 2, 2017. Results from the 2016-17 drill

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

program are particularly encouraging as they extend the La Esperanza vein mineralization along strike to the southeast and to the northwest, as well as to depth. Furthermore, drill hole ES-17-19 returned the highest gold values recorded to date from the La Esperanza vein together with high silver values. These results open the La Esperanza vein for further expansion by drilling in both directions along strike and to depth.

Results from the 2016 – 17 La Esperanza drill program are listed in the table below:

| <b>La Esperanza 2016-17 Drill Program – December 2016 to May 2017</b>                                                                                                                                          |                   |        |                |       |        |        |      |      |        |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------|----------------|-------|--------|--------|------|------|--------|------------|
| <b>Hole ES-16-12</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
|                                                                                                                                                                                                                | 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  |
|                                                                                                                                                                                                                | 347.36            | 348.94 | 1.58           | 1.36  | 0.08   | 23.0   | 1.98 | 1.31 | 0.04   | 192        |
| Including                                                                                                                                                                                                      | 347.36            | 347.83 | 0.47           | 0.41  | 0.08   | 16.5   | 4.81 | 2.89 | 0.02   | 398        |
| And                                                                                                                                                                                                            | 348.47            | 348.94 | 0.47           | 0.41  | 0.16   | 57.9   | 1.74 | 1.45 | 0.11   | 251        |
|                                                                                                                                                                                                                | 368.40            | 370.07 | 1.67           | 1.44  | 0.11   | 5.0    | 3.60 | 0.75 | 0.03   | 309        |
| Including                                                                                                                                                                                                      | 369.45            | 370.07 | 0.62           | 0.54  | 0.27   | 8.9    | 9.64 | 2.00 | 0.00   | 584        |
|                                                                                                                                                                                                                | 387.16            | 390.73 | 3.57           | 3.08  | 0.14   | 21.0   | 2.63 | 0.82 | 0.08   | 211        |
| Including                                                                                                                                                                                                      | 387.16            | 389.87 | 2.71           | 2.34  | 0.17   | 26.0   | 2.17 | 1.07 | 0.09   | 206        |
| Including                                                                                                                                                                                                      | 387.71            | 388.71 | 1.00           | 0.86  | 0.10   | 35.0   | 2.63 | 0.78 | 0.14   | 227        |
| Including                                                                                                                                                                                                      | 387.71            | 388.01 | 0.30           | 0.26  | 0.12   | 38.2   | 3.57 | 1.43 | 0.14   | 308        |
| And                                                                                                                                                                                                            | 388.01            | 388.35 | 0.34           | 0.29  | 0.08   | 51.5   | 3.31 | 0.66 | 0.20   | 278        |
| And                                                                                                                                                                                                            | 389.36            | 389.87 | 0.51           | 0.44  | 0.54   | 33.2   | 4.38 | 3.64 | 0.13   | 469        |
| <i>Bit fused unable to complete hole, may not have intersected entire vein structure</i>                                                                                                                       |                   |        |                |       |        |        |      |      |        |            |
| <b>Hole ES-17-13</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
|                                                                                                                                                                                                                | 421.38            | 422.20 | 0.82           | 0.71  | 0.30   | 131    | 0.64 | 0.23 | 0.84   | 281        |
| <i>Hole lost in cavity, may not have intersected or recovered entire vein structure</i>                                                                                                                        |                   |        |                |       |        |        |      |      |        |            |
| <b>Hole ES-17-14</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
| HW Vein                                                                                                                                                                                                        | 176.30            | 179.50 | 3.20           | 2.13  | 0.01   | 38     | 0.50 | 0.14 | 0.02   | 70         |
| La Esp                                                                                                                                                                                                         | 187.40            | 190.40 | 3.00           | 2.51  | 0.01   | 63     | 0.50 | 0.15 | 0.03   | 98         |
| <i>Vein intercept close to fault, broken and soft material, low recoveries</i>                                                                                                                                 |                   |        |                |       |        |        |      |      |        |            |
| <b>Hole ES-17-15</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
|                                                                                                                                                                                                                | 202.90            | 208.32 | 5.42           | 4.14  | 0.10   | 33     | 1.06 | 0.63 | 0.02   | 122        |
| Including                                                                                                                                                                                                      | 202.90            | 204.95 | 2.05           | 1.56  | 0.05   | 51     | 1.90 | 1.38 | 0.03   | 215        |
| <i>Vein intercept close to fault, broken and soft material, low recoveries</i>                                                                                                                                 |                   |        |                |       |        |        |      |      |        |            |
| <b>Hole ES-17-16</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
|                                                                                                                                                                                                                | 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      |
| <b>Hole ES-17-17</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
| 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        |
| <b>Holes ES-17-18</b>                                                                                                                                                                                          |                   |        |                |       |        |        |      |      |        |            |
|                                                                                                                                                                                                                | 257.49            | 265.31 | 7.82           | 6.77  | 0.04   | 79     | 0.68 | 0.53 | 0.03   | 141        |
| Including                                                                                                                                                                                                      | 257.49            | 259.65 | 2.16           | 1.87  | 0.03   | 231    | 1.19 | 1.38 | 0.03   | 357        |
| Including                                                                                                                                                                                                      | 258.98            | 259.65 | 0.67           | 0.58  | 0.04   | 358    | 0.70 | 1.85 | 0.03   | 479        |
| <b>Hole ES-17-19</b>                                                                                                                                                                                           |                   |        |                |       |        |        |      |      |        |            |
|                                                                                                                                                                                                                | 296.44            | 309.41 | 12.97          | 11.23 | 0.74   | 219    | 0.90 | 0.43 | 0.05   | 382        |
| HW Vein                                                                                                                                                                                                        | 296.44            | 298.83 | 2.39           | 2.07  | 0.04   | 261    | 2.09 | 0.92 | 0.15   | 406        |
| Main Vein                                                                                                                                                                                                      | 298.33            | 302.01 | 3.18           | 2.75  | 2.76   | 552    | 1.16 | 0.63 | 0.08   | 850        |
| Including                                                                                                                                                                                                      | 300.73            | 302.01 | 1.28           | 1.11  | 6.39   | 1,281  | 2.23 | 1.25 | 0.18   | 1,938      |
| FW Vein                                                                                                                                                                                                        | 306.88            | 308.62 | 1.74           | 1.51  | 0.39   | 256    | 1.68 | 0.74 | 0.02   | 406        |
| *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 |                   |        |                |       |        |        |      |      |        |            |

**Canasil Resources Inc. - Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

**Sandra-Escobar**

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

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

In September 2015, the Company signed an option agreement providing Orex with the right to earn up to a 65% interest in the project. Orex 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 could earn an additional 10% interest by paying the Company \$500,000 in cash or shares, at Orex's option, and incurring an additional US\$2,000,000 in exploration expenditures within two years. The Company has a director in common with Orex. 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 to forego the option to earn up to 65% in the project. Orex reported expenditures of approximately US\$2,100,000 under the option agreement.

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

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

| <b>Boleras Silver Deposit – Inferred Resource Estimate by Cut-Off Grade</b> |                  |            |            |              |                   |
|-----------------------------------------------------------------------------|------------------|------------|------------|--------------|-------------------|
| 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        |
| <b>45</b>                                                                   | <b>9,800,000</b> | <b>106</b> | <b>3.4</b> | <b>1,040</b> | <b>33,300,000</b> |
| 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](http://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 using conventional methods returned very low recoveries from composite samples prepared to represent the average grades reported in the Boleras deposit. The Boleras deposit is located on a very small area of less than 1.0 square kilometre in the southeast of the property,

***Canasil Resources Inc. - Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

---

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.

In December 2017, the Company, Pan American, and Orex entered into a non-binding letter of intent to enter into an option agreement whereby the three companies will advance the Sandra-Escobar project jointly. A condition precedent to signing the definitive option agreement is Pan American withdrawing its legal action. The terms of the letter of intent with Pan American and Orex provide for the parties to incur optional expenditures of US\$6,000,000 (US\$5,000,000 by Pan American and US\$1,000,000 jointly by Canasil and Orex) over a period of four years. Following completion of these expenditures, Pan American will hold a 51% interest and Canasil and Orex will jointly hold a 49% interest in the combined Sandra and Escobar properties. Pan American will have a further option to increase its interest to 60% in the combined properties by completing a pre-feasibility study on the project.

### **Salamandra**

The Salamandra zinc-silver project is located in Durango State, 35 kilometres northeast of the City of Durango, with excellent access by paved and gravel roads. The project area covers 14,719 hectares and was acquired through staking of claims and an option agreement to purchase a 100% interest in the central 900 hectares of claims based on a schedule of payments of which US\$225,000 has been paid to date, and subject to a net smelter returns royalty ("NSR"). In April 2017, this agreement was renegotiated to provide for the Company to acquire a 100% interest in the 900 hectares within the project area by making a final payment of US\$25,000, for a total of US\$250,000 over the term of the agreement. These claims will be subject to a 0.5% NSR that can be purchased from the owner for US\$500,000.

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

MAG reported completion of \$5.8 million in cumulative qualifying expenditures to December 31, 2015. The exploration programs included surface sampling and data review in 2013, followed by 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;

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 for the Salamandra project 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.*

## **Brenda**

The Brenda gold-copper project covers 4,450 hectares, and is located in north-central British Columbia, 20 kilometres northwest of the past producing Kemess South Mine. Comprehensive exploration programs carried out to date include satellite surveys, airborne and ground geophysics, extensive geological mapping and sampling and 11,000 metres of diamond drilling in 64 drill holes. These programs 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., located approximately 15 kilometres southeast of the Brenda property.

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.

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 has applied for a five-year exploration permit including 10,000 metres of drilling. The Brenda project remains an attractive prospect based on the results to date, excellent road access and proximity to Kemess with its advanced infrastructure including power grid, year-round airfield, and mining facilities. There was \$41,000 in expenditures incurred on the Brenda project during the period which included field inspections required for completion of the technical report, an environmental assessment report and upgrades to the camp. 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 Vega Showings located in the eastern portion of the property. More recent work has identified additional gold/copper showings on the western side of the property, most notably the Pluto showing.

In September 2016, the Company carried out prospecting field work on the Pluto and Vega showings. This work confirmed past observations on the Vega showing, and in particular highlighted the Pluto showing identifying 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 encouraging results highlighting structural corridors which are prospective for hosting porphyry mineralized systems both in the east and west of the project area. Assessment filings from this work extended the mineral claims covering the prospective areas of the Vega project to October 2018.

The Company plans to follow up on this work with further surface sampling and geological mapping of these zones to define drill targets. There were no significant expenditures on the Vega property during the period.

## **Technical**

Jerry Blackwell, P. Geo. British Columbia, and Advisor to the Board of Canasil, is the Company's designated Qualified Person in accordance with National Instrument 43-101 in relation to data provided with regard to exploration programs undertaken by the Company. On the Sandra-Escobar project under option with Orex, the Company has also relied on the Qualified Person at this company who is responsible for the exploration programs under the terms of option agreement.

## **INVESTOR RELATIONS**

The Company maintains a website, [www.canasil.com](http://www.canasil.com), with detailed corporate information and information covering its mineral exploration projects and operations. The Company attended the PDAC conference in Toronto in March 2018 and participated in the Sprott Vancouver Natural Resource Symposium in July 2017.

## **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. In 2016 there was a gradual recovery, particularly in the prices for gold and silver with silver rising to over \$20 per ounce in June/July 2016, leading to greater optimism and activity in the resource sector. This resulted in both greater funding opportunities for exploration companies as well as possibilities for conclusion of cooperation agreements with third parties to advance exploration projects. In 2017 and to the date of this report, gold and silver prices have been volatile without a clear trend, with silver fluctuating between highs of \$18 per ounce and lows below \$16.50 per ounce. As at the date of this report, silver is trading at \$16.50 per ounce. While this has dampened some of the earlier interest in the exploration sector, there still appears to be interest on the part of larger companies in exploration and in the acquisition and funding of high quality precious metals exploration projects. This has been a positive development given the Company's large portfolio of high quality 100%-owned precious and base metals exploration projects.

### ***Competitive Conditions***

The outlook for acquisition and development of mineral resource projects improved markedly in 2016, following a prolonged period of decline from early March 2011 to December 2015 due to lower metal prices and slowing global growth rates. The conditions in 2017 and to the date of this report have been less favourable, however there is an overall continued interest in the resource sector and the mining industry 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 between 2011 and 2015.

### ***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, 2017, 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, 2017, the Company did not dispose of any mineral properties. In December 2017, the Company signed a non-binding letter of intent with Pan American and Orex, which provides the basis for entering into a definitive agreement whereby the three companies will advance the Sandra-Escobar property jointly (see "*Mineral Property Summary*"). Due to limited funding in the years 2013 to 2015, the Company has allowed certain claim payments on non-core properties to fall into arrears and has allowed certain claims to lapse. Such claims may or may not be re-instated depending on the circumstances. During 2016 and 2017, the Company added to its Vega project by staking additional claims.

### ***RISK FACTORS RELATING TO THE COMPANY'S BUSINESS***

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

#### ***Precious and Base Metal Price Fluctuations***

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

#### ***Operating Hazards and Risks***

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

#### ***Exploration and Development***

There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development 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, 2017, the Company's accumulated deficit was \$27,307,062.

### **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 \$0.095 to a high of \$0.205 per share. There can be no assurance that continued fluctuations in price will not occur.

### **Shares Reserved for Future Issuance - Dilution**

As at the date of this report, a total of 104,206,622 common shares of the Company are issued and outstanding. There are 7,635,000 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.

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

#### **CAUTIONARY NOTE**

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

#### **APPROVAL**

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