



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Expressed in Canadian Dollars

Unaudited

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

"Bahman Yamini"

"Kerry Spong"

President and Chief Executive Officer

Vice President, Finance & CFO

August 28, 2013

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CANASIL RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Expressed in Canadian Dollars
Unaudited

ASSETS	June 30, 2013	December 31, 2012
Current		
Cash and cash equivalents	\$ 447,270	\$ 772,600
Receivables	198,166	202,854
Prepaid expenses	16,794	30,842
	<u>662,230</u>	<u>1,006,296</u>
Reclamation bonds	28,000	28,000
Property and equipment	66,486	69,903
	<u>\$ 756,716</u>	<u>\$ 1,104,199</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 43,033	\$ 93,899
Flow-through premium liability <i>(Note 6)</i>	67,061	73,632
	<u>110,094</u>	<u>167,531</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 6)</i>	16,762,291	16,128,607
Subscriptions received in advance <i>(Note 6)</i>	-	397,500
Contributed surplus	1,622,649	1,622,649
Deficit	(17,738,318)	(17,212,088)
	<u>646,622</u>	<u>936,668</u>
	<u>\$ 756,716</u>	<u>\$ 1,104,199</u>

Nature and continuance of operations *(Note 1)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

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

Expressed in Canadian Dollars
Unaudited

	Number of Shares	Share Capital (Notes 6,7)	Contributed Surplus (Note 7)	Subscriptions Received in Advance (Note 6)	Deficit	Total
Balance – December 31, 2011	63,827,092	\$ 15,198,369	\$ 1,397,026	\$ -	\$ (15,909,375)	\$ 686,020
Private placement	3,000,000	675,000	-	-	-	675,000
Share issuance costs	-	(29,194)	-	-	-	(29,194)
Share-based compensation	-	-	181,481	-	-	181,481
Comprehensive loss for the period	-	-	-	-	(914,743)	(914,743)
Balance – June 30, 2012	66,827,092	15,844,175	1,578,507	-	(16,824,118)	598,564
Private placement	2,103,782	389,200	-	-	-	389,200
Share issuance costs	-	(31,136)	-	-	-	(31,136)
Flow-through premium liability	-	(73,632)	-	-	-	(73,632)
Subscriptions received in advance	-	-	-	397,500	-	397,500
Share-based compensation	-	-	44,142	-	-	44,142
Comprehensive loss for the period	-	-	-	-	(387,970)	(387,970)
Balance – December 31, 2012	68,930,874	16,128,607	1,622,649	397,500	(17,212,088)	936,668
Private placement	4,476,999	671,550	-	(397,500)	-	274,050
Share issuance costs	-	(37,866)	-	-	-	(37,866)
Comprehensive loss for the period	-	-	-	-	(526,230)	(526,230)
Balance – June 30, 2013	73,407,873	\$ 16,762,291	\$ 1,622,649	\$ -	\$ (17,738,318)	\$ 646,622

- See Accompanying Notes -

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2013	2012	2013	2012
Expenses				
Accounting and audit	\$ 8,325	\$ 20,503	\$ 16,275	\$ 34,573
Conferences and conventions	2,808	1,435	17,170	19,258
Consulting	-	5,600	-	7,600
Depreciation	2,961	4,111	5,833	8,222
Exploration and evaluation <i>(Note 4)</i>	6,043	128,125	241,189	370,764
Foreign exchange loss (gain)	4,097	4,424	(7,872)	382
General exploration	1,640	3,978	2,549	5,149
Investor relations and promotions	7,913	8,109	25,346	48,967
Legal fees	5,430	2,122	6,169	10,920
Listing and filing fees	4,353	3,245	10,903	15,070
Management fees	15,000	15,000	30,000	27,500
Office services and supplies	26,712	26,512	53,055	50,395
Salaries and wages	55,528	56,346	116,825	102,281
Shareholder communications	2,808	10,362	5,766	13,446
Share-based compensation <i>(Note 7)</i>	-	1,359	-	181,481
Transfer agent fees	1,268	3,586	2,680	6,538
Travel and accommodation	142	3,549	6,913	12,197
	(145,028)	(298,366)	(532,801)	(914,743)
Other item				
Deferred flow-through premium realized <i>(Note 6)</i>	6,571	-	6,571	-
Loss and comprehensive loss for the period	\$ (138,457)	\$ (298,366)	\$ (526,230)	\$ (914,743)
Loss per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted-average shares Outstanding – basic and diluted	73,407,873	66,827,094	73,261,845	66,002,916

- See Accompanying Notes -

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

Expressed in Canadian Dollars
Unaudited

CASH RESOURCES PROVIDED BY (USED IN)	2013	2012
Operating activities		
Loss for the period	\$ (526,230)	\$ (914,743)
Items not involving cash		
Depreciation	5,833	8,222
Deferred flow-through premium realized	(6,571)	-
Share-based compensation	-	181,481
	<u>(526,968)</u>	<u>(725,040)</u>
Changes in non-cash working capital		
Receivables	12,478	26,806
Prepaid expenses	14,048	(8,664)
Accounts payable and accrued liabilities	(50,866)	5,587
	<u>(551,308)</u>	<u>(701,311)</u>
Investing activities		
Purchase of equipment	<u>(2,416)</u>	-
Financing activities		
Share capital issued for cash	274,050	675,000
Share issuance costs	(37,866)	(29,194)
	<u>236,184</u>	<u>645,806</u>
Effect of exchange rate changes	<u>(7,790)</u>	-
Change in cash and cash equivalents for the period	<u>(325,330)</u>	<u>(55,505)</u>
Cash and cash equivalents - beginning of period	<u>772,600</u>	<u>498,853</u>
Cash and cash equivalents - end of period	<u>\$ 447,270</u>	<u>\$ 443,348</u>

- See Accompanying Notes -

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

Expressed in Canadian Dollars
Unaudited

1. NATURE AND CONTINUANCE OF OPERATIONS

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

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Several adverse conditions and material uncertainties cast significant doubt upon the validity of this assumption. Consistent with other junior exploration companies, the Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests.

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

	June 30, 2013	December 31, 2012
Deficit	\$ 17,738,318	\$ 17,212,088
Working capital	\$ 552,136	\$ 838,765

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and basis of presentation

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

Except for accounting policy changes as detailed in Note 3, these condensed interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2012. All financial information presented herein is unaudited. The Company's board of directors approved these condensed interim consolidated financial statements for issue on August 28, 2013.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

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Unaudited

3. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2013, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards. The Company has adopted these new and amended standards without any significant effect on its financial statements.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Amendment to IAS 1 - Presentation of Financial Statements

The amendments to IAS 1 require items to be grouped within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

Amendment to IAS 34 - Interim financial reporting

IAS 34 was amended to establish criteria for disclosing total segmented assets and require certain fair value disclosures.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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4. EXPLORATION AND EVALUATION

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

La Esperanza project, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the La Esperanza project, subject to a Net Smelter Returns royalty ("NSR") of up to 1%, which can be purchased by the Company for US\$100,000. The claims are located in Zacatecas State, Mexico. The Company acquired its 100% interest in these claims by making option payments of US\$160,000 over a four-year period with the final payment of US\$75,000 being completed in May 2011. From 2006 to 2010, the Company added further claims by direct staking to increase the project area.

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

Sandra and Escobar projects, Mexico

The Company has staked the Sandra claims located in Durango State, Mexico. In 2008, the Company entered into an agreement with Pan American Silver Corp. ("Pan American") providing an option for the Company to earn a 51% interest in Pan American's Escobar claims for US\$1,000,000 in exploration expenditures over three years. Upon the Company earning in, Pan American had the option to back-in to a 51% interest in the combined claims of Pan American's Escobar project and the Company's Sandra project by paying the Company three times its exploration expenditures on the combined claims, forming a 51% Pan American and 49% Canasil joint venture.

During 2012, the Company provided Pan American with notice that it had earned its interest in the Escobar claims. The agreement provided that should Pan American decide not to exercise its back-in right, it could sell its 49% interest in the Escobar claims to the Company for US\$5,000,000 in a combination of cash and shares to be paid over three years, and would retain a 2.5% NSR on future production from the Escobar claims. If the Company decided not to purchase Pan American's 49% interest, then the Company's 51% interest in the Escobar claims would revert to a 40% interest. Pan American advised the Company that it did not intend to exercise its back-in right and the Company advised Pan American that it did not intend to purchase the 49% interest in the Escobar claims, thereby reducing the Company's interest in the Escobar claims to 40%.

During 2011, the Company entered into an option agreement granting the Company the right to earn a 100% interest in certain claims that form part of the Sandra and Escobar projects. The agreement calls for payments of US\$300,000 and exploration expenditures of US\$150,000 over 42 months and provides for a 2% NSR that the Company can purchase for US\$200,000. To June 30, 2013, the Company has made payments of US\$55,000; subsequent to June 30, 2013, the Company terminated this agreement and returned the property to the owner. In addition, the Company has entered into a further agreement to purchase various additional claims in the area for approximately \$25,000.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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4. EXPLORATION AND EVALUATION - *continued*

Salamandra and Victoria projects, Mexico

During 2006, the Company entered into an option agreement to earn a 100% interest in the Salamandra project located in Durango State, Mexico, subject to an NSR of 2%. The Company can purchase one-half of the NSR for US\$1,000,000. The agreement required the Company to make cash payments totalling US\$500,000 over a period of five years and provided for an option to extend the final payment over an additional three or five years. The Company completed payments of US\$50,000 and in May 2012 elected to extend the final payment of US\$450,000 over a period of five years based on a specific schedule of payments totalling US\$550,000. In February 2013, the Company and the optionor amended the agreement to provide for a further option to extend the final payment over a period of eight years based on a specific schedule of payments totalling \$600,000. During the period, the Company made an additional payment of US\$25,000 bringing the total payments made to June 30, 2013 to US\$75,000. The Company has also staked additional claims to significantly increase the project area.

In May 2013, the Company signed an option agreement with MAG on the Salamandra project providing MAG with the right to earn up to a 70% interest in the property. MAG can earn an initial 55% interest by paying the Company \$750,000 and incurring \$5,500,000 in exploration expenditures over a four-year period. Thereafter, MAG can earn an additional 15% interest by delivering a feasibility study on the project or by incurring an additional \$20,000,000 in exploration expenditures within four years. Upon executing a binding letter agreement, the Company received the initial cash payment of \$150,000. The letter agreement calls for the Company and MAG to sign a definitive agreement with 120 days, at which point the first year expenditure requirement of \$1,000,000 (including a minimum of 3,000 metres of drilling) becomes a firm commitment. Upon MAG earning either a 55% or 70% interest in the project, the Company and MAG will form a joint venture to further develop the property.

Carina project, Mexico

During 2010, the Company signed an agreement providing Pan American with the option to earn a 55% interest in the Carina project by making cash payments of US\$365,000 to the Company and completing US\$3,650,000 in exploration expenditures over a period of four years. The Company received the first two cash payments, totalling US\$109,500, and Pan American fulfilled the minimum \$200,000 required exploration expenditures in accordance with the agreement. In April 2012, Pan American terminated the option agreement and returned the property to the Company.

Other projects

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

In January 2011, the Company signed an agreement to acquire a 100% interest in the Candelaria claims that now form part of the Nora project. Upon signing, the Company paid US\$30,000 and issued 200,000 stock options at \$0.35 to the optionors. The agreement provides for a 1% NSR and calls for semi-annual lease payments starting at US\$5,000 in 2011 and gradually increasing to US\$20,000 by 2014 and thereafter. All such lease payments made will be credited towards the Company's purchase of the NSR for an agreed price of US\$3,000,000. To June 30, 2013, the Company has made semi-annual lease payments totalling US\$10,000. During 2012, the Company and the optionor amended the agreement to suspend further semi-annual lease payments until such time as the Company either enters into an option or joint venture agreement with a third party, or commences active exploration activities, including drilling, on the Candelaria property.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

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Unaudited

4. EXPLORATION AND EVALUATION - continued

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

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

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

2012	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,013,670
- Expenditure recoveries	-	-	-	(202,669)
Other, Canada	2,000	3,861	5,861	135,832
Sandra and Escobar, Mexico	7,944	128,248	136,192	1,146,332
La Esperanza, Mexico	-	63,777	63,777	980,598
- Expenditure recoveries	-	-	-	(166,475)
- Option payments received	-	-	-	(150,000)
Colibri, Mexico	-	19,938	19,938	1,687,256
Salamandra, Mexico	-	48,064	48,064	1,243,633
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	47,963	47,963	385,896
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	20,668	20,668	101,061
- Expenditure recoveries	-	(17,498)	(17,498)	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	45,799	45,799	331,013
	\$ 9,944	\$ 360,820	\$ 370,764	\$ 7,168,659

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2013**

Expressed in Canadian Dollars

*Unaudited***4. EXPLORATION AND EVALUATION - continued****Expenditures for the period ending June 30, by activity, are as follows:**

	2013	2012
Acquisition and option payments	\$ 47,725	\$ 9,944
Administration	59,400	55,135
Assays	20,147	11,258
Consulting	-	1,680
Field costs	12,157	28,946
Geology	63,740	72,007
Geophysical	34,264	-
Land holding costs	176,337	178,458
Legal	29,928	5,656
Mapping and surveying	1,026	23,150
Transportation and rentals	866	2,028
Expenditure recoveries	(54,401)	(17,498)
Option payments received	(150,000)	-
	<u>\$ 241,189</u>	<u>\$ 370,764</u>

5. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

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

- accounts payable includes \$nil (2012 – \$70,000) in accrued director fees due to non-executive directors;
- key management includes executive and non-executive directors and officers. The compensation paid or payable to key management is as follows:

	2013	2012
Salaries and wages	\$ 75,000	\$ 75,000
Management fees	30,000	27,500
Geological consulting fees	-	7,350
Legal fees	37,794	10,920
Share-based compensation (i)	-	128,114
	<u>\$ 142,794</u>	<u>\$ 248,884</u>

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

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

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6. SHARE CAPITAL

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

Private placements

In February 2012, the Company issued 3,000,000 units at a price of \$0.225 per unit for gross proceeds of \$675,000. Each unit consisted of one common share and one-half of one share purchase warrant with each full warrant entitling the holder to purchase one common share at a price of \$0.35 until February 20, 2013. The warrants are subject to an accelerated exercise provision. The Company paid commissions and finder's fees of \$29,194.

In December 2012, the Company issued 2,103,782 flow-through shares at a price of \$0.185 per share for gross proceeds of \$389,200 and accrued a finder's fee of \$31,136. The flow-through feature of the shares was valued at \$0.035 per share, resulting in a flow-through premium liability of \$73,632. The Company is required to incur \$389,200 in qualifying expenditures during 2013. During the period, the Company incurred \$34,733 in qualifying expenditures and realized \$6,571 of the deferred flow through premium.

In January 2013, the Company issued 4,476,999 units at price of \$0.15 per unit for gross proceeds of \$671,550. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share of the Company at a price of \$0.225 until January 2014. Subscriptions totalling \$397,500 in respect of these shares were received during December 2012. The warrants are subject to an accelerated exercise provision. The Company paid finders' fees of \$27,000 and legal and filing fees of \$10,866.

Shareholder rights plan

On October 4, 2012, the Company adopted a shareholder rights plan that has been approved by the TSX Venture exchange and is subject to ratification by the Company's shareholders. The plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Pursuant to the terms of the plan, any bids that meet certain criteria intended to protect the interests of all shareholders are deemed to be "Permitted Bids". In the event that a bid, other than a Permitted Bid, to acquire 20% or more of the common shares is made, shareholders other than those involved in the take-over bid will be entitled to exercise rights to acquire common shares of the Company at a discount to the market price. The shareholders rights plan expires on October 4, 2015.

7. STOCK OPTIONS AND WARRANTS

The Company has an Incentive Stock Option Plan (the "Plan") which complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares, and providing that at no time may more than 5% of the outstanding issued common shares be reserved for incentive stock options granted to any one individual. The Plan provides for the issuance of options to directors, officers, employees and consultants of the Company and its subsidiary to purchase common shares of the Company. The stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Unaudited

7. STOCK OPTIONS AND WARRANTS - continued

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2011	610,000	\$ 0.600	3,980,000	\$ 0.29
Issued/granted	1,500,000	\$ 0.350	1,700,000	\$ 0.19
Expired	<u>(610,000)</u>	\$ 0.210	<u>(755,000)</u>	\$ 0.50
Outstanding, December 31, 2012	1,500,000	\$ 0.350	4,925,000	\$ 0.22
Issued/granted	4,476,999	\$ 0.225	-	\$ -
Expired	-	\$ -	(187,500)	\$ 0.32
Forfeited	<u>-</u>	\$ -	<u>(112,500)</u>	\$ 0.18
Outstanding, June 30, 2013	5,976,999	\$ 0.225	4,625,000	\$ 0.22
Exercisable, June 30, 2013	5,976,999	\$ 0.225	4,625,000	\$ 0.22

At June 30, 2013, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	100,000	\$ 0.25	July 10, 2013
	150,000	\$ 0.30	July 15, 2013
	75,000	\$ 0.20	January 20, 2014
	875,000	\$ 0.10	January 27, 2015
	1,750,000	\$ 0.28	November 23, 2015
	200,000	\$ 0.35	January 13, 2016
	1,175,000	\$ 0.20	January 20, 2017
	<u>300,000</u>	\$ 0.18	October 29, 2017
	4,625,000		
Warrants	1,500,000	\$ 0.225	November 20, 2013 (i)
	3,176,999	\$ 0.225	January 4, 2014
	<u>1,300,000</u>	\$ 0.225	January 14, 2014
	5,976,999		

(i) On February 20, 2013, the Company reduced the exercise price of these warrants from \$0.35 to \$0.225 and extended the expiry date to November 20, 2013.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2013**Expressed in Canadian Dollars
*Unaudited***7. STOCK OPTIONS AND WARRANTS – continued****Share-based compensation**

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

	2013	2012
Total options granted	-	1,250,000
Average exercise price	\$ -	\$ 0.20
Estimated fair value of options granted	\$ -	\$ 176,952
Estimated fair value per option	\$ -	\$ 0.14

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

	2013	2012
Risk-free interest rate	-	1.38%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	95%
Expected forfeiture rate	-	0.00%
Expected option life in years	-	4.82

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

	2013	2012
Number of options vested in period	37,500	1,325,000
Compensation recognized in period	\$ -	\$ 181,481

8. SEGMENTED INFORMATION

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

2013	Canada	Mexico	Total
Plant and equipment	\$ 9,653	\$ 56,833	\$ 66,486
2012	Canada	Mexico	Total
Plant and equipment	\$ 10,570	\$ 67,061	\$ 77,631

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2013

This Interim Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated August 28, 2013, and provides information on the Company's activities for the six-month period ended June 30, 2013, and subsequent activity to the date of this report. The following discussion and analysis of the financial position and performance of the Company should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the six months ended June 30, 2013, and the audited consolidated financial statements and related notes for the year ended December 31, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 2012.

Overview and Outlook

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

In Mexico, during the period, at the Sandra-Escobar project the Company initiated a surface sampling program to evaluate and define zones of disseminated silver mineralization outlined during the 2012 exploration programs. The Company also continued to review the results of the 2012 surface sampling programs at the Salamandra project to define drill targets, and applied for and received drill permits for both the Sandra-Escobar and Salamandra projects, which are both ready for further drill testing. In addition, the Company and MAG Silver Corp. ("MAG") signed an option agreement on the Salamandra project providing for MAG to earn up to a 70% interest in the project, and the Company received the initial cash payment of \$150,000 due under the agreement. At the La Esperanza project, MAG completed and reported results from the Phase-2 diamond drill program started in late 2012, for a total of 3,049.50 metres in 12 drill holes on the Fatima and San Pascual veins in the northwest of the project area – nine drill holes to test the Fatima vein and three drill holes to test the San Pascual vein. At the Fatima vein, the drill holes consistently intercepted the vein over significant widths, however with relatively low silver values, and one of the drill holes at the San Pascual vein returned good silver and high lead and zinc values. The results indicate potential for significant silver-lead-zinc mineralization associated with these veins. MAG reported total qualifying expenditures of \$2,468,380 at La Esperanza as at December 31, 2012. In May 2013, the Company received notice from MAG that it was terminating its option on the La Esperanza project and returning the property to the Company. All the mineral claims in Mexico were maintained in good standing.

There was no significant activity on the Company's projects in British Columbia, Canada, during the period other than maintaining all claims in good standing and completing a remote sensing survey on the Vega copper-gold, Lil silver, and Granite gold projects. The data set includes three separate sets of satellite image data including Worldview 2 multispectral high spatial resolution image data, Radarsat 1F fine Synthetic Aperture Radar (SAR) data, Short Wave Infra-red (SWIR) and Long Wave Thermal Infra-red (TIR) data, together with available archived geoscience data for the project areas. The data outlined several additional target areas at all projects for further follow up. In late August 2013, the Company re-established its camp at the Brenda project and mobilized a drill rig to complete a 1,000 metre diamond drill program to investigate the possibility of higher grade gold-copper mineralization below the prior drill holes BR-07-04 and BR-07-05, both of which showed increasing grades with depth down to a depth of 562 metres.

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

In January 2013, the Company completed a private placement of 4,476,999 units at \$0.15 per unit to raise gross cash proceeds of \$671,550, of which \$397,500 was received in December 2012, and the balance of \$274,050 was received in January 2013 (see "Outstanding Share Data").

As at June 30, 2013, the Company had working capital of \$552,136, which includes \$354,467 in unspent proceeds from the issuance of flow-through shares and a non-cash deferred flow-through premium liability of \$67,061. The Company must expend the flow-through funds on qualifying expenditures on its British Columbia projects during 2013.

Subsequent to June 30, 2013, the Company terminated the option agreement to acquire certain claims within the Sandra-Escobar project area in Durango, Mexico, and mobilized to the Brenda project in British Columbia, Canada, to complete a planned 1,000 metre diamond drill program from the end of August to mid-September 2013.

Due to the current uncertainties in the financial markets and low share prices, the Company will endeavour to preserve its financial position and will not undertake direct high cost exploration expenditures such as drilling (except for the Brenda property, which will be completed with flow-through funds), which would be highly dilutive if financed at current share prices. The Company has a very strong project portfolio with seven drill ready projects in Mexico and BC, Canada, providing opportunities for further cooperation agreements and non-dilutive sources of funding to advance its mineral exploration projects. Consequently the Company's focus is to attract additional high quality joint venture partners on its drill ready projects allowing for further work and results without additional dilution. Discussions are currently in progress with a number of potential partners.

Mineral Properties

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

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

Exploration projects in Mexico

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

The Company holds a 100% interest in the La Esperanza project claims covering 18,954 hectares. The project is located on the border of Durango and Zacatecas States, 100 kilometres south-southeast of the City of Durango. A Phase 1 diamond drill program consisting of nine drill holes for a total of 1,432 metres was completed in 2006 confirming a wide high grade silver-lead-zinc mineralized vein which is open in all directions. In 2010 the Company completed geological mapping and surface sampling to investigate four high-grade silver vein occurrences in newly acquired claim areas, all returning encouraging silver values.

In August 2010, the Company signed an option agreement with MAG Silver Corp. (MAG) providing for MAG to earn a 60% interest in the La Esperanza project for expenditures of \$5,000,000 and cash payments to Canasil of \$500,000 over a period of four years, as well as subscribing for private placements of up to \$350,000 in Canasil shares (completed).

In October 2010, MAG completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey, and in 2011 worked on the interpretation of this survey, upgrading of 30 kilometres of access roads in the project area, and geological mapping and surface sampling on the four vein systems to define drill targets. MAG carried out a Phase-1 drill program in December 2011 and the first quarter of 2012, completing 3,247 metres of drilling in 11 drill holes. MAG reported encouraging drill intercepts from three drill holes on a blind section 100 metres northwest along strike from previous drilling completed by Canasil, intersecting the La Esperanza vein with increasing widths and grades with depth. The deepest hole, ES12-03, intersected 10.28 metres (8.22 metres true width) assaying 97 g/t silver, 1.1% lead and 2.3% zinc. Within this zone there is a higher grade interval reporting 278 g/t silver, 2.8% lead and 5.8% zinc over 2.42 metres associated with a quartz amethyst vein indicating the upper levels of an epithermal system; more drilling is required to investigate this vein at depth. MAG commented that: "The wide intercepts of quartz vein and breccia intercepted appear to reflect a NW plunging mineralized zone, supporting the premise that the structure may host significant mineralization over favourable widths."

MAG started a Phase-2 drill program in October 2012 and completed 12 diamond drill holes for a total of 3,049.50 metres – 9 drill holes on 5 sections along a total strike length of 835 metres to test the Fatima vein and 3 drill holes on 2 sections 350 metres apart to test the San Pascual vein, both located in the northwest of the project area. At the Fatima vein, the drill holes consistently intercepted the vein over significant widths, however with relatively low silver values. The best intercept from the Fatima vein was from drill hole FA12-05 at a core depth of 155.55 metres with 4.15 metres (true width 2.76 metres) of 0.07 g/t gold, 92.4 g/t silver, 0.98% lead and 0.11% zinc, including 2.76 metres (true width 1.84 metres) of 0.07 g/t gold, 111.5 g/t silver, 1.04% lead and 0.14% zinc. The best intercept from the San Pascual vein was from drill hole SP12-01 at a core depth of 79.00 metres with 4.93 metres (true width 2.19 metres) of 0.19 g/t gold, 104.2 g/t silver, 2.57% lead and 7.88% zinc, including 2.77 metres (true width 1.23 metres) of 0.23 g/t gold, 162.2 g/t silver, 3.91% lead and 13.39% zinc. The results indicate potential for significant silver-lead-zinc mineralization associated with these veins.

MAG reported expenditures of \$1,471,735 during 2012, in addition to \$996,645 in total qualifying exploration expenditures reported up to December 31, 2011, for a total of \$2,468,380 to December 31, 2012. In May 2013, MAG terminated the option agreement and returned the property to the Company.

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

The 100%-owned Sandra project covers 7,512 hectares, located 183 kilometres northwest of the City of Durango. The Company has advanced exploration on the Sandra project together with the adjoining 634 hectare Escobar claims of Pan American Silver Corp. (Pan American) under an agreement with Pan American from 2010 to 2012 (described below). Compilation and analysis of past surface sampling and geological mapping data in the project area outlined a high level gold-silver system centered on a large altered rhyolite dome complex, with surrounding argillic and potassic alteration zones with extensive evidence of gold, silver and base metal mineralization. These features are indicative of a disseminated gold-silver system, as well as several high-grade silver-gold veins identified by surface mapping.

During 2011, the Company completed a 420 line-kilometre ZTEM airborne geophysical survey, petrographic analysis of 23 surface samples, a high resolution satellite imaging survey to prepare detailed contour maps, and a 1,848-metre diamond drill program in eleven drill holes. These programs confirmed evidence of a large hydrothermal system centred on an intrusive source with the potential for hosting both high-grade vein style and disseminated mineralization. The mineralized zones observed at surface with veins and outcrops consistently return high silver, gold, copper, lead and zinc mineralization (silver grades up to 1,465 g/t, gold grades up to 19.95 g/t, copper grades up to 3.75% in surface samples). A shallow drill hole to test the Maria Fernanda vein, with a strike length of over 1.5 km and which is open along strike and at depth, returned 0.40 metres with 2.58 g/t Au, 429 g/t Ag, 0.53% Cu. This is typical of the narrow high-grade vein systems in the Guanacevi district being successfully mined by Endeavour Silver Corp. and Great Panther Silver Corp.

During 2011, the Company entered into an option agreement to earn a 100% interest in certain claims that form part of the Sandra and Escobar projects, for payments of US\$300,000 and exploration expenditures of US\$150,000 over 42 months, and a 2% NSR that the Company can purchase for US\$200,000. To date, the Company has made payments of US\$55,000. Subsequent to the period, the Company terminated this option agreement. In addition, the Company has entered into a further agreement to purchase various additional claims in the area for approximately \$25,000.

During 2012, the Company completed an ASTER satellite alteration imaging survey, extensive surface sampling and mapping over the areas of ZTEM anomaly and surrounding vein targets, and an 11.8 line-kilometre ground IP survey to define further drill targets. The 2011 and 2012 exploration programs outlined seven significant silver-gold targets over an area of 25 square km for future drilling. These results indicate a similar geologic setting to some major silver and gold deposits in northern Durango State such as Silver Standard Resources' La Pitarrilla deposit, with Measured and Indicated Resources of 643 million ounces, and a recently completed positive feasibility study for a 32-year mining operation based on Probable Reserves of 479 million ounces silver. During the period the Company continued with further surface sampling to evaluate and define zones of disseminated silver mineralization outlined during the 2012 exploration programs and define drill targets. The Company also applied for and received a comprehensive drill permit for the project. Expenditures during the period were \$115,627 (2012 - \$136,192).

The agreement with Pan American provided for the Company to earn an initial 51% interest in Pan American's Escobar claims by completing \$1,000,000 in exploration expenditures within three years. In 2012, the Company completed this earn-in and notified Pan American accordingly. Following the earn-in, Pan American had the option to back-in to a 51% interest in the combined Sandra and Escobar claims by paying three times Canasil's exploration expenditures on the combined claims, forming a 51% Pan American 49% Canasil joint venture. The agreement provided that the Pan American could sell its 49% interest in the Escobar claims to the Company should it decide not to exercise its back-in right. As Pan American did not exercise its back-in right, and Canasil decided not to purchase Pan American's 49% interest, the Company's interest in the Escobar claims was reduced to from 51% to 40%. As a result Canasil retains 100% interest in its Sandra claims and 40% interest in Pan American's Escobar claims.

Salamandra zinc-silver project, Durango State, Mexico

The Salamandra project is located in Durango State, 35 km northeast of the City of Durango, with excellent access via paved and gravel roads. The project area covers 14,719 hectares, acquired through staking of claims and an option to purchase a 100% interest in the central 900 hectares of claims, subject to an NSR of 2%, by making option payments over a period of five years totaling US\$500,000. The Company and the optionor have amended the payment schedule with a further option based on a specific schedule of payments that total \$600,000 over a period of eight years.

In 2007, the Company completed a Three-Dimensional Induced Polarization geophysical survey, geological mapping and surface sampling programs, and twelve diamond drill holes for a total of 3,595 metres. Eleven out of the twelve drill holes intersected zinc-silver mineralized zones associated with cal-silicate skarn alteration adjacent to quartz porphyry dykes. High grade silver and zinc intercepts of up to 12.00% zinc over 7.45 metres and 102 g/t silver over 9.85 metres are present within wider mineralized sections of 20 - 45 metres in width grading from 0.32% - 1.08% zinc and 2 g/t - 45 g/t silver. The mineralized zones identified to date appear to be part of a potentially large mineralized system, which is open along strike and to depth, only a small part of which has been explored to date.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2013

In February 2011, the Company completed a 617 line-kilometre ZTEM airborne geophysical survey. Interpretation of the survey results show a large electromagnetic signature over an area of 3.5 kilometres by 2.5 kilometres located east of the area of previous drilling. Surface sampling in this area identified old workings with a vein exposure where a 0.90 metre sample returned 2,150 g/t silver, 5.39% copper and 1.89% zinc. In 2012, the Company continued with the surface sampling and mapping program collecting 949 surface samples over the area of ZTEM anomaly. This program returned significant silver-copper-zinc-lead as well as arsenic-antimony geochemical anomalies providing further indications of the potential for a buried intrusive hosted mineralized system. During the period, the Company continued with this program and also applied for and received a comprehensive drill permit. The geology and style of mineralization observed at Salamandra are similar to the San Martin silver-base-metal mine of Grupo Mexico, located 80 kilometres southeast of the project, and the largest underground mining operation in Mexico. Expenditures during the period at Salamandra amounted to \$136,521 (2012 - \$48,064) before recoveries received of \$54,401 (2012 - \$nil).

In May 2013, the Company signed an option agreement with MAG on the Salamandra project providing MAG with the right to earn up to a 70% interest in the property. MAG can earn an initial 55% interest by paying the Company \$750,000 and incurring \$5,500,000 in exploration expenditures over a four-year period. Thereafter, MAG can earn an additional 15% interest by delivering a feasibility study on the project or by incurring an additional \$20,000,000 in exploration expenditures within four years. Upon executing a binding letter agreement, the Company received the initial cash payment of \$150,000. The letter agreement calls for the Company and MAG to sign a definitive agreement with 120 days, at which point the first year expenditure requirement of \$1,000,000 (including a minimum of 3,000 metres of drilling) becomes a firm commitment. Upon MAG earning either a 55% or 70% interest in the project, the Company and MAG will form a joint venture to further develop the property.

Carina Project, Durango State, Mexico

The Carina project covers 12,147 hectares and is located 45 kilometres northeast of the City of Durango. The project lies 6.5 kilometres southwest of the La Preciosa project of Orko Silver Corp., previously being advanced under an option agreement between Pan American Silver and Orko, and recently acquired by Coeur d'Alene Mines valued at over \$350 million. The area has excellent road access and infrastructure. The project hosts a number of quartz veins, breccias and stockwork zones, striking northwest-southeast and composed of a series of parallel quartz and fluorite veins with bladed textures and widths of 1.5 metres to 2.5 metres. A broad zone of quartz stockwork and breccia structures covers an area of 500 metres by 800 metres. A surface sampling and geological mapping program over this area, with a total of 170 samples, returned anomalous gold and silver values. The results indicate a high level epithermal system with potential for extending beyond the outcropping mineralization.

In November, 2010, the Company signed an option agreement with Pan American providing for Pan American to earn a 55% interest in the Carina project for expenditures of US\$3,650,000 and cash payments to Canasil of US\$365,000 over a period of four years. Pan American completed the required cash payments and exploration commitments under the agreement by conducting geological mapping and surface sampling and a drill program of 1,008 metres in six drill holes returning anomalous silver and gold values. In April 2012, Pan American withdrew from the agreement in April 2012 following their decision to withdraw from the neighbouring La Preciosa project with Orko. Total expenditures reported by Pan American under the agreement were \$357,807.

Other projects, Mexico

There was no significant activity on these projects during the period. All project claims were maintained in good standing and all required claim taxes were paid. Expenditures on the Company's other projects in Mexico during the period totaled \$61,455 (2012 - \$45,799).

Exploration projects in British Columbia, Canada

There was no significant activity on the Company's projects in British Columbia, Canada, during the period other than completion of remote sensing surveys on the Vega, Lil and Granite projects and all mineral claims remained in good standing. Expenditures on the Company's BC projects during the period totaled \$34,733 (2012 - \$5,861).

Brenda gold-copper project

The Brenda gold-copper property covers 4,450 hectares, and is located in north-central British Columbia, Canada, 25 km northwest of the past producing Kemess South Mine. Cumulative exploration expenditures of over \$3,500,000 to date include satellite surveys, airborne and ground geophysics, extensive geological mapping and sampling and over 10,000 metres of diamond drilling in 63 drill holes. These programs have confirmed the potential for a deep-seated porphyry gold-copper system at the Brenda project, similar to the nearby Kemess Underground (North Kemess) deposit advancing through feasibility by AuRico Gold Corp. with indicated resources of 3 million ounces gold and 1 billion pounds copper (185 million tonnes with an average grade of 0.48 g/t Au and 0.25% Cu).

CANASIL RESOURCES INC.**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the six months ended June 30, 2013

At Brenda, the two deepest drill holes have intersected broad gold-copper mineralized zones with increasing grades to a depth of 560 metres. Mineralization is open to depth and to date drilling has not yet intersected any intrusive rocks which are presumed to be the core of the mineralized system. In these drill holes, the average grade of 5 intercepts above a depth of 450 metres was 0.48 g/t gold and 0.079% copper over a combined intercept length of 393.72 metres. The average grade of 3 intercepts below 450 metres was 0.68 g/t gold and 0.116% copper over a combined intercept length of 92.84 metres. These results compare favourably with the average grades of the Kemess Underground deposit, even though the projected mineralized intrusive zone at depth has not been reached. A significant number of drill core samples returned assays of over 1.0 g/t gold and 0.15% copper. The mineralized system averages 300 to 400 metres in width, and has been traced along a strike length of 400 metres by drilling, with a potential strike length in excess of 1,000 metres indicated by the chargeability anomalies observed in the 3-Dimensional Induced Polarisation geophysical survey.

The increasing gold and copper grades at depth and the strength of the highly altered mineralization observed in the drill core, in conjunction with the strong anomalies observed in the geophysical survey, are highly encouraging and indicate the potential for a large deep-seated gold-copper porphyry system. The mineralized environment observed at Brenda appears similar to that of the deep-seated Cadia East underground gold-copper porphyry deposit of Newcrest Mines in Eastern Australia, and the adjacent North Kemess deposit, which occur below a depth of 600 metres to 750 metres.

In late August 2013, the Company re-established its camp at the Brenda project and mobilized a drill rig to complete a 1,000 metre diamond drill program to investigate the possibility of higher grade gold-copper mineralization below the prior drill holes BR-07-04 and BR-07-05, both of which showed increasing grades with depth down to a depth of 562 metres.

Other projects in British Columbia, Canada

The Company initiated a remote sensing survey on the Vega copper-gold, Lil silver, and Granite gold projects in north-central British Columbia, Canada. The data set includes three separate sets of satellite image data including Worldview 2 multispectral high spatial resolution image data, Radarsat 1F fine Synthetic Aperture Radar (SAR) data, Short Wave Infra-red (SWIR) and Long Wave Thermal Infra-red (TIR) data, together with available archived geoscience data for the project areas. Review of the data identified several additional target zones at each project for further investigation at these projects.

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2013

Mineral Properties – Exploration and Evaluation Expenditures

A summary of the Company's exploration and evaluation expenditures for the six months ended June 30 follows:

	2013	2012
Canada		
Brenda Property		
Geophysical	\$ 1,069	\$ -
Mapping and surveying	469	-
	<u>1,538</u>	<u>-</u>
Other Properties		
Acquisition and option payments	-	2,000
Assays	-	34
Geophysical	33,195	-
Land holding costs	-	3,827
	<u>33,195</u>	<u>5,861</u>
Mexico		
Sandra and Escobar Properties		
Acquisition and option payments	21,536	7,944
Administration	15,864	18,399
Assays	20,147	11,012
Field costs	5,009	21,887
Geological	35,240	43,009
Land holding costs	13,578	11,588
Legal	2,866	-
Mapping and surveying	557	21,762
Transportation and rentals	830	591
	<u>115,627</u>	<u>136,192</u>
La Esperanza Property		
Administration	6,529	9,654
Field costs	1,622	2,419
Geological	6,512	6,718
Land holding costs	25,493	38,583
Legal	-	5,656
Transportation and rentals	-	747
	<u>40,156</u>	<u>63,777</u>
Salamandra Property		
Acquisition and option payments	26,189	-
Administration	17,728	6,792
Assays	-	211
Field costs	5,562	4,279
Geological	9,450	12,178
Land holding costs	50,530	23,216
Legal	27,062	-
Mapping and surveying	-	1,388
Option payments received	(150,000)	-
Expenditure recoveries	(54,401)	-
	<u>\$ (67,880)</u>	<u>\$ 48,064</u>

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended June 30, 2013

Exploration and evaluation expenditures for the six months ended June 30 – *continued*

	2013	2012
Mexico – continued		
Carina Property		
Administration	\$ 4,064	\$ 3,122
Field costs	-	291
Geological	1,373	2,358
Land holding costs	19,547	14,460
Transportation and rentals	-	437
Expenditure recoveries	-	(17,498)
	24,984	3,170
Victoria Property		
Administration	960	7,243
Consulting	-	1,419
Geological	4,981	2,069
Land holding costs	-	37,232
	5,941	47,963
Colibri Property		
Administration	4,257	3,011
Consulting	-	261
Geological	2,454	1,475
Land holding costs	19,462	15,191
	26,173	19,938
Other Properties		
Administration	9,998	6,914
Field costs	-	70
Geological	3,730	4,200
Land holding costs	47,727	34,361
Transportation and rentals	-	254
	61,455	45,799
Total costs for period	\$ 241,189	\$ 370,764

Results of Operations

Operating expenses during the period were \$532,801 (2012 - \$914,743) and include \$241,189 (2012 - \$370,764) in Exploration and Evaluation expenditures. The operating expenses also include non-cash Share-Based Compensation of \$nil (2012 - \$181,481) related to the vesting of options during the period. Investor Relations and Conferences and Conventions expenses decreased to \$42,516 (2012 - \$68,225) reflecting the Company's cost saving efforts in this area. Due to adverse market conditions, the Company has endeavoured to reduce operating and exploration expenditures wherever possible.

Net cash used for operating activities during the period, before changes in non-cash working capital items, was \$526,968 (2012 - \$725,040), which includes \$241,189 (2012 - \$370,764) in Exploration and Evaluation expenditures, reflecting the Company's current cost reduction measures. Net cash flow from financing activities was \$236,184 as a result of the Company completing a private placement in January 2013 (2012 - \$645,806 resulting from the completion of a private placement in February 2012).

CANASIL RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Summary of Quarterly Information

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

Year	2013		2012				2011	
Quarter ended:	Jun. 31	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Revenue	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Exploration and evaluation expense	\$6,043	\$235,146	\$70,214	\$(19,067)	\$128,125	\$242,639	\$59,407	\$106,453
Share-based compensation expense	\$nil	\$nil	\$44,142	\$nil	\$1,359	\$180,122	\$26,250	\$38,361
Loss and comprehensive loss	\$138,457	\$387,773	\$281,144	\$106,826	\$298,366	\$616,377	\$225,712	\$411,883
Loss per share: basic and diluted	\$0.00	\$0.01	\$0.00	\$0.00	\$0.00	\$0.01	\$0.00	\$0.01
Weighted-average shares	73,407,873	73,114,195	66,941,428	66,827,092	66,827,094	65,178,740	63,245,516	63,078,940

Discussion of Quarterly Information

During the third and fourth quarters of 2011, the Company was less active in the field on its 100%-owned mineral properties and moved to reduce expenditures due to the negative market conditions in the resource sector arising from the U.S. and European debt concerns and lower precious and base metal prices. During the third quarter of 2011, the Company received an option payment of \$100,000 from MAG.

During the first quarter of 2012, the Company granted and vested 1,250,000 incentive stock options and recognized \$180,122 in share-based compensation. In addition, during this quarter, the Company incurred exploration and evaluation expenditures of \$242,639, which included field programs and increased land holding costs on its Mexican properties. During the second quarter of 2012, due to a further deterioration of economic and market conditions, the exploration and evaluation expenditures were limited to \$128,125, primarily focused on completing the required expenditures under the Sandra-Escobar option agreement and field work at the Salamandra project. In order to conserve cash resources, expenditures for the third quarter of 2012 were reduced to a minimum, which included land holding costs on its Mexican properties. During this quarter, the Company also received an option payment of \$150,000 from MAG on the La Esperanza project, producing a net exploration and evaluation expense recovery for this quarter. The Company continued to minimize its expenses and expenditures in the fourth quarter of 2012 and granted 450,000 stock options, recognizing \$44,142 in share-based compensation. In the first and second quarters of 2013, the Company conducted minimal exploration work but maintained all of its properties in good standing. Exploration and evaluation expenditures for the first quarter of 2013 include land holding costs of \$151,583, which compares to \$165,174 for the same quarter of 2012. During the second quarter of 2013, the Company completed exploration and evaluation expenditures of \$210,444 and received an option payment of \$150,000 and expenditure recoveries of \$54,401 from Mag on the Salamandra project resulting in net expenditure of \$6,043, which compares to \$128,125 for the same quarter of 2012.

Discussion of Current Quarter

Operating expenses during the current quarter were \$145,028 (2012 - \$298,366) and include \$6,043 (2012 - \$128,125) for Exploration and Evaluation expenditures; the Company received an option payment of \$150,000 (2012 - \$nil) from MAG during the current quarter. The lower loss in 2013 reflects the payment received from Mag on the Salamandra project as well as continued cost cutting measures.

Net cash used for operating activities during the quarter, before changes in non-cash working capital items, was \$142,067 (2012 - \$292,896), which includes \$6,043 (2012 - \$128,125) for Exploration and Evaluation expenditures. The reduced cash outflows during the 2013 quarter reflect the payment received from Mag on the Salamandra project as well as continued cost cutting measures. Cash used for investing activities was \$1,765 (2012 - \$nil). The Company had no financing activities during the quarter (2012 - \$nil).

Liquidity and Capital Resources

The Company has no material income from operations and is dependent upon raising funds through the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sales) in order to finance further acquisitions, undertake exploration and development of mineral properties, and meet general and administrative expenses. Accordingly, management has identified certain conditions that cast significant doubt upon the Company's ability to continue as a going concern (see Note 1 to the June 30, 2013 condensed interim consolidated financial statements). There can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

The Company had working capital at June 30, 2013 of \$552,136 (December 31, 2012 of \$838,765) and cash on hand of \$447,270 (\$772,600 as at December 31, 2012). Included in the working capital balance is a non-cash flow-through premium liability of \$67,061 (December 31, 2012 - \$73,632) that will be realized as the Company incurs its flow through expenditures in 2013. During 2012, the Company issued shares under flow-through agreements that require the Company to incur a balance of qualifying exploration expenditures of \$354,467 on its British Columbia projects in 2013. As at June 30, 2013, the Company had no long- or short-term debt.

The Company has option agreements that require certain future cash payments to maintain its interest in mineral properties, however, these payments can be made at the discretion of the Company and are not firm commitments. The Company currently does not have sufficient resources to fund its planned exploration and operating expenditures over the next twelve months and management recognizes that it will have to raise capital in the coming year either through the sale or option of its mineral properties or through the issuance of share capital.

Given the level of interest in high quality exploration projects, and the Company's large portfolio of prospective projects, management believes that the Company is well positioned to enter into further option, joint venture, or sale agreements to advance its exploration projects and maintain its operations through the coming year.

Related Party Transactions and Key Management Compensation

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

Accounts payable includes \$nil (2012 – \$70,000) in accrued director fees due to non-executive directors;

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

	2013	2012
Salaries and wages	\$ 75,000	\$ 75,000
Management fees	30,000	27,500
Geological consulting fees	-	7,350
Legal fees	37,794	10,920
Share-based compensation (i)	-	128,114
	\$ 142,794	\$ 248,884

(i) Calculated using the Black-Scholes Option-Pricing Model using the assumptions detailed in Note 5 to the June 30, 2013 condensed interim consolidated financial statements.

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

Changes in Accounting Policies

As of January 1, 2013, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards. The Company has adopted these new and amended standards without any significant effect on its financial statements.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 12 – *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Amendment to IAS 1 - *Presentation of Financial Statements*

The amendments to IAS 1 require items to be grouped within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

Amendment to IAS 34 - *Interim financial reporting*

IAS 34 was amended to establish criteria for disclosing total segmented assets and require certain fair value disclosures.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. The Company's most significant accounting judgements relate to the recognition of deferred tax assets, the estimation of share-based compensation, and the determination of functional currency.

The Company has not recognized its deferred tax assets as management does not consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of highly subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these subjective input assumptions can materially affect the fair value estimate. The Company inputs such assumptions in a consistent manner following accepted industry practice. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

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

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, reclamation bonds, and accounts payable and accrued liabilities. Cash and cash equivalents are classified as fair value through profit or loss and are carried at fair value measured using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

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 currency of Mexico (peso), which is held in a major bank in Mexico and used to fund its foreign projects. The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the

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exchange rate between the Canadian dollar and the peso. To manage this currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its on-going exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner. At June 30, 2013, the Company held the equivalent of \$17,994 in cash, \$178,228 in receivables, and \$15,608 in accounts payable, all of which are denominated in pesos.

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, liquidity or market risks in respect of these financial instruments. The Company is exposed to credit risk due to the increasing delay in receiving its IVA refunds from the government of Mexico. The Company continues to use its best efforts to obtain such refunds. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current period.

Disclosure for Venture Issuers without Significant Revenue

Consistent with other companies in the mineral exploration industry, the Company has no source of operating revenue. The Company's condensed interim consolidated financial statements for the period ended June 30, 2013 provide a breakdown of the general and administrative expenses for the period under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common voting shares without par value. As at June 30, 2013, the Company had 73,407,873 common shares issued and outstanding (diluted – 84,009,872) compared to 68,930,874 common shares issued and outstanding (diluted – 75,355,874) as at December 31, 2012.

During the period, the Company completed a private placement that consisted of 4,476,999 shares and 4,476,999 warrants; 187,500 stock options expired unexercised and 112,500 options were forfeited. Notes 6 and 7 to the Company's June 30, 2013 condensed interim consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the period.

Subsequent to June 30, 2013, 250,000 stock options expired unexercised resulting in outstanding shares, on a diluted basis, of 83,759,872 as at the date hereof.

Options

As at the date hereof, a total of 4,375,000 incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
75,000	\$ 0.20	January 20, 2014
875,000	\$ 0.10	January 27, 2015
1,750,000	\$ 0.28	November 23, 2015
200,000	\$ 0.35	January 13, 2016
1,175,000	\$ 0.20	January 20, 2017
300,000	\$ 0.18	October 29, 2017
4,375,000		

Warrants

As at June 30, 2013 and the date hereof, a total of 5,976,999 share purchase warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
1,500,000	\$ 0.225	November 20, 2013 (i)
3,176,999	\$ 0.225	January 4, 2014
1,300,000	\$ 0.225	January 14, 2014
5,976,999		

- (i) On February 20, 2013, the Company reduced the exercise price of these warrants from \$0.35 to \$0.225 and extended the expiry date to November 20, 2013.

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

Subsequent Events

Subsequent to June 30, 2013, the Company terminated the option agreement to acquire certain claims within the Sandra-Escobar project area in Durango, Mexico, and mobilized to the Brenda project in British Columbia, Canada, to complete a planned 1,000 metre diamond drill program from the end of August to mid-September 2013.

Investor Relations

The Company maintains a website, www.canasil.com, with detailed corporate information and information covering its mineral exploration projects and operations. During the period, the Company exhibited at the Vancouver Mineral Exploration Round-Up and the Vancouver Resource Investment Conference in January 2013, presented at the Toronto Investment Summit and attended the 2013 Prospectors and Developers Association Conference in Toronto in March 2013.

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 global financial crisis of 2008 resulted in sharp decreases in the price of commodities and precious and base metals, as well as all stock markets, and a loss of confidence in the investment sector. For the mineral exploration industry, these conditions continued through to the third and fourth quarter of 2009, when gradually improving economic conditions resulted in increasing precious and base metal prices and a renewed interest in funding mineral exploration companies through 2010. There was a positive environment for funding resource exploration companies in late 2010 and early 2011. The first quarter of 2011 saw significant increases in the prices of precious and base metals, as well as in all shares in the resource sector, accompanied by a significant increase in mineral exploration activity. However following the Japanese earthquake and tsunami in March 2011, and concerns over debt problems in Europe and the USA, precious and base metal prices showed a gradual decline for the balance of 2011. This resulted in a general decline in the share prices of resource companies, both major producers and explorers, as well as constraints on funding exploration companies and programs. After an improvement in January and February 2012, market uncertainty has continued due to concerns over the European economy and austerity programs aimed at reducing high debt levels resulting in a marked decline in the share prices in the resources sector affecting both major producers as well as large and small explorers. Following a brief improvement during the third quarter of 2012, the decline in metal prices and share prices of resource companies has continued to date due to continued uncertainty in the financial markets and generally lower global economic growth forecasts, particularly in Europe and Asia.

Competitive Conditions

The outlook for acquisition and development of mineral resource projects had deteriorated since early March 2011 due to lower metal prices and slowing growth rates, particularly in Europe and Asia. The general forecast is for these conditions and market instability to continue, although the longer term outlook is more positive with higher forecasted demand for resources and commodities driven by a growing middle class in the Asian economies.

Environmental Protection

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

Number of Employees

As of June 30, 2013, the Company had three employees. Significant administrative, management, and certain geological services are provided to the Company by directors, officers, and consultants, or companies controlled by related parties. The Company, through its wholly-owned Mexican subsidiary Minera Canasil SA de CV, maintains a full-time operating office with geological and support staff in Durango, Mexico.

Acquisition and Disposition of Mineral Properties

During the period ended June 30, 2013, the Company did not acquire or dispose of any mineral properties, except to the extent that it staked additional claims at the Sandra Escobar project and optioned the Salamandra property to MAG. Subsequent to the period, the Company terminated the option agreement to acquire certain claims within the Sandra-Escobar project area.

Risk Factors relating to the Company's Business

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

Precious and Base Metal Price Fluctuations

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

Operating Hazards and Risks

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

Exploration and Development

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

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

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

Calculation of Reserves and Mineralization and Precious and Base Metal Recovery

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

Government Regulation

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

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving and requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect

the Company's operations. Environmental hazards may exist on the Company's properties, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Title to Assets

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

Foreign Operations

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

Management and Directors

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

Conflicts of Interest

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

Limited Operating History - Losses

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future. As of June 30, 2013, the Company's accumulated deficit was \$17,738,318.

Price Fluctuations and Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility. The market price of securities of many mineral exploration companies have experienced wide fluctuations in price, which has not necessarily been related to their operating performance, underlying asset value or prospects. During the period, and to the date of this report, the price of the Company's shares fluctuated from a low of \$0.05 to a high of \$0.17 per share. There can be no assurance that continued fluctuations in price will not occur.

Shares Reserved for Future Issuance - Dilution

As at the date hereof, a total of 73,407,873 common shares of the Company are issued and outstanding. There are 4,375,000 stock options and 5,976,999 share purchase warrants outstanding pursuant to which additional common shares may be issued in the future, which would result in further dilution to the Company's shareholders and pose a dilutive risk to potential shareholders.

Forward Looking Statements

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

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statements.

Approval

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