CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Expressed in Canadian Dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canasil Resources Inc.

We have audited the accompanying consolidated financial statements of Canasil Resources Inc., which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canasil Resources Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

April 23, 2014

CANASIL RESOURCES INC.

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

Expressed in Canadian Dollars

ASSETS		2013		2012
Current				
Cash	$	119,692	$	772,600
Receivables *(Note 3)*		223,886		202,854
Prepaid expenses		19,195		30,842
		362,773		1,006,296
Reclamation bonds *(Note 3)*		28,000		28,000
Property and equipment *(Note 5)*		60,654		69,903
	$	451,427	$	1,104,199

LIABILITIES				
Current				
Accounts payable and accrued liabilities *(Note 3)*	$	118,761	$	93,899
Flow-through premium liability *(Note 6)*		-		73,632
Due to related party *(Note 8)*		45,000		-
		163,761		167,531
SHAREHOLDERS' EQUITY				
Share capital *(Note 6)*		17,159,791		16,128,607
Subscriptions received in advance *(Note 6)*		-		397,500
Contributed surplus *(Note 7)*		1,622,649		1,622,649
Deficit		(18,494,774)		(17,212,088)
		287,666		936,668
	$	451,427	$	1,104,199

Nature and continuance of operations *(Note 1)*
Subsequent events *(Note 12)*

ON BEHALF OF THE BOARD:

___*"Alvin Jackson"*_________________, Director

___*"Michael McInnis"*_______________, Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

	Number of Shares	Share Capital *(Notes 6,7)*	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)
Private placement	2,103,782	389,200	-	-	-	389,200
Share issuance costs	-	(31,136)	-	-	-	(31,136)
Flow-through premium liability	-	(73,632)	-	-	-	(73,632)
Share-based compensation	-	-	225,623	-	-	225,623
Comprehensive loss for the year	-	-	-	-	(1,302,713)	(1,302,713)
Subscriptions received in advance	-	-	-	397,500	-	397,500
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)
Private placement	4,070,000	366,300	-	-	-	366,300
Warrants exercised	390,000	31,200	-	-	-	31,200
Comprehensive loss for the year	-	-	-	-	(1,282,686)	(1,282,686)
Balance – December 31, 2013	77,867,873	$ 17,159,791	$ 1,622,649	$ -	$ (18,494,774)	$ 287,666

CANASIL RESOURCES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

		2013		2012
Expenses				
Accounting and audit	$	33,464	$	52,098
Conferences and conventions		21,749		25,294
Consulting		-		7,600
Depreciation *(Note 5)*		11,665		16,499
Exploration and evaluation *(Note 4)*		823,181		421,911
Foreign exchange loss (gain)		(4,386)		375
General exploration		3,856		9,012
Investor relations and promotions		32,409		82,556
Legal fees		12,174		18,304
Listing and filing fees		13,153		19,090
Management fees		60,000		57,500
Office rent, services and supplies		90,886		97,743
Salaries and wages		229,607		215,160
Shareholder communications		9,136		19,044
Share-based compensation *(Note 7)*		-		225,623
Transfer agent fees		8,545		9,950
Travel and accommodation		10,879		24,954
		(1,356,318)		(1,302,713)
Other item				
Deferred flow-through premium realized *(Note 6)*		73,632		-
Loss and comprehensive loss for the year	$	(1,282,686)	$	(1,302,713)
Loss per share – basic and diluted	$	(0.02)	$	(0.02)
Weighted-average number of shares Outstanding – basic and diluted		73,594,226		66,445,996

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

Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)	2013	2012
Operating activities		
Loss for the year	$ (1,282,686)	$ (1,302,713)
Items not involving cash		
Depreciation	11,665	16,499
Deferred flow-through premium realized	(73,632)	-
Share-based compensation	-	225,623
	(1,344,653)	(1,060,591)
Changes in non-cash working capital		
Increase in receivables	(21,032)	(13,166)
Decrease (increase) in prepaid expenses	11,647	(11,032)
Increase (decrease) in accounts payable and accrued liabilities	55,998	(73,421)
	(1,298,040)	(1,158,210)
Investing activities		
Purchase of equipment	(2,416)	(549)
Financing activities		
Share capital issued for cash	671,550	1,064,200
Share issuance costs	(69,002)	(29,194)
Share subscriptions received in advance	-	397,500
Due to related party, net	45,000	-
	647,548	1,432,506
Change in cash for the year	(652,908)	273,747
Cash position - beginning of year	772,600	498,853
Cash position - end of year	$ 119,692	$ 772,600

Supplemental schedule of non-cash investing and financing transactions		
Finder's fee included in accounts payable	$ -	$ 31,136

Supplemental cash flow information		
Interest received	$ 2,476	$ 3,150
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

- See Accompanying Notes -

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

		2013		2012
Deficit	$	18,494,774	$	17,212,088
Working capital	$	199,012	$	838,765

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") using those standards in effect for the reporting year ended December 31, 2013. The Company's board of directors approved these consolidated financial statements for issue on April 23, 2014.

Basis of measurement

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

2. SIGNIFICANT ACCOUNTING POLICIES *- continued*

Principles of consolidation

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

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Translation gains and losses are reflected in profit or loss for the period.

Financial instruments

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

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

Property and equipment

Property includes land purchased for a future warehouse site. Equipment includes automotive and other equipment related to mineral exploration; furniture and equipment are related to corporate offices. These assets are recorded at cost and amortized over their estimated useful life using the declining balance method at rates ranging from 20% to 45% per annum.

Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable. The Company compares the carrying value of property and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Exploration and evaluation

The Company is currently in the exploration stage with all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

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

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

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities known as flow-through shares, through which the investor can claim the tax deductions arising from the renunciation of the related resource expenditures incurred by the Company. Proceeds from the issuance of flow-through shares are allocated between the offering of the flow-through share and the premium paid for the implied tax benefit received by the investors as a result of acquiring the flow-through shares. The calculated tax benefit is recognized as a liability until the Company incurs the qualifying expenditures, at which point the liability is reversed and recorded as other income on the statement of loss and comprehensive loss.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at December 31, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share-based compensation

The Company uses the fair value method whereby the Company recognizes share-based compensation costs over the vesting periods for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and each tranche is recognized on a graded-vesting basis over the vesting period. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Loss per share

The Company computes the dilutive effect of options, warrants and similar instruments and its effect on loss per share is calculated based on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share due to their anti-dilutive effect.

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Significant accounting estimates and judgements

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

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

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

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

New accounting pronouncements

The IASB has issued IFRS 9 – *Financial Instruments* - *Classification and Measurement* which has not yet been adopted by the Company. A brief summary of this new standard follows:

IFRS 9 – *Financial Instruments* - *Classification and Measurement*

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments – Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The effective date for IFRS 9 has been deferred indefinitely.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Changes in significant 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 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated. IFRS 10 sets out three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investors' return; and the requirements on how to apply the control principle. 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, including subsidiaries, joint arrangements, associates, and special purpose vehicles.

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 additional disclosures regarding fair value measurements.

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.

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

		2013		2012
Cash and cash equivalents				
Cash on deposit	$	119,692	$	772,600
Receivables				
Value-added taxes	$	219,789	$	202,854
Other		4,097		-
	$	223,886	$	202,854
Reclamation bonds	$	28,000	$	28,000
Accounts payable and accrued liabilities				
Accounts payable	$	65,677	$	63,899
Accrued audit, legal, exploration and other		53,084		30,000
	$	118,761	$	93,899
Due to related party	$	45,000	$	-

Cash is classified as fair value through profit or loss and is carried at fair value measured using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The advances due to related party are non-interest bearing and have no fixed terms of repayment. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash 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. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk due to delays in receiving certain of its IVA refunds from the government of Mexico. The Company received IVA refunds during the year totalling $21,803 and $55,476 subsequent to December 31, 2013. The Company continues to use its best efforts to obtain such refunds.

The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. At December 31, 2013, the Company held the equivalent of $4,201 in cash, $177,071 in receivables, and $41,537 in accounts payable, all of which are denominated in pesos. To manage currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate or market risks in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements represents the Company's maximum exposure to credit and market risk as at December 31, 2013. The Company is exposed to liquidity risk due to its limited cash resources *(Note 1)*. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

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 December 31, 2013, the Company had made payments of US$55,000 under the agreement; in July 2013, the Company terminated the 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.

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 2013, the Company made additional payments of US$50,000 bringing the total payments made to December 31, 2013 to US$100,000. The Company has also staked additional claims to 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 (extended by 30 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 which started at US$5,000 in 2011 and gradually increase to US$20,000 by 2014 and thereafter. All such lease payments made will be credited towards the Company's purchase of the NSR for an agreed price of US$3,000,000. To December 31, 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.

Expressed in Canadian Dollars

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 year and cumulative expenditures as at December 31 are as follows:

2013	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 312,901	$ 312,901	$ 2,331,353
- Expenditure recoveries	-	(3,149)	(3,149)	(206,329)
Other, Canada	-	79,782	79,782	225,644
- Expenditure recoveries	-	(1,919)	(1,919)	(20,580)
Sandra and Escobar, Mexico	31,294	136,313	167,607	1,379,288
La Esperanza, Mexico	-	106,256	106,256	1,131,651
- Expenditure recoveries	-	(25,157)	(25,157)	(260,939)
- Option payments received	-	-	-	(300,000)
Colibri, Mexico	-	53,847	53,847	1,760,596
Salamandra, Mexico	51,408	187,021	238,429	1,563,615
- Expenditure recoveries	(51,408)	(68,615)	(120,023)	(138,705)
- Option payments received	(150,000)	-	(150,000)	(203,989)
Victoria, Mexico	-	13,458	13,458	398,954
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	62,962	62,962	181,667
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	-	88,187	88,187	465,578
	$ (118,706)	$ 941,887	$ 823,181	$ 8,042,987

2012	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	$ -	$ 4,782	$ 4,782	$ 2,018,452
- Expenditure recoveries	-	(511)	(511)	(203,180)
Other, Canada	2,000	13,891	15,891	145,862
- Expenditure recoveries	-	(18,661)	(18,661)	(18,661)
Sandra and Escobar, Mexico	20,177	181,364	201,541	1,211,681
La Esperanza, Mexico	-	108,574	108,574	1,025,395
- Expenditure recoveries	-	(69,307)	(69,307)	(235,782)
- Option payments received	(150,000)	-	(150,000)	(300,000)
Colibri, Mexico	-	39,431	39,431	1,706,749
Salamandra, Mexico	-	129,617	129,617	1,325,186
- Expenditure recoveries	-	-	-	(18,682)
- Option payments received	-	-	-	(53,989)
Victoria, Mexico	-	47,563	47,563	385,496
- Expenditure recoveries	-	-	-	(113,848)
- Option payments received	-	-	-	(21,596)
Carina, Mexico	-	38,312	38,312	118,705
- Expenditure recoveries	-	(17,498)	(17,498)	(17,498)
- Option payments received	-	-	-	(111,875)
Other, Mexico	5,089	87,088	92,177	377,391
	$ (122,734)	$ 544,645	$ 421,911	$ 7,219,806

Expressed in Canadian Dollars

4. EXPLORATION AND EVALUATION *- continued*

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

		2013		2012
Acquisition and option payments	$	82,702	$	27,266
Administration and legal		182,058		111,870
Assays		37,132		22,681
Consulting		-		7,640
Drilling		179,285		-
Field costs		90,877		34,001
Geology		169,887		130,588
Geophysical		33,195		29,790
Land holding costs		304,945		302,232
Mapping and surveying		6,558		8,201
Transportation and rentals		36,790		3,619
Expenditure recoveries		(150,248)		(105,977)
Option payments received		(150,000)		(150,000)
	$	823,181	$	421,911

5. PROPERTY AND EQUIPMENT

	Land	Automotive	Computer	Field Equipment	Furniture and Fixtures	Total
Cost						
December 31, 2011	$ 31,686	$ 63,175	$ 21,165	$ 31,971	$ 27,358	$ 175,355
Additions	-	-	-	-	549	549
December 31, 2012	31,686	63,175	21,165	31,971	27,907	175,904
Additions	-	-	651	-	1,765	2,416
December 31, 2013	31,686	63,175	21,816	31,971	29,672	178,320
Accumulated Depreciation						
December 31, 2011	-	29,084	15,059	25,217	20,142	89,502
Additions	-	10,228	2,747	2,026	1,498	16,499
December 31, 2012	-	39,312	17,806	27,243	21,640	106,001
Additions	-	7,159	1,658	1,418	1,430	11,665
December 31, 2013	-	46,471	19,464	28,661	23,070	117,666
Net Book Value						
December 31, 2012	$ 31,686	$ 23,863	$ 3,359	$ 4,728	$ 6,267	$ 69,903
December 31, 2013	$ 31,686	$ 16,704	$ 2,352	$ 3,310	$ 6,602	$ 60,654

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 *(Note 7)*. The warrants were 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 (paid in 2013). 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 full amount of this premium was deferred in 2012 and realized as income in 2013 upon the Company completing its flow-through expenditure requirements. This issuance formed part of a non-brokered private placement that was completed subsequent to December 31, 2012. The Company received subscriptions totalling $397,500 during December 2012 in respect of shares issued after year end.

In January 2013, the Company issued 4,476,999 units at price of $0.15 per unit for gross proceeds of $671,550. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share of the Company at a price of $0.225 until January 4, 2014, as to 3,176,999 warrants, and January 14, 2014 as to 1,300,000 warrants *(Note 7)*. 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.

In December 2013, the Company closed two tranches of a private placement and issued a total of 4,070,000 units at price of $0.09 per unit for gross proceeds of $366,300. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share of the Company at a price of $0.15 until December 6, 2014, as to 1,500,000 warrants, and December 31, 2014 as to 535,000 warrants. The Company closed the final tranche of this private placement subsequent to December 31, 2013 *(Note 12)*.

Shareholder rights plan

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

Expressed in Canadian Dollars

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.

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	$	0.60	3,980,000	$	0.29
Issued/granted	1,500,000	$	0.35	1,700,000	$	0.19
Expired	(610,000)	$	0.21	(755,000)	$	0.50
Outstanding, December 31, 2012	1,500,000	$	0.35	4,925,000	$	0.22
Issued/granted	6,511,999	$	0.20	-	$	-
Exercised	(390,000)	$	0.08	-	$	-
Expired	(1,110,000)	$	0.08	(437,500)	$	0.30
Forfeited	-	$	-	(112,500)	$	0.18
Outstanding, December 31, 2013	6,511,999	$	0.20	4,375,000	$	0.22
Exercisable, December 31, 2013	6,511,999	$	0.20	4,375,000	$	0.22

At December 31, 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	75,000	$	0.20	January 20, 2014 *(expired 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			

Expressed in Canadian Dollars

7. STOCK OPTIONS AND WARRANTS – *continued*

Warrants	3,176,999	$	0.225	June 30, 2014 *(i)*
	1,300,000	$	0.225	June 30, 2014 *(i)*
	1,500,000	$	0.150	December 6, 2014
	535,000	$	0.150	December 31, 2014
	6,511,999			

On February 20, 2013, the Company reduced the exercise price of 1,500,000 warrants from $0.35 to $0.225 and extended the expiry date to November 20, 2013. On November 14, 2013, the Company further reduced the exercise price of these warrant to $0.08 leaving the expiry date unchanged. On November 20, 2013, 1,110,000 of these warrants expired unexercised.

(i) On December 30, 2013, the Company extended the expiry date of these warrants from January 4, 2014 (3,176,999 warrants) and January 14, 2014 (1,300,000 warrants) to June 30, 2014 leaving the exercise price unchanged.

Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers and consultants of the Company during the years ended December 31. Share-based compensation is recorded over the vesting period.

	2013	2012
Total options granted	-	1,700,000
Average exercise price	$ -	$ 0.19
Estimated fair value of options granted	$ -	$ 228,830
Estimated fair value per option	$ -	$ 0.13

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	-	1.35%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	94%
Expected forfeiture rate	-	0.00%
Expected option life in years	-	4.60

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

	2013	2012
Number of options vested in year	-	1,625,000
Compensation recognized in year	$ -	$ 225,623

Expressed in Canadian Dollars

8. 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 $10,096 (2012 – $3,796) in legal fees due to a law firm in which an officer of the Company is a partner, and $5,513 (2012 - $nil) in geological consulting fees due to a company controlled by a director of the Company;
- accounts payable includes $nil (2012 – $70,000) in accrued director fees due to non-executive directors;
- due to related party includes loan advances totaling $45,000 made to the Company by a company with a director in common. The loan advances are unsecured, non-interest bearing, and have no fixed terms of repayment.
- key management includes executive and non-executive directors and officers. The compensation paid or payable to key management is as follows:

		2013		2012
Salaries and wages	$	150,000	$	150,000
Management fees		60,000		57,500
Administrative consulting fees		-		5,600
Geological consulting fees		5,250		1,750
Legal fees		56,636		18,304
Share-based compensation *(i)*		-		157,977
	$	271,886	$	391,131

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

9. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the current year.

Expressed in Canadian Dollars

10. INCOME TAXES

The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

	2013	2012
Loss before income taxes for accounting purposes	$ (1,282,686)	$ (1,302,713)
Expected tax recovery for the year	(330,000)	(326,000)
Change in statutory, foreign tax, foreign exchange rates and other	(45,000)	(25,000)
Impact of future income tax rates applied versus current statutory rate	(73,000)	10,000
Permanent differences	(4,000)	92,000
Impact of flow-through shares	100,000	-
Share issuance costs	(10,000)	(7,000)
Change in unrecognized deductible temporary differences and other	362,000	256,000
Tax recovery for the year	$ -	$ -

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

	2013	2012
Deferred Tax Assets		
Non-capital loss carry-forwards	$ 2,110,000	$ 1,908,000
Exploration expenditures	2,745,000	2,587,000
Equipment	33,000	29,000
Share issuance costs	21,000	21,000
Unrecognized Deferred Tax Assets	$ 4,909,000	$ 4,545,000

The Company's deferred tax assets expire as follows:

	2013	Expiry Date Range	2012
Share issuance costs	$ 80,000	2032 to 2035	$ 84,000
Non-capital losses	$ 7,864,000	2014 to 2033	$ 7,246,000
Equipment	$ 126,000	Not applicable	$ 114,000
Exploration expenditures	$ 9,947,000	Not applicable	$ 9,531,000
Investment tax credits	$ 55,000	2027 to 2031	$ 54,000

Expressed in Canadian Dollars

11. SEGMENTED INFORMATION

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

2013		Canada		Mexico		Total
Property and equipment	$	8,220	$	52,434	$	60,654

2012		Canada		Mexico		Total
Property and equipment	$	8,670	$	61,233	$	69,903

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2013, the Company completed the third and final tranche of a private placement by issuing 370,000 units at price of $0.09 per unit for gross proceeds of $33,300. Each unit consisted of one common share and one-half of one share purchase warrant entitling the holder to purchase one common share of the Company at a price of $0.15 until February 17, 2015. In addition, the Company granted at total of 375,000 five-year stock options with an exercise price of $0.10 to a director and a consultant.

This Annual Management's Discussion and Analysis ("MD&A") for Canasil Resources Inc. ("Canasil" or "the Company") is dated April 23, 2014, and provides information on the Company's activities for the year ended December 31, 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 audited annual consolidated financial statements and related notes for the years ended December 31, 2013 and 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the MD&A for the year ended December 31, 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 year, the Company initiated a surface sampling program at the Sandra-Escobar project 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. 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. MAG reported expenditures of US$1,065,075 in qualifying expenditures at Salamandra up to December 2013, which included surface sampling and data review, which confirmed significant evidence of the major indicators of large carbonate replacement deposits at Salamandra and defined drill targets. Subsequent to the year-end MAG completed the Phase 1 diamond drill program of 3,500 metres in 5 diamond drill holes, and on March 17, 2014, announced encouraging high-grade silver-copper-zinc intercepts, further indicating the potential for a large metals-rich mineralized system at Salamandra. MAG continued with the Phase 2 drill program with two drill rigs on site.

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 metres in twelve 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. 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. MAG reported total qualifying expenditures of $2,468,380 at La Esperanza as at June 30, 2013. All core mineral claims in Mexico were maintained in good standing and the Company terminated an option agreement to acquire certain claims within the Sandra-Escobar project.

In British Columbia, during the year, the Company completed a remote sensing survey on the Vega, Lil and Granite projects. The data set included satellite image data including Worldview 2 multispectral high spatial resolution image data, Radarsat 1F fine Synthetic Aperture Radar (SAR) data, and Short Wave Infra-red (SWIR) and Long Wave Thermal Infra-Red (TIR) data, together with archived geoscience data. Target areas outlined at the Lil and Vega projects were followed up with onsite prospecting and sampling in August and September 2013. At the same time the Company re-established its camp at the Brenda project and completed a 962-metre diamond drill hole 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. The intercepts below 570 metres passed through zones of monzonite intrusive formations with no significant gold-copper mineralization. Further detailed review will be required to interpret the data and structural setting of the Brenda project. All claims in British Columbia were maintained in good standing.

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

In 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. During December 2013, the Company completed the first two tranches of a private placement by issuing 4,070,000 units at $0.09 per unit to raise gross cash proceeds of $366,300 and received $31,200 upon the exercise of 390,000 share purchase warrants (see *"Outstanding Share Data"*). The Company closed the final tranche of the private placement in February 2014 by issuing 370,000 units at $0.09 per unit to raise gross additional cash proceeds of $33,300.

As at December 31, 2013, the Company had working capital of $199,012, which includes loan advances payable of $45,000 received from a company with a director in common with the Company. Subsequent to December 31, 2013, the Company received cash proceeds of $55,476 in IVA refunds in Mexico. The Company completed a total of $389,200 in flow-through expenditures as required during 2013.

Due to the current uncertainties in the resource sector, financial markets and low share prices, the Company will endeavour to preserve its financial position and will not undertake direct high cost exploration expenditures such as drilling (except for the Brenda property, which was 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
• La Esperanza silver zinc lead project – 100%, • Sandra gold silver project – 100% • Escobar gold silver claims – 40% • Salamandra zinc silver project – 100% in part, plus option to earn 100%, subject to option agreement with MAG • Carina silver project – 100% • Colibri silver zinc lead copper project – 100% • Vizcaino silver gold project – 100% • Victoria zinc silver project – 100% • Nora silver gold copper project – 100% in part, plus option to earn 100% • Los Azules copper silver gold project – 100% • San Francisco gold silver project – 100% • Buenavista gold, copper, silver project – 100%	• Brenda, gold-copper property – 100% • Vega, gold-copper property – 100% • Granite, gold property – 100% • LIL, silver property – 100%

Exploration projects in Mexico

Salamandra zinc-silver project, Durango State, Mexico

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

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 appear to be part of a potentially large mineralized system, which is open along strike and to depth.

In February 2011, the Company completed a 617 line-kilometre ZTEM airborne geophysical survey. Interpretation of the survey results showed 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 year ended Dec. 31, 2013, 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.

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 within 120 days (extended by 30 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.

MAG reported expenditures of US$ 1,065,075 in qualifying expenditures at Salamandra up to December 2013, which included surface sampling and data review to define drill targets and the start of the Phase 1 diamond drill program. The surface sampling and data review results confirmed significant evidence of the major indicators of large carbonate replacement deposits at Salamandra and provided data for selection of drill targets. Subsequent to the year-end on March 17, 2014, MAG announced results of the Phase 1 drill program for 3,500 metres in 5 diamond drill holes (details included in MAG and Canasil news releases dated March 17, 2014) with encouraging high-grade silver-copper-zinc intercepts as listed in the table below, further indicating the potential for a large metals-rich mineralized system at Salamandra. MAG also announced mobilization of a second drill rig to Salamandra to continue with the Phase 2 drill program, which is currently in progress.

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

MAG's Phase 1 drill program consisted of five widely separated drill holes and all five hit high-grade to strongly anomalous silver-copper or zinc mineralization over significant widths (see Table 1). True thickness cannot yet be determined for any of the intercepts. MAG reported that the system remains open in all directions and the drilling program is currently operating with two diamond drill rigs.

Hole SM14-15 hit high-grade silver-copper mineralization over 7.89 metres, which reported 166 grams/tonne ("g/t") (4.9 ounces per ton ("opt") silver ("Ag") and 1.2% copper ("Cu"), **including: 2.3 metres grading 393 g/t (11.5 opt) Ag and 3.6% Cu** with appreciable lead ("Pb") and zinc ("Zn"). In contrast, **Hole SM13-13** cut 31.72 metres grading 3.5% Zn **including 17.72 metres grading 5.0% Zn** with no other appreciable metals. Notably, SM13-13 contained zinc mineralization for almost its entire length, with 810 metres averaging 0.6% Zn including several thick zones grading over 1.5% Zn. The remaining three holes cut significant or strongly anomalous amounts of silver, copper, zinc and lead.

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 km south-southeast of the City of Durango. A Phase 1 1,432 metres diamond drill program in nine drill holes 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 on 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. 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).

During the option period from August 2010 to May 2013, MAG initially completed a 1,330 line-kilometre ZTEM helicopter-borne geophysical survey, upgrades of 30 kilometres of access roads, and geological mapping and surface sampling on the four vein systems to define drill targets. MAG then completed a Phase-1 drill program of 3,247 metres in 11 drill holes, reporting encouraging drill intercepts from three drill holes on a blind section 100 metres northwest along strike from previous drilling completed by Canasil on the La Esperanza vein. 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, including a higher grade section of 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.

This was followed by a Phase-2 drill program of 12 diamond drill holes for a total of 3,049 metres – 9 drill holes to test the Fatima vein and 3 drill holes 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 drill hole FA12-05 at 155.55 metres returned 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 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 total expenditures of $2,468,380 incurred on La Esperanza to June 30, 2013. 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. From 2008 to 2012 the Company advanced exploration on the Sandra project together with the adjoining 634 hectare Escobar claims of Pan American Silver Corp. under an agreement with Pan American (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 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 year 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.

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 from 51% to 40%. As a result Canasil retains 100% interest in its Sandra claims and 40% interest in Pan American's Escobar claims.

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. The Company made payments of US$55,000 under this agreement, which was terminated in July 2013. In addition, the Company has entered into a further agreement to purchase various additional claims in the area for approximately $25,000. In 2013 The Company also added two further claim blocks for a total of 10,000 hectares to cover additional prospective zones adjacent to the project area.

Carina Project, Durango State, Mexico

The Carina project covers 12,147 hectares and is located 45 kilometres northeast of the City of Durango. The project lies 6.5 kilometres southwest of the La Preciosa project 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. 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 year. All core project claims were maintained in good standing and all required claim taxes were paid on the core projects.

Exploration projects in British Columbia, Canada

Brenda gold-copper project

The Brenda gold-copper 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 $3,800,000 to date include satellite surveys, airborne and ground geophysics, extensive geological mapping and sampling and 11,000 metres of diamond drilling in 64 drill holes. These programs have confirmed the potential for a deep-seated porphyry gold-copper system at the Brenda project, similar to the nearby Kemess Underground (North Kemess) deposit advancing through feasibility by AuRico Gold Corp. with indicated resources of 3 million ounces gold and 1 billion pounds copper (185 million tonnes with an average grade of 0.48 g/t Au and 0.25% Cu).

At Brenda, the two previous deepest drill holes intersected broad gold-copper mineralized zones with increasing grades to a depth of 560 metres. 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.

In late August and September 2013, the Company completed a 962 metre diamond drill hole, BR-13-01, to investigate the possibility of higher grade gold-copper mineralization below the prior drill holes BR-07-04 and BR-07-05. Drill core from BR-13-01 was only assayed below 500 metres as it twinned BR-07-04 with comparable geological intercepts. The mineralized intercept from 504 metres to 572 returned lower grades than the equivalent intercept in BR-07-04, and the intercepts below 570 metres returned no significant gold-copper mineralization with low copper and gold values over certain intervals as indicated below:

Brenda Gold-Copper Project – Diamond Drill Programs 2013 & 2007							
No.:	**Intercept**	**Interval – Metres From**	**To**	**Width Metres**	**Gold g/t**	**Copper %**	**Gold Eqv. g/t***
2013 Diamond Drill Hole BR-13-01 – intercepts below 500 metres							
1	Zone D1	504.00	572.00	68.00	0.376	0.0735	0.502
2	Zone D2	602.00	630.00	28.00	0.035	0.0163	0.063
3	Zone D3	720.00	766.00	46.00	0.046	0.0306	0.098
4	Zone D4	832.00	896.00	64.00	0.034	0.0525	0.124
5	Zone D5	930.00	942.00	12.00	0.015	0.0442	0.091
** Gold Equivalent based on $1,315 per oz. Gold, $3.27/lb Copper, assuming 100% recoveries*							
2007 Diamond Drill Hole BR-07-04							
1	Zone 1	90.12	260.00	169.88	0.466	0.088	0.697
	Includes	200.00	260.00	60.00	0.592	0.111	0.884
2	Zone 2	312.00	378.00	66.00	0.310	0.038	0.410
3	Zone 3	420.08	460.00	39.92	0.418	0.080	0.628
4	Zone 4	504.00	561.96	57.96	0.707	0.119	1.020
	Includes	508.00	546.00	38.00	0.867	0.141	1.238
2007 Diamond Dril Hole BR-07-05							
1	Zone 1	110.00	188.03	78.03	0.610	0.104	0.884
2	Zone 2	336.11	376.00	39.89	0.625	0.062	0.788
3	Zone 3	459.52	483.90	24.38	0.670	0.114	0.970
4	Zone 4	488.89	499.39	10.50	0.570	0.101	0.836
** Gold Equivalent based on $650 per oz. Gold, $2.50/lb Copper, assuming 100% recoveries*							

Drill hole BR-13-01 intersected barren post mineral monzonite sills from 580 metres to 962 metres with sections of weakly mineralized altered volcanics. The mineralized intercepts and post mineral intrusions observed in drilling to date reflect the characteristic signature observed in large porphyry systems. Further review will be required to determine the structural setting based on the prior data and current information from BR-13-01. Geophysics and mapping to date has traced the porphyry system at the Brenda project over 1,000 metre strike and deeper penetrating geophysical surveys are needed to define prospective mineralized zones.

Other projects in British Columbia, Canada

During the year the Company completed 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. In August and September 2013 prospecting and surface sampling surveys were undertaken at the Lil and Vega projects to follow up on target zones identified at these projects. Zones of copper-bearing skarns were observed in the western part of the Vega project and the results are currently being compiled and interpreted.

Mineral Properties – Exploration and Evaluation Expenditures

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

	2013	2012
Canada		
Brenda Property		
Assays	$ 11,783	$ -
Drilling	179,285	-
Field costs	66,829	-
Geological	39,313	4,782
Mapping and surveying	3,769	-
Transportation and rentals	11,922	-
Expenditure recoveries	(3,149)	(511)
	309,752	4,271
Other Properties		
Acquisition and option payments	-	2,000
Assays	2,913	34
Field costs	2,197	-
Geological	14,320	1,395
Geophysical	33,195	-
Land holding costs	3,313	10,977
Mapping and surveying	-	1,485
Transportation and rentals	23,844	-
Expenditure recoveries	(1,919)	(18,661)
	77,863	(2,770)
Mexico		
Sandra and Escobar Properties		
Acquisition and option payments	31,294	20,177
Administration	29,113	30,087
Assays	22,436	11,012
Consulting	-	3,831
Field costs	5,976	17,855
Geological	46,054	54,721
Geophysical	-	29,790
Land holding costs	26,581	24,847
Legal	2,866	3,399
Mapping and surveying	2,395	4,335
Transportation and rentals	892	1,487
	167,607	201,541
Salamandra Property		
Acquisition and option payments	51,408	-
Administration	38,717	18,654
Assays	-	10,781
Consulting	-	3,831
Field costs	13,757	9,601
Geological	11,276	37,660
Land holding costs	75,435	46,697
Legal	47,406	-
Mapping and surveying	394	2,381
Transportation and rentals	36	12
Option payments received	(150,000)	-
Expenditure recoveries	(120,023)	
	$ (31,594)	$ 129,617

Exploration and evaluation expenditures for the years ended December 31 – *continued*

		2013		2012
Mexico – *continued*				
La Esperanza Property				
Administration	$	20,808	$	17,471
Assays		-		854
Field costs		1,745		5,424
Geological		21,806		18,806
Land holding costs		61,897		56,870
Legal		-		7,719
Transportation and rentals		-		1,430
Option payments received		-		(150,000)
Expenditure recoveries		(25,157)		(69,307)
		81,099		(110,733)
Carina Property				
Administration		12,334		6,208
Field costs		80		450
Geological		13,784		2,596
Land holding costs		36,764		28,621
Transportation and rentals		-		437
Expenditure recoveries		-		(17,498)
		62,962		20,814
Victoria Property				
Administration		2,626		7,754
Field costs		318		167
Geological		10,192		2,410
Legal		322		-
Land holding costs		-		37,232
		13,458		47,563
Colibri Property				
Administration		10,553		6,463
Field costs		-		415
Geological		7,914		2,485
Land holding costs		35,380		30,068
		53,847		39,431
Other Properties				
Acquisition and option payments		-		5,089
Administration		17,313		14,113
Field costs		-		70
Geological		5,228		5,732
Land holding costs		65,575		66,919
Transportation and rentals		71		254
		88,187		92,177
Total costs for year	$	823,181	$	421,911

Exploration and evaluation expenditures for the year ending December 31, by activity, are as follows:

	2013	2012
Acquisition and option payments	$ 82,702	$ 27,266
Administration and legal	182,058	111,870
Assays	37,132	22,681
Consulting	-	7,640
Drilling	179,285	-
Field costs	90,877	34,001
Geology	169,887	130,588
Geophysical	33,195	29,790
Land holding costs	304,945	302,232
Mapping and surveying	6,558	8,201
Transportation and rentals	36,790	3,619
Expenditure recoveries	(150,248)	(105,977)
Option payments received	(150,000)	(150,000)
	$ 823,181	$ 421,911

Results of Operations

Operating expenses during the year were $1,356,318 (2012 - $1,302,713) and include $823,181 (2012 - $421,911) in Exploration and Evaluation expenditures (net of recoveries and option payments received). The Company conducted a drilling program at the Brenda project as well as a sampling and prospecting program at the Lil and Vega projects during the summer of 2013. The operating expenses also include non-cash Share-Based Compensation of $nil (2012 - $225,623) related to the granting and vesting of options during the year – the Company did not grant any incentive stock options during 2013. Investor Relations and Conferences and Conventions expenses decreased to $54,158 (2012 - $107,850) reflecting the Company's cost reduction efforts in this area. Due to adverse market conditions, the Company has endeavoured to reduce operating and exploration expenditures wherever possible. During the year, the Company realized a deferred flow-through premium of $73,632 (2012 - $Nil), which has been recorded as income and relates to the fulfilment of its 2012 flow-through expenditure requirements.

Net cash used for operating activities during the year, before changes in non-cash working capital items, was $1,344,653 (2012 - $1,060,591), which includes $823,181 (2012 - $421,911) in Exploration and Evaluation expenditures, the increase reflecting the Company's exploration programs completed on its British Columbia projects in 2013, which were not conducted in 2012. Cash used for investing activities was $2,416 (2012 - $549) and reflects the Company's purchase of equipment. Net cash flow from financing activities was $647,548 as a result of the Company receiving the second tranche of a private placement completed in January 2013, the first two tranches of a private placement completed in February 2014, and advances from a related party during the year (2012 - $1,432,506 resulting from the completion of a private placement in February 2012 and the issuance of the first tranche of, and receipt of subscriptions in respect of, a private placement that completed in January 2013).

Selected Annual Information

The information in the following table provides selected financial information of the Company for 2013 and the two preceding years. This information is derived from the Company's audited consolidated financial statements and should be read in conjunction with those statements and related notes. The information is presented in accordance with IFRS.

Year Ended December 31	2013	2012	2011
Total Revenue	$nil	$nil	$nil
Share-Based Compensation Expense	$nil	$225,623	$241,029
Exploration and Evaluation Expense	$823,181	$421,911	$1,183,040
Loss and Comprehensive Loss for the Year	$1,282,686	$1,302,713	$2,438,550
Loss per Share – Basic and Diluted	$0.02	$0.02	$0.04
Total Assets	$451,427	$1,104,199	$822,204
Working Capital	$199,012	$838,765	$572,167
Long-Term Liabilities	$nil	$nil	$nil
Dividends per Share	$nil	$nil	$nil
Shareholders' Equity	$287,666	$936,668	$686,020

In 2011, the Company was very active with the improved market conditions and, therefore, the Company incurred higher exploration and administrative expenditures. With deteriorating market conditions in 2012 and 2013, the Company moved to reduce expenses and conserve resources wherever possible. During 2013, the Company conducted a drill program on the Brenda project and a sampling and prospecting program on the Lil and Vega projects to fulfill its flow-through expenditure requirements. The Company did not grant or vest and incentive stock options during 2013.

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			
Quarter ended:	**Dec. 31**	**Sept. 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	$79,443	$502,549	$156,043	$235,146	$70,214	$130,933	$128,125	$242,639
Option payments received	$nil	$nil	$150,000	$nil	$nil	$150,000	$nil	$nil
Share-based compensation expense	$nil	$nil	$nil	$nil	$44,142	$nil	$1,359	$180,122
Loss and comprehensive loss	$190,933	$565,523	$138,457	$387,773	$281,144	$106,826	$298,366	$616,377
Loss per share: basic and diluted	$0.00	$0.01	$0.00	$0.01	$0.00	$0.00	$0.00	$0.01
Weighted-average shares	74,434,503	73,407,873	73,407,873	73,114,195	66,941,428	66,827,092	66,827,094	65,178,740

Discussion of Quarterly Information

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, 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 due to a further deterioration of economic and market conditions, 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 $156,043 and received an option payment of $150,000 from MAG on the Salamandra project. In the third quarter of 2013, the Company conducted limited exploration on its Mexican properties, however incurred $152,414 in land holding costs, which compares to $135,823 for the same quarter of 2012. During this quarter, the Company also incurred $286,016 on a 962-metre drill program at Brenda and $71,806 to complete prospecting and surface sampling programs on the Lil and Vega properties. During this quarter, the Company also realized $67,081 of the deferred flow-through premium relating to its issuance of flow-through shares in 2012. During the fourth quarter of 2013, the Company continued to minimize expenses and conserve its cash resources.

Discussion of Fourth Quarter

Operating expenses during the current quarter were $197,484 (2012 - $281,144) and include $79,443 (2011 - $70,214) for Exploration and Evaluation expenditures, which amounted to $119,707 (2012 - $89,386) less expenditure recoveries of $40,264 (2012 - $19,172). The operating expenses also include non-cash Share-Based Compensation of $nil (2012 - $44,142) related to the granting and vesting of options during the quarter. Investor Relations and Conferences and Conventions expenses decreased to $8,760 (2012 - $29,003) reflecting a significantly less active program in 2013 than the one initiated in 2012. After factoring in these items, the Company's general and administrative expenses were relatively consistent between the two quarters.

Net cash used for operating activities during the quarter, before changes in non-cash working capital items, was $194,568 (2012 - $232,877). Net cash flow from financing activities was $292,500 resulting from the Company closing the first two tranches of a private placement for $397,500, and repaying $105,000 in advances received from a related party (2012 - $786,700, resulting from the Company receiving the first tranche, and receiving subscriptions for additional tranches, under a private placement that was completed in fiscal 2013).

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 December 31, 2013 consolidated financial statements). The Company currently has limited cash resources and there can be no assurance that the Company will be successful in securing the financing required to continue operations and advance its mineral projects.

The Company had working capital at December 31, 2013 of $199,012 (December 31, 2012 - $838,765). The Company had cash on hand of $119,692 as at December 31, 2013 (December 31, 2012 - $772,600). During 2012, the Company issued shares under flow-through agreements that required the Company to incur qualifying exploration expenditures of $389,200 on its British Columbia projects, which was completed in 2013. As at December 31, 2013, the Company had short-term debt consisting of loan advances totalling $45,000 received from a related party. These advances are unsecured, non-interest bearing, and have no fixed repayment terms.

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 additional equity capital in the coming year.

Given the Company's large portfolio of prospective projects, management is focused on arranging further option and joint venture agreements to advance its exploration projects through the coming year in a non-dilutive manner as far as possible.

Related Party Transactions and Key Management Compensation

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

Accounts payable includes $10,096 (2012 - $3,796) in legal fees due to a law firm in which an officer of the Company is a partner, and $5,513 (2012 - $nil) in geological consulting fees due to a company controlled by a director of the Company;

Due to related party includes loan advances totaling $45,000 made to the Company by a company with a director in common. The loan advances are unsecured, non-interest bearing, and have no fixed terms of repayment.

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

	2013	2012
Salaries and wages	$ 150,000	$ 150,000
Management fees	60,000	57,500
Administrative consulting fees	-	5,600
Geological consulting fees	5,250	1,750
Legal fees	56,636	18,304
Share-based compensation *(i)*	-	157,977
	$ 271,886	$ 391,131

(i) Calculated using the Black-Scholes Option-Pricing Model, using the assumptions detailed in Note 7 to the December 31, 2013 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 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated. IFRS 10 sets out three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investors' return; and the requirements on how to apply the control principle. 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, including subsidiaries, joint arrangements, associates, and special purpose vehicles.

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 additional disclosures regarding fair value measurements.

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.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates and Judgments

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

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

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiary is the Canadian dollar. While transactions conducted outside of Canada are denominated in either the Mexican peso or the U.S. dollar, the subsidy 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, receivables, reclamation bonds, and accounts payable and accrued liabilities. Cash is classified as fair value through profit or loss and is carried at fair value measured using a Level 1 fair value measurement. All of the Company's other financial instruments are carried at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments. The advances due to related party are non-interest bearing and have no fixed terms of repayment. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

All of the Company's Canadian cash 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. Management considers the credit risk associated with its cash balances to be low. The Company is exposed to credit risk due to delays in receiving certain of its IVA refunds from the government of Mexico. The Company received IVA refunds during the year totalling $21,803 and $55,476 subsequent to December 31, 2013. The Company continues to use its best efforts to obtain such refunds.

The cash balances, receivables, and payables that are denominated in pesos are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the peso. At December 31, 2013, the Company held the equivalent of $4,201 in cash, $177,071 in receivables, and $41,537 in accounts payable, all of which are denominated in pesos. To manage currency risk, the Company maintains only the minimum amount of cash, in pesos, that is necessary to fund its ongoing exploration and evaluation expenditures. Accounts payable denominated in pesos are settled in a timely manner.

Due to the value and nature of the Company's financial instruments, it is management's opinion that the Company is not exposed to significant interest rate or market risks in respect of these financial instruments. The carrying value of the financial assets recorded in these financial statements represents the Company's maximum exposure to credit and market risk as at December 31, 2013. The Company is exposed to liquidity risk due to its limited cash resources. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

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 consolidated financial statements for the year ended December 31, 2013 provide a breakdown of the general and administrative expenses for the year under review and an analysis of the exploration and evaluation expenses incurred on its mineral properties.

Outstanding Share Data

Shares

The Company's authorized share capital consists of an unlimited number of common voting shares without par value. As at December 31, 2013, the Company had 77,867,873 common shares issued and outstanding (diluted – 88,754,872) compared to 68,930,874 common shares issued and outstanding (diluted – 75,355,874) as at December 31, 2012.

During the year, the Company completed two private placements that consisted of 8,546,999 shares and 6,511,999 warrants; had 390,000 warrants exercised, and had 1,110,000 warrants and 437,500 stock options expired unexercised with 112,500 options forfeited. Notes 6 and 7 to the Company's December 31, 2013 consolidated financial statements provide additional details regarding share capital, stock option, and warrant activity for the year.

Options

As at December 31, 2013, 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 (i)
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		

(i) Subsequent to December 31, 2013, these options expired unexercised.

As at December 31, 2013 and the date hereof, a total of 6,511,999 share purchase warrants were outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date
3,176,999	$ 0.225	June 30, 2014 (i)
1,300,000	$ 0.225	June 30, 2014 (i)
1,500,000	$ 0.150	December 6, 2014
535,000	$ 0.150	December 31, 2014
6,511,999		

On February 20, 2013, the Company reduced the exercise price of 1,500,000 warrants from $0.35 to $0.225 and extended the expiry date to November 20, 2013. On November 14, 2013, the Company further reduced the exercise price of these warrant to $0.08 leaving the expiry date unchanged. On November 20, 2013, 1,110,000 of these warrants expired unexercised.

(i) On December 30, 2013, the Company extended the expiry date of these warrants from January 4, 2014 (3,176,999 warrants) and January 14, 2014 (1,300,000 warrants) to June 30, 2014 leaving the exercise price unchanged.

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.

As at the date hereof, the Company had 78,237,873 common shares issued and outstanding (diluted – 89,609,872) with the changes since December 31, 2013 resulting from the issuance of 370,000 shares and 185,000 warrants under the final tranche of a private placement that closed in February 2014, the granting of 375,000 stock options (see *"Subsequent Events"*), and the expiry of 75,000 stock options. As at the date hereof, the Company had 4,675,000 stock options and 6,696,999 warrants outstanding.

Subsequent Events

Subsequent to December 31, 2013, the Company completed the third and final tranche of a private placement by issuing 370,000 units at price of $0.09 per unit for gross proceeds of $33,300. Each unit consisted of one common share and one-half of one share purchase warrant entitling the holder to purchase one common share of the Company at a price of $0.15 until February 17, 2015. In addition, the Company granted at total of 375,000 five-year stock options with an exercise price of $0.10 to a director and a consultant.

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 year, 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, attended the 2013 Prospectors and Developers Association Conference in Toronto in March 2013, the Silver Summit in Spokane in October 2013 and the San Francisco Metals and Minerals Investment Conference in November 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 December 31, 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 year ended December 31, 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, optioned the Salamandra property to MAG, and terminated an 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, Iain MacPhail (appointed January 8, 2014), 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 December 31, 2013, the Company's accumulated deficit was $18,494,774.

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 $0.05 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 78,237,873 common shares of the Company are issued and outstanding. There are 4,675,000 stock options and 6,696,999 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 statements.

Approval

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