



**CANARC RESOURCE CORP.**

**Consolidated Financial Statements**

**(expressed in United States dollars)**

**Years ended December 31, 2018, 2017 and 2016**



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS AND DIRECTORS OF CANARC RESOURCE CORP.

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated statements of financial position of Canarc Resource Corp. (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years ended December 31, 2018, 2017 and 2016, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 2018, 2017 and 2016, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

### ***Change in Accounting Principle***

As discussed in note 3 to the consolidated financial statements, the Company has changed its accounting policies for financial instruments as of January 1, 2018 due to the adoption of IFRS 9, *Financial Instruments*.

### ***Material Uncertainty Related to Going Concern***

Without modifying our opinion, we draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has an accumulated deficit of \$46,702,000 as at December 31, 2018. As stated in Note 1 to the consolidated financial statements, this condition, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that casts substantial doubt on the Company's ability to continue as a going concern.

### ***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Smythe LLP*

Chartered Professional Accountants  
We have served as the Company's auditor since 2008.

Vancouver, Canada  
March 21, 2019

# CANARC RESOURCE CORP.

Consolidated Statements of Financial Position

(expressed in thousands of United States dollars)

|   |                | December 31, |           |
|---|----------------|--------------|-----------|
|   | Notes          | 2018         | 2017      |
| <b>ASSETS</b>                               |                |              |           |
| <b>CURRENT ASSETS</b>                       |                |              |           |
| Cash  |                | \$ 2,329     | \$ 4,304  |
| Marketable securities                       | 7(a) and 8     | 719          | 787       |
| Receivables and prepaids                    | 14             | 87           | 100       |
| Promissory note receivable                  | 6              | 59           | -         |
| Total Current Assets                        |                | 3,194        | 5,191     |
| <b>NON-CURRENT ASSETS</b>                   |                |              |           |
| Mineral property interests                  | 7(b) and 9     | 14,237       | 14,465    |
| Equipment                                   | 10             | 80           | 107       |
| Total Non-Current Assets                    |                | 14,317       | 14,572    |
| Total Assets                                |                | \$ 17,511    | \$ 19,763 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                |              |           |
| <b>CURRENT LIABILITIES</b>                  |                |              |           |
| Accounts payable and accrued liabilities    | 11(b) and 14   | \$ 262       | \$ 158    |
| Flow through premium liability              | 11(c)          | -            | 54        |
| Deferred royalty liability, current         | 7(b) and 11(d) | 35           | 35        |
| Total Current Liabilities                   |                | 297          | 247       |
| <b>LONG TERM LIABILITIES</b>                |                |              |           |
| Deferred royalty liability, long term       | 7(b) and 11(d) | 130          | 136       |
| Total Liabilities                           |                | 427          | 383       |
| <b>SHAREHOLDERS' EQUITY</b>                 |                |              |           |
| Share capital                               | 12(b)          | 66,305       | 66,328    |
| Reserve for share-based payments            |                | 734          | 1,101     |
| Accumulated other comprehensive loss        |                | (3,253)      | (1,995)   |
| Deficit                                     |                | (46,702)     | (46,054)  |
| Total Shareholders' Equity                  |                | 17,084       | 19,380    |
| Total Liabilities and Shareholders' Equity  |                | \$ 17,511    | \$ 19,763 |

Refer to the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

/s/ *Bradford Cooke*

Director

/s/ *Martin Burian*

Director

# CANARC RESOURCE CORP.

Consolidated Statements of Comprehensive (Loss) Income

(expressed in thousands of United States dollars, except per share amounts)

|   | Notes                  | Years ended December 31, |                 |                 |
|---|------------------------|--------------------------|-----------------|-----------------|
|   |                        | 2018                     | 2017            | 2016            |
| <b>Expenses:</b>  |                        |                          |                 |                 |
| Amortization  | 10                     | \$ 24                    | \$ 14           | \$ -            |
| Corporate development   | 13 and 14              | 49                       | 57              | 136             |
| Employee and director remuneration                                    | 14                     | 590                      | 792             | 461             |
| General and administrative  | 13 and 14              | 223                      | 236             | 193             |
| Shareholder relations   |                        | 52                       | 171             | 311             |
| Share-based payments  | 12(c) and 14           | 118                      | 366             | 301             |
| <b>Loss before the undernoted</b>                                     |                        | <b>(1,056)</b>           | <b>(1,636)</b>  | <b>(1,402)</b>  |
| Interest and other income   |                        | 44                       | 52              | 28              |
| Change in fair value of marketable securities                         | 8                      | (140)                    | (293)           | 3,205           |
| Flow through financing costs  | 11(b)                  | (4)                      | -               | -               |
| Gain from debt settlement   | 11(a)                  | -                        | -               | 108             |
| Interest and finance charges  | 11(d)                  | (30)                     | (23)            | -               |
| Foreign exchange (loss) gain  |                        | (156)                    | -               | 16              |
| Recovery of promissory note receivable                                | 6                      | 152                      | -               | 10              |
| Recovery (write off) of mineral property interest                     | 9(a)(iii) and (b)(iii) | 12                       | (67)            | -               |
| Write off of equipment  | 10                     | (1)                      | -               | -               |
| <b>Net (loss) income from continuing operations before income tax</b> |                        | <b>(1,179)</b>           | <b>(1,967)</b>  | <b>1,965</b>    |
| Income tax recovery from continuing operations                        | 11(c)                  | 54                       | 7               | -               |
| <b>Net (loss) income from continuing operations</b>                   |                        | <b>(1,125)</b>           | <b>(1,960)</b>  | <b>1,965</b>    |
| Net income from discontinued operations                               | 7(a)                   | -                        | -               | 4,826           |
| <b>Net (loss) income for the year</b>                                 |                        | <b>(1,125)</b>           | <b>(1,960)</b>  | <b>6,791</b>    |
| Other comprehensive income (loss):                                    |                        |                          |                 |                 |
| Foreign currency translation adjustment                               |                        | (1,258)                  | 1,274           | 70              |
| <b>Comprehensive (loss) income for the year</b>                       |                        | <b>\$ (2,383)</b>        | <b>\$ (686)</b> | <b>\$ 6,861</b> |
| <b>Basic and diluted (loss) earnings per share:</b>                   |                        |                          |                 |                 |
| <b>Continuing operations:</b>   |                        |                          |                 |                 |
| Basic   |                        | \$ (0.01)                | \$ (0.01)       | \$ 0.01         |
| Diluted   |                        | \$ (0.01)                | \$ (0.01)       | \$ 0.01         |
| <b>Discontinued operations:</b>                                       |                        |                          |                 |                 |
| Basic   |                        | \$ -                     | \$ -            | \$ 0.02         |
| Diluted   |                        | \$ -                     | \$ -            | \$ 0.02         |
| <b>Weighted average number of common shares outstanding:</b>          |                        |                          |                 |                 |
| Basic   | 12(e)                  | 218,460,355              | 218,473,845     | 211,483,671     |
| Diluted   | 12(e)                  | 218,460,355              | 218,473,845     | 212,674,296     |

Refer to the accompanying notes to the consolidated financial statements.

# CANARC RESOURCE CORP.

## Consolidated Statements of Changes in Shareholders' Equity

(expressed in thousands of United States dollars)

|   | Share Capital       |           | Reserve for<br>Share-Based<br>Payments | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |             | Deficit | Total   |
|---|---------------------|-----------|--|--|-------------|---------|---------|
|   | Number of<br>Shares | Amount    |  |  |             |         |         |
| Balance, December 31, 2015  | 191,620,557         | \$ 64,537 | \$ 530                                 | \$ (3,339)   | \$ (50,914) | \$      | 10,814  |
| Private placement, net of share issue costs                                   | 22,699,596          | 1,440     | -                                      | -  | -           | -       | 1,440   |
| Finders fee shares  | 311,111             | 26        | -                                      | -  | -           | -       | 26      |
| Property acquisition (Note 12(b)(iii))  | 250,000             | 19        | -                                      | -  | -           | -       | 19      |
| Exercise of stock options   | 1,000,000           | 115       | (54)                                   | -  | -           | -       | 61      |
| Share-based payments  | -                   | -         | 301                                    | -  | -           | -       | 301     |
| Cancellation and expiration of stock options                                  | -                   | -         | (26)                                   | -  | -           | 26      | -       |
| Exercise of warrants  | 1,250,000           | 77        | -                                      | -  | -           | -       | 77      |
| Exercise of finder fee warrants   | 58,333              | 6         | (2)                                    | -  | -           | -       | 4       |
| Finders fee warrants  | -                   | (10)      | 10                                     | -  | -           | -       | -       |
| Other comprehensive income (loss):  |                     |           |  |  |             |         |         |
| Foreign currency translation adjustment                                       | -                   | -         | -                                      | 70   | 4           | -       | 74      |
| Net income for the year   | -                   | -         | -                                      | -  | 6,791       | -       | 6,791   |
| Balance, December 31, 2016  | 217,189,597         | 66,210    | 759                                    | (3,269)  | (44,093)    |         | 19,607  |
| Private placement, net of share issue costs                                   | 3,846,154           | 274       | -                                      | -  | -           | -       | 274     |
| Common share buy-back under normal course issuer bid (Note 12(b)(ii))         | (2,558,500)         | (168)     | -                                      | -  | -           | -       | (168)   |
| Exercise of share appreciation rights   | 301,893             | 23        | (23)                                   | -  | -           | -       | -       |
| Share-based payments  | -                   | -         | 366                                    | -  | -           | -       | 366     |
| Cancellation and expiration of stock options                                  | -                   | -         | (12)                                   | -  | -           | 12      | -       |
| Finders fee warrants  | -                   | (11)      | 11                                     | -  | -           | -       | -       |
| Other comprehensive income (loss):  |                     |           |  |  |             |         |         |
| Foreign currency translation adjustment                                       | -                   | -         | -                                      | 1,274  | (13)        | -       | 1,261   |
| Net loss for the year   | -                   | -         | -                                      | -  | (1,960)     | -       | (1,960) |
| Balance, December 31, 2017  | 218,779,144         | 66,328    | 1,101                                  | (1,995)  | (46,054)    |         | 19,380  |
| Common share buy-back under normal course issuer bid (Note 12(b)(i) and (ii)) | (524,000)           | (21)      | -                                      | -  | -           | -       | (21)    |
| Property acquisition (Note 12(b)(i))  | 100,000             | 4         | -                                      | -  | -           | -       | 4       |
| Share issue expenses  | -                   | (6)       | -                                      | -  | -           | -       | (6)     |
| Share-based payments  | -                   | -         | 118                                    | -  | -           | -       | 118     |
| Cancellation and expiration of stock options                                  | -                   | -         | (407)                                  | -  | -           | 407     | -       |
| Expiration of finders fee warrants  | -                   | -         | (70)                                   | -  | -           | 70      | -       |
| Other comprehensive income (loss):  |                     |           |  |  |             |         |         |
| Foreign currency translation adjustment                                       | -                   | -         | (8)                                    | (1,258)  | -           | -       | (1,266) |
| Net loss for the year   | -                   | -         | -                                      | -  | (1,125)     | -       | (1,125) |
| Balance, December 31, 2018  | 218,355,144         | \$ 66,305 | \$ 734                                 | \$ (3,253)   | \$ (46,702) | \$      | 17,084  |

Refer to the accompanying notes to the consolidated financial statements.

# CANARC RESOURCE CORP.

## Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

|  | Notes | Years ended December 31, |            |          |
|--|-------|--------------------------|------------|----------|
|  |       | 2018                     | 2017       | 2016     |
| <b>Cash provided from (used by):</b>   |       |                          |            |          |
| <b>Operations:</b>   |       |                          |            |          |
| Net (loss) income from continuing operations                                 |       | \$ (1,125)               | \$ (1,960) | \$ 1,965 |
| Items not involving cash:  |       |                          |            |          |
| Accrued interest   |       | 30                       | 23         | -        |
| Amortization   |       | 24                       | 14         | -        |
| Change in fair value of marketable securities                                |       | 140                      | 293        | (3,205)  |
| Derecognition of accounts payable  |       | -                        | -          | (3)      |
| Flow through financing costs   |       | 4                        | -          | -        |
| Gain from debt settlement  |       | -                        | -          | (105)    |
| Income tax recovery  |       | (54)                     | (7)        | -        |
| Recovery of promissory notes receivable                                      |       | (152)                    | -          | (10)     |
| Share-based payments   |       | 118                      | 366        | 301      |
| Write off of mineral property interest                                       |       | -                        | 67         | -        |
| Write-off of equipment   |       | 1                        | -          | -        |
|  |       | (1,014)                  | (1,204)    | (1,057)  |
| Changes in non-cash working capital items:                                   |       |                          |            |          |
| Receivables and prepaids   |       | 5                        | 42         | (91)     |
| Accounts payable and accrued liabilities                                     |       | 88                       | 69         | (923)    |
| Operating cash flow used by continuing operations                            |       | (921)                    | (1,093)    | (2,071)  |
| Operating cash flow used by discontinued operations                          | 7(a)  | -                        | -          | (55)     |
| Net cash used by operating activities  |       | (921)                    | (1,093)    | (2,126)  |
| <b>Financing:</b>  |       |                          |            |          |
| Issuance of common shares, net of share issuance costs                       |       | -                        | 331        | 1,466    |
| Exercise of stock options  |       | -                        | -          | 61       |
| Exercise of warrants   |       | -                        | -          | 81       |
| Share buyback under normal course issuer bid                                 |       | (27)                     | (168)      | -        |
| Cash (used by) provided from financing activities                            |       | (27)                     | 163        | 1,608    |
| <b>Investing:</b>  |       |                          |            |          |
| Mineral property interests, net of recoveries                                |       | (841)                    | (3,164)    | (198)    |
| Proceeds from optioned mineral property interest                             |       | 12                       | -          | -        |
| Deferred royalty payment   | 11(d) | (35)                     | (35)       | -        |
| Acquisition of marketable securities   | 8     | (289)                    | (175)      | (81)     |
| Proceeds from disposition of marketable securities                           | 8     | 154                      | 104        | 8,931    |
| Proceeds from promissory note receivable                                     | 6     | 94                       | -          | -        |
| Expenditures for equipment   | 10    | (6)                      | (121)      | -        |
| Cash (used by) provided from investing activities from continuing operations |       | (911)                    | (3,391)    | 8,652    |
| Cash used by investing activities from discontinued operations               | 7(a)  | -                        | -          | (409)    |
| Net cash (used by) provided from investing activities                        |       | (911)                    | (3,391)    | 8,243    |
| <b>Unrealized foreign exchange (loss) gain on cash</b>                       |       | (116)                    | 546        | -        |
| <b>(Decrease) increase in cash</b>   |       | (1,975)                  | (3,775)    | 7,725    |
| Cash, beginning of year  |       | 4,304                    | 8,079      | 354      |
| <b>Cash, end of year</b>   |       | \$ 2,329                 | \$ 4,304   | \$ 8,079 |

Refer to the accompanying notes to the consolidated financial statements.

# CANARC RESOURCE CORP.

## Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

|  | Notes               | Years ended December 31, |        |      |
|--|---------------------|--------------------------|--------|------|
|  |                     | 2018                     | 2017   | 2016 |
| <b>Non-cash financing and investing activities:</b>          |                     |                          |        |      |
| Fair value of deferred royalty liability                     | 7(b) and 11(d)      | \$ -                     | \$ 183 | \$ - |
| Fair value of common shares issued for:                      |                     |                          |        |      |
| Mineral property interests                                   | 12(b)(i) and (iii)  | 4                        | -      | 19   |
| Finders fees   | 12(b)(iii)          | -                        | -      | 26   |
| Fair value allocated to common shares issued on exercise of: |                     |                          |        |      |
| Share appreciation rights                                    | 12(b)(ii)           | -                        | 23     | -    |
| Stock options  | 12(b)(iii)          | -                        | -      | 54   |
| Finders fee warrants   | 12(b)(iii)          | -                        | -      | 2    |
| Fair value of finders fee warrants from:                     |                     |                          |        |      |
| Issuance of finders fee warrants                             | 12(b)(ii) and (iii) | -                        | 11     | 10   |
| Expiration of:   |                     |                          |        |      |
| Stock options  |                     | 407                      | 12     | 26   |
| Finders fee warrants   |                     | 70                       | -      | -    |
| <b>Income taxes paid</b>                                     |                     | -                        | -      | -    |
| <b>Interest received</b>                                     |                     | -                        | -      | -    |
| <b>Interest paid</b>   |                     | -                        | -      | -    |

Refer to the accompanying notes to the consolidated financial statements.



# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 1. Nature of Operations and Going Concern

Canarc Resource Corp. (the “Company”), a company incorporated under the laws of British Columbia on January 22, 1987, is in the mineral exploration business and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of reserves in its mineral property interests, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its mineral property interests, and upon future profitable production or proceeds from the disposition thereof. The address of the Company’s registered office is #910 – 800 West Pender Street, Vancouver, BC, Canada, V6C 2V6 and its principal place of business is #301 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8.

The Company has no operating revenues, has incurred a significant net loss of \$1.1 million in 2018 (2017 – net loss of \$2.0 million and 2016 - net income of \$6.8 million) and has a deficit of \$46.7 million as at December 31, 2018 (2017 - \$46.1 million and 2016 - \$44.1 million). In addition, the Company has negative cash flows from operations. These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and repayment of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management continues to find opportunities to raise the necessary capital to meet its planned business objectives and continues to seek financing opportunities. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

## 2. Basis of Presentation

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

### (b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company’s Board of Directors on March 21, 2019.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 2. Basis of Presentation (continued)

### (c) Basis of presentation:

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as disclosed in Note 5. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### (d) Functional currency and presentation currency:

The functional currency of the Company and its subsidiaries is the Canadian dollar, and accounts denominated in currencies other than the Canadian dollar have been translated as follows:

- Monetary assets and liabilities at the exchange rate at the consolidated statement of financial position date;
- Non-monetary assets and liabilities at the historical exchange rates, unless such items are carried at fair value, in which case they are translated at the date when the fair value was determined;
- Shareholders' equity items at historical exchange rates; and
- Revenue and expense items at the rate of exchange in effect on the transaction date.

The Company's presentation currency is the United States dollar. For presentation purposes, all amounts are translated from the Canadian dollar functional currency to the United States dollar presentation currency for each period. Statement of financial position accounts, with the exception of equity, are translated using the exchange rate at the end of each reporting period, transactions on the statement of comprehensive income (loss) are recorded at the average rate of exchange during the period, and equity accounts are translated using historical actual exchange rates.

Exchange gains and losses arising from translation to the Company's presentation currency are recorded as cumulative translation adjustment, which is included in accumulated other comprehensive income (loss).

### (e) Critical accounting estimates and judgements:

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and judgements and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests, receivables and long-term investments; valuation of certain marketable securities; the determination of accrued liabilities; accrued site remediation; amount of flow-through obligations; fair value of deferred royalty liability; recognition of deferred income tax liability; the variables used in the determination of the fair value of stock options granted and finder's fees warrants issued or modified; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 2. Basis of Presentation (continued)

### (e) Critical accounting estimates and judgements: (continued)

The Company applies judgment in assessing the functional currency of each entity consolidated in these consolidated financial statements. The functional currency of the Company and its subsidiaries is determined using the currency of the primary economic environment in which that entity operates.

The Company applies judgment in assessing whether material uncertainties exist that would cast substantial doubt as to whether the Company could continue as a going concern.

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore; expected renewals of exploration rights; whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned; and results of exploration and evaluation activities on the exploration and evaluation assets.

In the acquisition of American Innovative Minerals, LLC (“AIM”) in March 2017, judgement was required to determine if the acquisition represented either a business combination or an asset purchase. More specifically, management concluded that AIM did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill recognized on the transactions and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements. (Note 7).

Judgment is applied in determining whether disposal groups or cash generating unit represent a component of the entity, the results of which should be recorded in discontinued operations in the consolidated statements of comprehensive income (loss) and cash flows.

### (f) New accounting standards and recent pronouncements:

The standards listed below include only those which the Company reasonably expects may be applicable to the Company in the current period and at a future date. The impact is not expected to have a material impact on the statements.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements: (continued)

The following standards will become effective in future periods:

#### (i) IFRS 16 *Leases*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

# CANARC RESOURCE CORP.

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements: (continued)

#### (ii) The Conceptual Framework for Financial Reporting

The revised Conceptual Framework, issued by the International Accounting Standards Board (IASB) in March 2018, replaces the Conceptual Framework for Financial Reporting (issued by the IASB in September 2010).

The revised Conceptual Framework includes the following:

- Concepts on measurement, including factors to consider when selecting a measurement basis.
- Concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income.
- Guidance on determining the boundary of a reporting entity.
- Updated definitions of an asset and a liability.
- Updated criteria for recognizing assets and liabilities in financial statements, and guidance on when to remove them.
- Clarification on the roles of stewardship, prudence, measurement uncertainty and substance over form.

The IASB and the IFRS Interpretations Committee began using the revised Conceptual Framework immediately after it was issued. The effective date for stakeholders who develop an accounting policy based on the Conceptual Framework is for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

#### (iii) Annual Improvements to IFRS Standards 2015–2017 Cycle

The following standards have been revised to incorporate amendments:

- IFRS 3 *Business Combinations* – The amendments clarify that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in that business.
- IFRS 11 *Joint Arrangements* – The amendments clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes* – The amendments clarify that an entity recognizes income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend.
- IAS 23 *Borrowing Costs* – The amendments clarify that an entity treats as general borrowings any borrowings made specifically to obtain a qualifying asset that remain outstanding when the asset is ready for its intended use or sale.

The standards are effective for annual periods beginning on or after January 1, 2019.

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## 2. Basis of Presentation (continued)

### (f) New accounting standards and recent pronouncements: (continued)

#### (iv) Prepayment Features with Negative Compensation (Amendments to IFRS 9 *Financial Instruments*)

IFRS 9 *Financial Instruments* has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in October 2017. The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met.

The amendment is effective for annual periods beginning on or after January 1, 2019.

#### (v) IFRIC 23 *Uncertainty over Income Tax Treatments*

This new Interpretation, issued by the International Accounting Standards Board (IASB) in June 2017, clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

The main features of IFRIC 23 are as follows:

- An entity considers an uncertain tax treatment separately or together with other uncertain tax treatments depending on which approach better predicts the resolution of the uncertainty.
- Taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates are determined based on whether it is probable that a taxation authority will accept an uncertain tax treatment.
- An entity reassesses judgments or estimates relating to uncertain tax treatments when facts and circumstances change.

The interpretation is effective for annual periods beginning on or after January 1, 2019.

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### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including New Polaris Gold Mines Ltd. and AIM. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All significant intercompany transactions and balances are eliminated on consolidation.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(b) Financial instruments:

The Company has adopted IFRS 9 *Financial Instruments* ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for the classification and measurement of financial instrument and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, with the exception that for financial liabilities designated at fair value through profit or loss, the change in fair value that is attributable to changes in credit risk of that liability is presented in other comprehensive (loss) income instead of in statement of operations as previously applied.

The Company has classified its financial instruments as follows under IFRS 9 compared to the Company's previous accounting policy under IAS 39:

---

|  | IAS 39   | IFRS 9         |
|--|--|----------------|
| <b>Financial Assets</b>                  |  |                |
| Cash                                     | Fair value through profit or loss ("FVTPL")      | FVTPL          |
| Marketable securities                    | FVTPL  | FVTPL          |
| Receivables                              | Loans and receivable at amortized cost           | Amortized cost |
| <b>Financial Liability</b>               |  |                |
| Accounts payable and accrued liabilities | Other financial liabilities under amortized cost | Amortized cost |
| Flow through premium liability           | Other financial liabilities under amortized cost | Amortized cost |
| Deferred royalty liability               | Other financial liabilities under amortized cost | Amortized cost |

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## 3. Significant Accounting Policies (continued)

### (b) Financial instruments: (continued)

#### (i) Financial assets:

##### Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that: (i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and (iii) is not designated as fair value through profit or loss.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at fair value through profit or loss*

Financial assets measured at fair value through profit and loss are carried in the consolidated statements of financial position at fair value with changes in fair value therein, recognized in the consolidated statements of operations and comprehensive (loss) income.

##### *Financial assets measured at amortized cost*

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

#### (ii) Derecognition:

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



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## 3. Significant Accounting Policies (continued)

### (b) Financial instruments: (continued)

#### (iii) Financial liabilities:

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

#### (iv) Fair value hierarchy

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

### (c) Impairment of non-financial assets:

The carrying amounts of non-current assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense in profit or loss.

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### 3. Significant Accounting Policies (continued)

#### (c) Impairment of non-financial assets: (continued)

The recoverable amount is the higher of an asset's "fair value less costs to sell" for the asset's highest and best use, and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined. "Fair value less costs to sell" is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date less incremental costs directly attributable to disposal of the asset, excluding financing costs and income tax expenses. For mining assets this would generally be determined based on the present value of the estimated future cash flows arising from the continued development, use or eventual disposal of the asset. In assessing these cash flows and discounting them to the present value, assumptions used are those that an independent market participant would consider appropriate. In assessing "value-in-use", the estimated future cash flows expected to arise from the continuing use of the assets in their present form and from their disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

For the purposes of impairment testing, mineral property interests are allocated to cash-generating units to which the exploration or development activity relates. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

#### (d) Mineral property interests:

All costs related to investments in mineral property interests are capitalized on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The costs related to a mineral property from which there is production, together with the costs of mining equipment, will be amortized using the unit-of-production method. When there is little prospect of further work on a property being carried out by the Company or its partners or when a property is abandoned or when the capitalized costs are not considered to be economically recoverable, the related property costs are written down to the amount recoverable.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of a property option agreement. As the property options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Property option payments are recorded as property costs or recoveries when the payments are made or received. Proceeds received on the sale or property option of the Company's property interest is recorded as a reduction of the mineral property cost. The Company recognizes in income those costs that are recovered on mineral property interests when amounts received or receivable are in excess of the carrying amount.

The amounts shown for mineral property interests represent costs incurred to date and include advance net smelter return ("NSR") royalties, less recoveries and write-downs, and are not intended to reflect present or future values.

# CANARC RESOURCE CORP.

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## 3. Significant Accounting Policies (continued)

### (e) Equipment:

Leasehold improvements and office equipment and furnishings are recorded at cost, and are amortized on a double declining basis as follows:

|                        | Double Declining Rate |
|------------------------|-----------------------|
| Leasehold improvements | 20%                   |
| Office equipment       | 30%                   |
| Office furnishings     | 20%                   |

### (f) Proceeds on unit offerings:

Proceeds received on the issuance of units, consisting of common shares and warrants, are first allocated to the fair value of the common shares with any residual value then allocated to warrants. Consideration received on the exercise of warrants is recorded as share capital and any related reserve for share-based payments is transferred to share capital. Upon expiry of the warrants, the recorded fair value of the warrants is transferred from the reserve for share-based payments to deficit.

### (g) Non-monetary transactions:

Common shares issued for consideration other than cash are valued at their quoted market price at the date of issuance.

### (h) Flow-through common shares:

The Company will from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through shares into: (i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and (ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through share proceeds.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with the Government of Canada flow-through regulations. When applicable, this tax is accrued as a finance expense until paid.

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## 3. Significant Accounting Policies (continued)

### (i) Share buy-back:

The Company has implemented a normal course issuer bid whereby the Company would buy back its common shares on the exchange in which its shares are listed at the prevailing market prices. Shares which are purchased would reduce share capital for the cash consideration paid including any associated transaction costs. Common shares which are purchased under the normal course issuer bid are returned to treasury and cancelled.

### (j) Share-based payments:

The Company has a stock option plan that is described in Note 12(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from reserve for share-based payments to deficit.

The Company has a share appreciation rights plan, which provides stock option holders the right to receive the number of common shares that are equal in value to the intrinsic value of the stock options at the date of exercise. Amounts transferred from the reserve for share-based payment to share capital are based on the ratio of shares actually issued to the number of stock options originally granted. The remainder is transferred to deficit.

### (k) Environmental rehabilitation:

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral property interests and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

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## 3. Significant Accounting Policies (continued)

### (k) Environmental rehabilitation: (continued)

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against profit or loss as incurred.

### (l) Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted earnings (loss) per common share amounts. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of the diluted per common share amount assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share presented is the same as basic loss per share as the effect of outstanding options and warrants in the loss per common share calculation would be anti-dilutive.

### (m) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

### (n) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that recovery is considered probable.

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## 4. Management of Capital

The Company is an exploration stage company and this involves a high degree of risk. The Company has not determined whether its mineral property interests contain reserves of ore and currently has not earned any revenues from its mineral property interests and, therefore, does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of share capital and proceeds from debt. The Company has generated cash inflows from the disposition of marketable securities. The Company is not subject to any externally imposed capital requirements.

The Company defines its capital as debt and share capital. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overhead to manage costs, commitments and exploration activities.

The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this financing in the future. The Company will continue to rely on debt and equity financings to meet its commitments as they become due, to continue exploration work on its mineral property interests, and to meet its administrative overhead costs for the coming periods.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

## 5. Management of Financial Risk

The Company has classified its cash and marketable securities as financial assets at FVTPL; receivables as financial assets at amortized cost; and accounts payable and accrued liabilities, flow through premium liability and deferred royalty liability as financial liabilities at amortized cost.

The Company's investment in shares of Aztec Metals Corp., a company sharing one common director, ("AzMet") is classified as FVTPL. There is no separately quoted market value for the Company's investments in the shares of AzMet which have \$Nil book value.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash and certain marketable securities are measured at fair values using Level 1 inputs. Other marketable securities are measured using Level 3 of the fair value hierarchy. Deferred royalty liability is measured using Level 2 inputs.

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## 5. Management of Financial Risk (continued)

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are provided as follows.

### (a) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions.

Management has reviewed the items comprising the accounts receivable balance which may include amounts receivable from certain related parties, and determined that all accounts are collectible; accordingly, there has been no allowance for doubtful accounts recorded.

### (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. As at December 31, 2018, the Company had a working capital of \$2.9 million (2017 – \$4.9 million). The Company has sufficient funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2019.

The following schedule provides the contractual obligations related to the deferred royalty payments (Notes 7(b) and 11(d)) as at December 31, 2018:

|                           | Payments due by Period |                     |           |           |                  |
|---------------------------|------------------------|---------------------|-----------|-----------|------------------|
|                           | Total                  | Less than<br>1 year | 1-3 years | 3-5 years | After<br>5 years |
| Deferred royalty payments | \$ 355                 | \$ 35               | \$ 105    | \$ 105    | \$ 110           |
| Total                     | \$ 355                 | \$ 35               | \$ 105    | \$ 105    | \$ 110           |

Accounts payable and accrued liabilities are due in less than 90 days.

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## 5. Management of Financial Risk (continued)

### (c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

#### (i) Foreign currency risk:

Certain of the Company's mineral property interests and operations are in Canada. Most of its operating expenses are incurred in Canadian dollars. Fluctuations in the Canadian dollar would affect the Company's consolidated statements of comprehensive income (loss) as its functional currency is the Canadian dollar, and fluctuations in the U.S. dollar would impact its cumulative translation adjustment as its consolidated financial statements are presented in U.S. dollars.

The Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

|   | Stated in U.S. Dollars<br>(Held in Canadian Dollars) |          |
|---|--|----------|
|   | 2018   | 2017     |
| Cash  | \$ 2,288   | \$ 4,118 |
| Marketable securities                           | 719  | 787      |
| Receivables                                     | 17   | 100      |
| Accounts payable and accrued liabilities        | (215)  | (104)    |
| Flow through premium liability                  | -  | (54)     |
| Net financial assets (liabilities), December 31 | \$ 2,809   | \$ 4,847 |

Based upon the above net exposure as at December 31, 2018 and assuming all other variables remain constant, a 10% (2017 - 15%) depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$281,000 (2017 - \$727,000) in the cumulative translation adjustment in the Company's shareholders' equity.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.



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## 5. Management of Financial Risk (continued)

### (c) Market risk: (continued)

#### (ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. The Company's investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date. Interest rate risk is not significant to the Company as it has no cash equivalents at period-end.

#### (iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company's other price risk includes equity price risk, whereby investment in marketable securities are held for trading financial assets with fluctuations in quoted market prices recorded at FVTPL. There is no separately quoted market value for the Company's investments in the shares of certain strategic investments.

As certain of the Company's marketable securities are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's marketable securities. Based upon the net exposure as at December 31, 2018 and assuming all other variables remain constant, a net increase or decrease of 50% (2017 - 60%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by \$360,000 (2017 - \$472,000).

In February 2017, the Company adopted a normal course issuer bid whereby the Company may acquire up to 10.9 million common shares of the Company, and shall pay the prevailing market price at the time of purchase, and which terminated on February 7, 2018. In June 2018, the normal course issuer bid was again adopted whereby the Company may acquire up to 10.9 million common shares of the Company until June 20, 2019. The cash consideration paid for any such purchases would be subject to fluctuations in the market price of its common shares. (Notes 12(b)(i) and (ii)).

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## 6. Promissory Note Receivable

Pursuant to an agreement in July 2014, the Company advanced a promissory note loan of \$200,000, which bore an interest rate of 12% per annum compounded monthly; both the principal and interest were due and payable on January 15, 2015, and any past due principal and interest bore an interest rate of 14%. In September 2014, the Company advanced further funds of \$20,000. In December 2014, the promissory note receivable along with accrued interest was determined to be impaired as collectability was doubtful, and was written off. In 2016, the Company received notice for the distribution of funds from the bankruptcy estate in which funds of \$10,000 were received in 2017. On February 12, 2018, the Company entered into a Forbearance Agreement with the debtor in which the loan principal totaling \$220,000 will be repaid in full in 2018 as follows:

| Date               | Principal |
|--------------------|-----------|
| January 31, 2018   | \$ 25     |
| June 30, 2018      | 25        |
| September 30, 2018 | 85        |
| December 31, 2018  | 85        |
|                    | <hr/>     |
|                    | \$ 220    |

Funds of \$94,500 were received in 2018 with a balance of \$59,500 received in January 2019, net of legal fees.

## 7. Acquisition and Disposition of Companies

### (a) Oro Silver Resources Ltd.

On May 6, 2016, the Company entered into a Purchase and Sale Agreement with Endeavour Silver Corp., a company sharing one common director, (“Endeavour”) which closed on May 27, 2016 pursuant to which the Company sold to Endeavour 100% of the shares of the Company’s wholly-owned subsidiary, Oro Silver Resources Ltd. (“Oro Silver”), which indirectly holds a 100% interest in the El Compas project in Zacatecas, Mexico, in consideration for 2,147,239 common shares of Endeavour (the “Sale Transaction”) with a fair value of CAD\$3.99 per share on May 27, 2016.

As additional consideration, Endeavour assumed the Company’s obligation to deliver an aggregate of 165 troy ounces of gold (or the US Dollar equivalent) to Marlin Gold Mining Ltd. (“Marlin Gold”) in three equal payments of 55 troy ounces which were due in October 2016, 2017 and 2018. The foregoing gold delivery obligation was incurred by the Company in connection with its acquisition of Oro Silver from Marlin Gold.

# CANARC RESOURCE CORP.

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## 7. Acquisition and Disposition of Companies (continued)

### (a) Oro Silver Resources Ltd. (continued)

The reported gain on the sale of Oro Silver in 2016 is as follows:

|   |    |            |                 |
|---|----|------------|-----------------|
| Consideration received from sale of Oro Silver: |    |            |                 |
| Fair value of common shares of Endeavour        | \$ | 6,571      |                 |
| Derivative liability assumed by Endeavour       |    | <u>200</u> |                 |
|   |    |            | \$ 6,771        |
| Less:   |    |            |                 |
| Cost of disposition of Oro Silver:              |    |            |                 |
| Net assets of Oro Silver                        |    | 1,873      |                 |
| Transaction costs                               |    | <u>19</u>  |                 |
|   |    |            | <u>(1,892)</u>  |
| Gain from disposition of subsidiary             |    |            | <u>\$ 4,879</u> |

The reported net income from discontinued operations from the sale of Oro Silver is as follows:

|   | December 31, |             |                 |
|---|--------------|-------------|-----------------|
|   | 2018         | 2017        | 2016            |
| Amortization                            | \$ -         | \$ -        | \$ (2)          |
| Foreign exchange gain                   | -            | -           | 5               |
| Legal                                   | -            | -           | (3)             |
| Office and sundry                       | -            | -           | (7)             |
| Rent                                    | -            | -           | (3)             |
| Salaries and management                 | -            | -           | (13)            |
| Property investigation                  | -            | -           | (5)             |
| Gain from disposition of subsidiary     | -            | -           | 4,879           |
| Loss from derivative liability          | -            | -           | (25)            |
| Net income from discontinued operations | <u>\$ -</u>  | <u>\$ -</u> | <u>\$ 4,826</u> |

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## 7. Acquisition and Disposition of Companies (continued)

### (a) Oro Silver Resources Ltd. (continued)

The reported cash flows from discontinued operations from the sale of Oro Silver are as follows:

|  | December 31, |      |          |
|--|--------------|------|----------|
|  | 2018         | 2017 | 2016     |
| <b>Cash provided from (used by) discontinued operations:</b>   |              |      |          |
| <b>Operations:</b>   |              |      |          |
| Net income (loss) from discontinued operations                 | \$ -         | \$ - | \$ 4,826 |
| Items not involving cash:                                      |              |      |          |
| Amortization   | -            | -    | 2        |
| Foreign currency translation                                   | -            | -    | (14)     |
| Gain from disposition of subsidiary                            | -            | -    | (4,879)  |
| Loss from derivative liability                                 | -            | -    | 25       |
|  | -            | -    | (40)     |
| Changes in non-cash working capital items:                     |              |      |          |
| Receivables and prepaids                                       | -            | -    | (8)      |
| Accounts payable and accrued liabilities                       | -            | -    | (7)      |
| Operating cash flow used by discontinued operations            | \$ -         | \$ - | \$ (55)  |
| <b>Investing:</b>  |              |      |          |
| Mineral property interests, net of recoveries                  | \$ -         | \$ - | \$ (409) |
| Cash used by investing activities from discontinued operations | \$ -         | \$ - | \$ (409) |

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## 7. Acquisition and Disposition of Companies

### (b) American Innovative Minerals, LLC

On March 20, 2017, the Company entered into and closed the Membership Interest Purchase Agreement with AIM (the "Membership Agreement") whereby the Company acquired 100% legal and beneficial interests in mineral properties located in Nevada, Idaho and Utah (USA) for a total cash purchase price of \$2 million in cash and honouring pre-existing NSRs.

Certain of the mineral properties are subject to royalties. For the Fondaway Canyon project, it bears both a 3% NSR and a 2% NSR. The 3% NSR has a buyout provision for an original amount of \$600,000 which is subject to advance royalty payments of \$35,000 per year by July 15<sup>th</sup> of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out. A balance of \$425,000 with a fair value of \$183,000 was outstanding upon the closing of the Membership Agreement and a remaining balance of \$355,000 remains payable as at December 31, 2018 (2017 - \$390,000). The 2% NSR has a buyout provision of either \$2 million in cash or 19.99% interest of a public entity which owns AIM if AIM were to close an initial public offering of at least \$5 million.

The Membership Agreement was considered to be outside the scope of IFRS 3 *Business Combinations* since AIM did not meet the definition of a business, and as such, the transaction was accounted for as an asset acquisition.

The following table sets forth an allocation of the purchase price to assets acquired and liabilities assumed, based on their fair values at the date of acquisition in March 2017:

|                            | American<br>Innovative<br>Minerals, LLC |
|----------------------------|---|
| Assets:                    |   |
| Mineral property interests | \$ 2,183                                |
| Total                      | <u>\$ 2,183</u>                         |

Consideration paid for AIM in March 2017:

|  |                 |
|--|-----------------|
| Cash                                     | \$ 2,000        |
| Obligation for deferred royalty payments | 183             |
| Total consideration                      | <u>\$ 2,183</u> |

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## 8. Marketable Securities

|  | December 31, |        |
|--|--------------|--------|
|  | 2018         | 2017   |
| Balance, begin of period                           | \$ 787       | \$ 955 |
| Investment in marketable securities                | 289          | 175    |
| Disposition of marketable securities at fair value | (154)        | (104)  |
| Change in fair value of marketable securities      | (140)        | (293)  |
| Foreign currency translation adjustment            | (63)         | 54     |
| Balance, end of period                             | \$ 719       | \$ 787 |

The quoted market value and fair value of shares of companies was \$719,000 at December 31, 2018 (2017 - \$787,000).

# CANARC RESOURCE CORP.

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## 9. Mineral Property Interests

|   | Canada                        |                                   |                             |                              |                             |                         | USA   |                                  | Other<br>(Note 9(c)) | Total     |
|---|-------------------------------|-----------------------------------|-----------------------------|------------------------------|-----------------------------|-------------------------|---|----------------------------------|----------------------|-----------|
|   | British Columbia              |                                   |                             |                              | Nunavut                     |                         | Nevada                                      |                                  |                      |           |
|   | New Polaris<br>(Note 9(a)(i)) | Windfall Hills<br>(Note 9(a)(ii)) | FG Gold<br>(Note 9(a)(iii)) | Princeton<br>(Note 9(a)(iv)) | Hard Cash<br>(Note 9(a)(v)) | Nigel<br>(Note 9(a)(v)) | Fondaway Canyon<br>(Notes 7(b) and 9(b)(i)) | Corral Canyon<br>(Note 9(b)(ii)) |                      |           |
| <b>Acquisition Costs:</b>                 |                               |                                   |                             |                              |                             |                         |   |                                  |                      |           |
| Balance, December 31, 2016                | \$ 3,858                      | \$ 349                            | \$ 19                       | \$ -                         | \$ -                        | \$ -                    | \$ -  | \$ -                             | \$ -                 | \$ 4,226  |
| Acquisition of subsidiary                 | -                             | -                                 | -                           | -                            | -                           | -                       | 2,183                                       | -                                | -                    | 2,183     |
| Additions, net of recoveries              | 6                             | -                                 | 28                          | -                            | -                           | -                       | 44  | -                                | -                    | 78        |
| Foreign currency translation adjustment   | 11                            | 25                                | 1                           | -                            | -                           | -                       | (54)  | -                                | -                    | (17)      |
| Write off                                 | -                             | -                                 | (48)                        | -                            | -                           | -                       | -   | -                                | -                    | (48)      |
| Balance, December 31, 2017                | 3,875                         | 374                               | -                           | -                            | -                           | -                       | 2,173                                       | -                                | -                    | 6,422     |
| Additions, net of recoveries              | 6                             | -                                 | -                           | -                            | 9                           | 2                       | 12  | 23                               | 10                   | 62        |
| Foreign currency translation adjustment   | 7                             | (30)                              | -                           | -                            | -                           | -                       | (175)                                       | -                                | -                    | (198)     |
| Balance, December 31, 2018                | \$ 3,888                      | \$ 344                            | \$ -                        | \$ -                         | \$ 9                        | \$ 2                    | \$ 2,010                                    | \$ 23                            | \$ 10                | \$ 6,286  |
| <b>Deferred Exploration Expenditures:</b> |                               |                                   |                             |                              |                             |                         |   |                                  |                      |           |
| Balance, December 31, 2016                | \$ 5,817                      | \$ 447                            | \$ 6                        | \$ -                         | \$ -                        | \$ -                    | \$ -  | \$ -                             | \$ -                 | \$ 6,270  |
| Additions, net of recoveries              | 27                            | 44                                | 14                          | -                            | -                           | -                       | 1,090                                       | -                                | -                    | 1,175     |
| Foreign currency translation adjustment   | 587                           | 31                                | 1                           | -                            | -                           | -                       | -   | -                                | -                    | 619       |
| Write off                                 | -                             | -                                 | (21)                        | -                            | -                           | -                       | -   | -                                | -                    | (21)      |
| Balance, December 31, 2017                | 6,431                         | 522                               | -                           | -                            | -                           | -                       | 1,090                                       | -                                | -                    | 8,043     |
| Additions, net of recoveries              | 88                            | 150                               | -                           | 69                           | 120                         | -                       | 351   | 1                                | -                    | 779       |
| Foreign currency translation adjustment   | (741)                         | (42)                              | -                           | -                            | -                           | -                       | (88)  | -                                | -                    | (871)     |
| Balance, December 31, 2018                | \$ 5,778                      | \$ 630                            | \$ -                        | \$ 69                        | \$ 120                      | \$ -                    | \$ 1,353                                    | \$ 1                             | \$ -                 | \$ 7,951  |
| <b>Mineral property interests:</b>        |                               |                                   |                             |                              |                             |                         |   |                                  |                      |           |
| Balance, December 31, 2017                | \$ 10,306                     | \$ 896                            | \$ -                        | \$ -                         | \$ -                        | \$ -                    | \$ 3,263                                    | \$ -                             | \$ -                 | \$ 14,465 |
| Balance, December 31, 2018                | 9,666                         | 974                               | -                           | 69                           | 129                         | 2                       | 3,363                                       | 24                               | 10                   | 14,237    |

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## 9. Mineral Property Interests (continued)

### (a) Canada:

#### (i) New Polaris (British Columbia):

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2018 include a reclamation bond for \$184,000 (2017 - \$200,000).

#### (ii) Windfall Hills (British Columbia):

In April 2013, the Company entered into a property purchase agreement with Atna Resources Ltd. (“Atna”) whereby the Company acquired a 100% undivided interest in the Uduk Lake properties by the issuance of 1,500,000 common shares at a fair value of CAD\$0.10 per share, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting Atna a 3% NSR production royalty.

In April 2013, the Company entered into a property purchase agreement whereby the Company acquired a 100% undivided interest in the Dunn properties by the issuance of 500,000 common shares at a fair value of CAD\$0.10 per share and granting the vendor a 2% NSR royalty which can be reduced to 1% NSR royalty for \$500,000.

#### (iii) FG Gold (British Columbia):

On August 24, 2016, the Company entered into a property option agreement with Eureka Resources, Inc., (“Eureka”) which closed on October 12, 2016. In consideration for the grant of the property option agreement, the Company issued 250,000 common shares at a value of CAD\$0.10 per share to Eureka, and subscribed to Eureka’s private placement for 750,000 units at a price of CAD\$0.14 per unit for a total of CAD\$105,000; each unit was comprised of one common share of Eureka and one-half of one common share purchase warrant with an exercise price of CAD\$0.20 and expiry date of September 9, 2018. The Company can earn up to a 75% interest in the FG gold property in two stages.

In the first stage, the Company can earn an initial 51% interest over three years by:

- incurring CAD\$1.5 million in exploration expenditures with an annual minimum of CAD\$500,000;
- issuing 750,000 common shares in three annual tranches of 250,000 shares; and
- paying 50% of the annual BC mineral exploration tax credits (“BC METC”) claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.



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## 9. Mineral Property Interests (continued)

### (a) Canada: (continued)

#### (iii) FG Gold (British Columbia): (continued)

In the second stage, the Company can earn an additional 24% interest for a total interest of 75% over the following two years by:

- incurring CAD\$1.5 million in exploration expenditures;
- issuing 1.5 million common shares in two annual tranches of 750,000 shares; and
- paying the greater of: (i) CAD\$75,000 and (ii) 50% of the annual BC METC claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

If the Company failed to satisfy the consideration necessary to exercise the second stage, then a joint venture would be deemed to have formed with the Company having a 51% interest and Eureka with a 49% interest.

In 2017, the Company terminated the property option agreement with Eureka and wrote off the FG Gold project.

#### (iv) Princeton (British Columbia):

In December 2018, the Company entered into a property option agreement jointly with Tasca Resources Ltd. (“Tasca”) and an individual whereby the Company has an option to earn a 80% interest in the Princeton property by incurring exploration expenditures of CAD\$900,000 over a two year period and granting a 1% NSR to Tasca which can be acquired for CAD\$1 million and honoring a 2% NSR to the individual of which 1% NSR can be acquired for CAD\$1 million.

#### (v) Hard Cash and Nigel (Nunavut):

In November 2018, the Company entered into a property option agreement with Silver Range Resources Ltd. (“Silver Range”) whereby the Company has an option to earn a 100% undivided interests in the Hard Cash and Nigel properties by paying CAD\$150,000 in cash and issuing 1.5 million common shares to Silver Range over a four year period. Silver Range retains a 2% NSR of which a 1% NSR can be acquired for CAD\$1 million. Silver Range shall also be entitled to receive \$1 per Au oz of measured and indicated resource estimate and \$1 per Au oz of proven or probable reserve estimate, payable in either cash or common shares of the Company at the Company’s election.

#### (vi) Eskay Creek property (British Columbia):

In December 2017, the Company signed an agreement with Barrick Gold Inc (“Barrick”) and Skeena Resources Ltd. (“Skeena”) involving the Company’s 33.3% carried interest in certain mining claims adjacent to the past-producing Eskay Creek Gold mine located in northwest British Columbia, whereby the Company will retain its 33.33% carried interest. The Company and Barrick have respectively 33.33% and 66.67% interests in 6 claims and mining leases totaling 2323 hectares at Eskay Creek. Pursuant to an option agreement between Skeena and Barrick, Skeena has the right to earn Barrick’s 66.67% interest in the property. The Company wrote off the property in 2005.

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## 9. Mineral Property Interests (continued)

### (b) United States:

#### (i) Fondaway Canyon (Nevada):

On March 20, 2017, the Company closed the Membership Agreement with AMI whereby the Company acquired 100% legal and beneficial interests in mineral properties located in Nevada, Idaho and Utah (USA) for a total purchase price of \$2.2 million (Note 7(b)). Certain of the mineral properties are subject to royalties.

#### (ii) Corral Canyon (Nevada):

In 2018, the Company staked 92 mining claims covering 742 hectares in Nevada, USA.

#### (iii) Silver King (Nevada):

In October 2018, the Company entered into a property option agreement for its Silver King property with Brownstone Ventures (US) Inc. (“Brownstone”) whereby Brownstone has an option to earn a 100% undivided interest by paying \$240,000 in cash over a 10 year period with early option exercise payment of \$120,000. The Company will retain a 2% NSR of which a 1% NSR can be acquired by Brownstone for \$1 million.

### (c) Other:

In December 2018, the Company entered into a Memorandum of Understanding for an exploration and development project in South America whereby the Company paid \$10,000 in 2018 and another \$10,000 is payable as a success fee to close on an acceptable agreement for such project.

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## 9. Mineral Property Interests (continued)

### (d) Expenditure options:

As at December 31, 2018, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments as follows:

|  | Cash<br>Payments<br>(CAD\$000) | Exploration<br>Expenditures<br>(CAD\$000) | Cash<br>Payments<br>(US\$000) | Annual<br>Payments<br>(US\$000) | Number of<br>Shares |
|--|--------------------------------|---|-------------------------------|---------------------------------|---------------------|
| New Polaris (Note 9(a)(i)):  |                                |   |                               |                                 |                     |
| Net profit interest reduction or buydown                                   | \$ -                           | \$ -                                      | \$ -                          | -                               | 150,000             |
| Fondaway Canyon (Notes 7(b) and 9(b)(i)):                                  |                                |   |                               |                                 |                     |
| Advance royalty payment for buyout of 3% net smelter return <sup>(1)</sup> | -                              | -   | -                             | 35                              | -                   |
| Buyout provision for net smelter return of 2% <sup>(2)</sup>               | -                              | -   | 2,000                         | -                               | -                   |
| Windfall Hills (Note 9(a)(ii)):  |                                |   |                               |                                 |                     |
| Buyout provision for net smelter return of 1.5%                            | 1,000                          | -   | -                             | -                               | -                   |
| Reduction of net smelter return of 2% to 1%                                | -                              | -   | 500                           | -                               | -                   |
| Princeton (Note 9(a)(iv)):   |                                |   |                               |                                 |                     |
| On or before:  |                                |   |                               |                                 |                     |
| January 31, 2019 (expended)  | -                              | 1   | -                             | -                               | -                   |
| December 31, 2019  | -                              | 340                                       | -                             | -                               | -                   |
| December 31, 2020  | -                              | 460                                       | -                             | -                               | -                   |
| Buyout provision for net smelter return of 1%                              | 1,000                          | -   | -                             | -                               | -                   |
| Reduction of net smelter return of 2% to 1%                                | 1,000                          | -   | -                             | -                               | -                   |
| Hard Cash and Nigel (Note 9(a)(v)):  |                                |   |                               |                                 |                     |
| On or before:  |                                |   |                               |                                 |                     |
| November 23, 2019  | 20                             | -   | -                             | -                               | 200,000             |
| November 23, 2020  | 30                             | -   | -                             | -                               | 300,000             |
| November 23, 2021  | 40                             | -   | -                             | -                               | 400,000             |
| November 23, 2022  | 50                             | -   | -                             | -                               | 500,000             |
| Reduction of net smelter return of 2% to 1%                                | 1,000                          | -   | -                             | -                               | -                   |
| Other (Note 9(c)):   |                                |   |                               |                                 |                     |
| Success fee  | -                              | -   | 10                            | -                               | -                   |
|  | \$ 4,140                       | \$ 801                                    | \$ 2,510                      | \$ 35                           | 1,550,000           |

(1) Advance royalty payments of \$355,000 remain payable as at December 31, 2018 with annual payments of \$35,000.

(2) The 2% NSR has a buyout provision of either \$2 million in cash or 19.99% interest of a public entity which owns AIM if AIM were to close an initial public offering of at least \$5 million.

These amounts may be reduced in the future as the Company determines which mineral property interests to continue to explore and which to abandon.

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## 9. Mineral Property Interests (continued)

### (e) Title to mineral property interests:

The Company has diligently investigated rights of ownership of all of its mineral property interests/concessions and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties and concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

### (f) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the mineral properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

### (g) Environmental:

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation of the Company's operation may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its current properties and former properties in which it has previously had an interest. The Company is not aware of any existing environmental problems related to any of its current or former mineral property interests that may result in material liability to the Company.

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## 10. Equipment

|   | Leasehold<br>Improvements | Office Furnishings<br>and Equipment | Total  |
|---|---------------------------|-------------------------------------|--------|
| <b>Cost:</b>                            |                           |                                     |        |
| Balance, December 31, 2016              | \$ -                      | \$ 8                                | \$ 8   |
| Acquisitions                            | 90                        | 31                                  | 121    |
| Write-off                               | -                         | (8)                                 | (8)    |
| Balance, December 31, 2017              | 90                        | 31                                  | 121    |
| Acquisitions                            | -                         | 6                                   | 6      |
| Write-off                               | -                         | (2)                                 | (2)    |
| Foreign currency translation adjustment | (7)                       | (2)                                 | (9)    |
| Balance, December 31, 2018              | 83                        | 33                                  | 116    |
| <b>Accumulated amortization:</b>        |                           |                                     |        |
| Balance, December 31, 2016              | \$ -                      | \$ 7                                | \$ 7   |
| Amortization                            | 10                        | 4                                   | 14     |
| Write-off                               | -                         | (7)                                 | (7)    |
| Balance, December 31, 2017              | 10                        | 4                                   | 14     |
| Amortization                            | 17                        | 7                                   | 24     |
| Write-off                               | -                         | (1)                                 | (1)    |
| Foreign currency translation adjustment | (1)                       | -                                   | (1)    |
| Balance, December 31, 2018              | 26                        | 10                                  | 36     |
| <b>Net book value:</b>                  |                           |                                     |        |
| Balance, December 31, 2017              | \$ 80                     | \$ 27                               | \$ 107 |
| Balance, December 31, 2018              | \$ 57                     | \$ 23                               | \$ 80  |

## 11. Accounts Payable and Accrued Liabilities

### (a) Debt Settlement and Derecognition:

In 2016, the Company entered into a debt settlement with a creditor whereby a debt of \$138,000 was settled with a cash payment of \$33,000, resulting in a gain on debt settlement of \$105,000. In 2016, the Company also derecognized debt of \$3,000 owed to a foreign creditor, and recognized a gain of \$3,000 from the derecognition of accounts payable.

### (b) Flow-Through Tax Indemnification:

In 2015, the Company incurred a shortfall of CAD\$14,000 in Canadian exploration expenditures for flow through purposes, and recognized a provision of US\$2,000 for flow through indemnification as at December 31, 2017 which was included in accounts payable and accrued liabilities but was derecognized in 2018.

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## 11. Accounts Payable and Accrued Liabilities (continued)

### (c) Flow Through Premium Liability

On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000. The fair value of the shares was CAD\$0.11 per share, resulting in the recognition of a flow through premium liability of CAD\$0.02 per share for a total of CAD\$76,900. (Note 12(b)(ii)).

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|  |    |      |
|--|----|------|
| Balance, December 31, 2016   | \$ | -    |
| Add:   |    |      |
| Excess of subscription price over fair value of flow through common shares |    | 57   |
| Foreign currency translation adjustment                                    |    | 4    |
| Less:  |    |      |
| Income tax recovery  |    | (7)  |
| Balance, December 31, 2017   |    | 54   |
| Less:  |    |      |
| Income tax recovery  |    | (54) |
| Balance, December 31, 2018   | \$ | -    |

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### (d) Deferred Royalty Liability

The 3% NSR for the Fondaway Canyon project which was acquired in March 2017 has a buyout provision for an original amount of \$600,000 which is subject to advance royalty payments of \$35,000 per year by July 15<sup>th</sup> of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out in full. A balance of \$425,000 was remaining upon the closing of the Membership Agreement. (Note 7(b)).

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|   |    | Deferred Royalty<br>Liability |
|---|----|-------------------------------|
| Balance, December 31, 2016              | \$ | -                             |
| Add:                                    |    |                               |
| Obligation for advance royalty payments |    | 183                           |
| Interest                                |    | 23                            |
| Less:                                   |    |                               |
| Advance royalty payment                 |    | (35)                          |
| Balance, December 31, 2017              |    | 171                           |
| Add:                                    |    |                               |
| Interest                                |    | 30                            |
| Less:                                   |    |                               |
| Advance royalty payment                 |    | (35)                          |
| Foreign currency translation adjustment |    | (1)                           |
| Balance, December 31, 2018              | \$ | 165                           |

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# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 12. Share Capital

### (a) Authorized:

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

### (b) Issued:

(i) In June 2018, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid is effective on June 21, 2018 and will terminate on June 20, 2019, or on such earlier date as the bid is completed. The actual number of common shares purchased under the bid and the timing of any such purchases is at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company shall pay the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018.

In December 2018, the Company issued 100,000 common shares at a value of CAD\$0.05 per share to Silver Range for the Hard Cash and Nigel properties (Note 9(a)(v)).

(ii) In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid was effective on February 8, 2017 and terminated on February 7, 2018. The actual number of common shares purchased under the bid and the timing of any such purchases was at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were cancelled. For the year ended December 31, 2017, the Company purchased 2.6 million shares for CAD\$213,700 with an average price of CAD\$0.08 per share, of which 2.5 million common shares have been cancelled and the remaining common shares were cancelled in February 2018. Subsequent to December 31, 2017, a further 86,000 common shares for CAD\$6,450 were purchased at an average price of CAD\$0.08 per share, all of which were cancelled in February 2018.

In March 2017, stock options for 500,000 common shares were cancelled for the exercise of share appreciation rights for 272,727 common shares at a fair value of CAD\$0.10 per share. In May 2017, stock options for 132,500 common shares were cancelled for the exercise of share appreciation rights for 29,166 common shares at a fair value of CAD\$0.10 per share.

On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000. The fair value of the shares was CAD\$0.11 per share, resulting in the recognition of a flow through premium liability of CAD\$0.02 per share for a total of CAD\$76,900. Finder fees were comprised of CAD\$32,500 in cash and 250,000 warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until April 21, 2019.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 12. Share Capital (continued)

### (b) Issued: (continued)

(iii) In March 2016, the Company closed a private placement in two tranches totalling 22.7 million units at a price of CAD\$0.09 per unit for gross proceeds of CAD\$2.04 million with each unit comprised of one common share and one-half of one common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.12 per share for a period of three years. On March 3, 2016, the Company closed the first tranche for 17.7 million units for gross proceeds of CAD\$1.59 million. On March 14, 2016, the Company closed the second tranche for 5 million units for gross proceeds of CAD\$449,500 with a finder's fee of 311,111 units issued with the same terms as the underlying units in the private placement.

In September 2016, the Company issued 250,000 common shares at a value of CAD\$0.10 per share to Eureka for the FG gold property (Note 9(a)(iii)).

In 2016, warrants for 1.31 million shares were exercised for proceeds of CAD\$104,700 which included finder fee warrants for 58,333 shares with a fair value of US\$2,000. In 2016, stock options for 1 million shares were exercised for proceeds of CAD\$80,000 with fair values of US\$54,300.

### (c) Stock option plan:

The Company has a stock option plan that allows it to grant stock options to its directors, officers, employees, and consultants to acquire up to 44,261,695 common shares which was increased from 18,888,434 common shares at the Company's Annual and Special Meeting held on June 2, 2017. The exercise price of each stock option cannot be lower than the last recorded sale of a board lot on the TSX during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the TSX based on the last five trading days before the date of the grant. Stock options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of stock options is made at the discretion of the board at the time the stock options are granted.

At the discretion of the board, certain stock option grants provide the holder the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the stock options.



# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 12. Share Capital (continued)

### (c) Stock option plan: (continued)

The continuity of outstanding stock options for the years ended December 31, 2018, 2017 and 2016 is as follows:

|  | 2018             |   | 2017             |   | 2016             |   |
|--|------------------|---|------------------|---|------------------|---|
|  | Number of Shares | Weighted average exercise price (CAD\$) | Number of Shares | Weighted average exercise price (CAD\$) | Number of Shares | Weighted average exercise price (CAD\$) |
| Outstanding balance, beginning of year     | 19,357,500       | \$0.08                                  | 16,445,000       | \$0.08                                  | 11,920,000       | \$0.08                                  |
| Granted                                    | 4,250,000        | \$0.07                                  | 3,600,000        | \$0.10                                  | 8,010,000        | \$0.08                                  |
| Exercised                                  | -                | -                                       | -                | -                                       | (1,000,000)      | \$0.08                                  |
| Cancellation for share appreciation rights | -                | -                                       | (632,500)        | \$0.06                                  | -                | -                                       |
| Forfeited                                  | (1,012,500)      | \$0.09                                  | (18,750)         | \$0.10                                  | (1,965,000)      | \$0.09                                  |
| Expired                                    | (6,195,000)      | \$0.08                                  | (36,250)         | \$0.14                                  | (520,000)        | \$0.10                                  |
| Outstanding balance, end of year           | 16,400,000       | \$0.08                                  | 19,357,500       | \$0.08                                  | 16,445,000       | \$0.08                                  |
| Exercise price range                       | \$0.05 - \$0.10  |   | \$0.06 - \$0.10  |   | \$0.05 - \$0.145 |   |

The following table summarizes information about stock options exercisable and outstanding at December 31, 2018 and 2017:

| Exercise Prices (CAD\$) | Options Outstanding                |   |  | Options Exercisable                |   |  |
|-------------------------|------------------------------------|---|--|------------------------------------|---|--|
|                         | Number Outstanding at Dec 31, 2018 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) | Number Exercisable at Dec 31, 2018 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) |
| \$0.10                  | 2,300,000                          | 0.54  | \$0.10                                   | 2,300,000                          | 0.54  | \$0.10                                   |
| \$0.06                  | 3,700,000                          | 1.94  | \$0.06                                   | 3,700,000                          | 1.94  | \$0.06                                   |
| \$0.08                  | 3,600,000                          | 2.52  | \$0.08                                   | 3,600,000                          | 2.52  | \$0.08                                   |
| \$0.10                  | 2,050,000                          | 3.42  | \$0.10                                   | 2,050,000                          | 3.42  | \$0.10                                   |
| \$0.09                  | 500,000                            | 3.70  | \$0.09                                   | 375,000                            | 3.70  | \$0.09                                   |
| \$0.08                  | 3,250,000                          | 4.49  | \$0.08                                   | 1,300,000                          | 4.49  | \$0.08                                   |
| \$0.06                  | 500,000                            | 4.87  | \$0.06                                   | 100,000                            | 4.87  | \$0.06                                   |
| \$0.05                  | 500,000                            | 4.87  | \$0.05                                   | 100,000                            | 4.87  | \$0.05                                   |
|                         | 16,400,000                         | 2.79  | \$0.08                                   | 13,525,000                         | 2.42  | \$0.08                                   |

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 12. Share Capital (continued)

### (c) Stock option plan: (continued)

| Exercise Prices (CAD\$) | Options Outstanding                |   |  | Options Exercisable                |   |  |
|-------------------------|------------------------------------|---|--|------------------------------------|---|--|
|                         | Number Outstanding at Dec 31, 2017 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) | Number Exercisable at Dec 31, 2017 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) |
| \$0.08                  | 1,400,000                          | 0.48  | \$0.08                                   | 1,400,000                          | 0.48  | \$0.08                                   |
| \$0.10                  | 3,600,000                          | 1.54  | \$0.10                                   | 3,600,000                          | 1.54  | \$0.10                                   |
| \$0.06                  | 5,312,500                          | 2.94  | \$0.06                                   | 5,312,500                          | 2.94  | \$0.06                                   |
| \$0.08                  | 5,470,000                          | 3.52  | \$0.08                                   | 2,410,000                          | 3.52  | \$0.08                                   |
| \$0.10                  | 3,075,000                          | 4.42  | \$0.10                                   | 1,537,500                          | 4.42  | \$0.10                                   |
| \$0.09                  | 500,000                            | 4.70  | \$0.09                                   | 125,000                            | 4.70  | \$0.09                                   |
|                         | 19,357,500                         | 2.94  | \$0.08                                   | 14,385,000                         | 2.62  | \$0.08                                   |

During the year ended December 31, 2018, the Company recognized share-based payments of \$118,000 (2017 - \$366,000 and 2016 - \$301,000), net of forfeitures, based on the fair value of stock options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants, as applicable, as follows:

|                        | December 31, |        |        |
|------------------------|--------------|--------|--------|
|                        | 2018         | 2017   | 2016   |
| Directors and officers | \$ 118       | \$ 351 | \$ 245 |
| Employees              | -            | 15     | 2      |
| Consultants            | -            | -      | 54     |
|                        | \$ 118       | \$ 366 | \$ 301 |

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants are estimated using the Black-Scholes option pricing model as follows:

|  | 2018      | 2017      | 2016      |
|--|-----------|-----------|-----------|
| Number of stock options granted              | 4,250,000 | 3,600,000 | 8,010,000 |
| Fair value of stock options granted (CAD\$)  | \$0.04    | \$0.08    | \$0.07    |
| Market price of shares on grant date (CAD\$) | \$0.05    | \$0.10    | \$0.09    |
| Pre-vest forfeiture rate                     | 16.09%    | 15.41%    | 15.99%    |
| Risk-free interest rate                      | 2.10%     | 0.95%     | 0.55%     |
| Expected dividend yield                      | 0%        | 0%        | 0%        |
| Expected stock price volatility              | 119%      | 134%      | 140%      |
| Expected option life in years                | 4.22      | 4.03      | 4.42      |

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

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## 12. Share Capital (continued)

### (c) Stock option plan: (continued)

Expected stock price volatility is based on the historical price volatility of the Company's common shares.

In fiscal 2016, the Company granted the following stock options:

- 3,260,000 stock options to directors, officers and employees with an exercise price of CAD\$0.08 and an expiry date of July 7, 2021, and which are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every six months thereafter;
- 3,000,000 stock options to a director, officers and a consultant with an exercise price of CAD\$0.08 and an expiry date of July 7, 2021, and which shall vest only when the Company closes a material transaction or at the discretion of the Company's Board of Directors;
- 1,000,000 stock options to consultants with an exercise price of CAD\$0.08 and an expiry date of July 7, 2021, and which fully vested on grant date; and
- 750,000 stock options to a consultant with an exercise price of CAD\$0.11 and an expiry date of September 21, 2021, and which fully vest on December 20, 2016.

In March 2017, stock options for 500,000 common shares were cancelled for the exercise of share appreciation rights for 272,727 common shares. In May 2017, stock options for 132,500 common shares were cancelled for the exercise of share appreciation rights for 29,166 common shares.

On June 2, 2017, the Company's Board of Directors provided for the full vesting of 2.25 million performance based stock options which were granted in July 2016 and which have an exercise price of CAD\$0.08 and an expiry date of July 7, 2021.

In fiscal 2017, the Company granted the following stock options:

- 3,100,000 stock options to directors, officers and employees with an exercise price of CAD\$0.10 and an expiry date of June 2, 2022, and which are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every six months thereafter; and
- 500,000 stock options to an employee with an exercise price of CAD\$0.09 and an expiry date of September 13, 2022, and which are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every six months thereafter;

In fiscal 2018, the Company granted the following stock options:

- 3,250,000 stock options to directors, officers and employees with an exercise price of CAD\$0.08 and an expiry date of June 29, 2023, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter; and
- 1,000,000 stock options to an officer of which 500,000 stock options have an exercise price of CAD\$0.05 and 500,000 stock options with an exercise price of CAD\$0.06 and an expiry date of November 12, 2023, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In February 2019, the Company granted 700,000 stock options to consultants with an exercise price of \$0.07 per share and an expiry date of February 22, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 12. Share Capital (continued)

### (d) Warrants:

At December 31, 2018, the Company had outstanding warrants as follows:

| Exercise Prices (CAD\$) | Expiry Dates                          | Outstanding at December 31, 2017 | Issued | Exercised | Expired      | Outstanding at December 31, 2018 |
|-------------------------|---------------------------------------|----------------------------------|--------|-----------|--------------|----------------------------------|
| \$0.10                  | July 31, 2018 <sup>(1),(7)</sup>      | 8,450,000                        | -      | -         | (8,450,000)  | -                                |
| \$0.15                  | September 18, 2018 <sup>(1)</sup>     | 5,254,055                        | -      | -         | (5,254,055)  | -                                |
| \$0.15                  | September 18, 2018 <sup>(1),(2)</sup> | 661,718                          | -      | -         | (661,718)    | -                                |
| \$0.15                  | October 3, 2018 <sup>(1)</sup>        | 4,153,750                        | -      | -         | (4,153,750)  | -                                |
| \$0.15                  | October 3, 2018 <sup>(1),(3)</sup>    | 60,725                           | -      | -         | (60,725)     | -                                |
| \$0.08                  | September 21, 2018                    | 5,332,776                        | -      | -         | (5,332,776)  | -                                |
| \$0.08                  | September 21, 2018 <sup>(4)</sup>     | 536,511                          | -      | -         | (536,511)    | -                                |
| \$0.12                  | March 3, 2019 <sup>(8)</sup>          | 8,852,576                        | -      | -         | -            | 8,852,576                        |
| \$0.12                  | March 14, 2019 <sup>(8)</sup>         | 2,497,222                        | -      | -         | -            | 2,497,222                        |
| \$0.12                  | March 14, 2019 <sup>(5),(8)</sup>     | 155,556                          | -      | -         | -            | 155,556                          |
| \$0.12                  | April 21, 2019 <sup>(6)</sup>         | 250,000                          | -      | -         | -            | 250,000                          |
|                         |                                       | 36,204,889                       | -      | -         | (24,449,535) | 11,755,354                       |

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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## 12. Share Capital (continued)

### (d) Warrants: (continued)

- (1) On August 28, 2015, the Company extended the terms of the expiry periods of the warrants by 18 months.
- (2) As these warrants are agent's warrants, a fair value of \$43,120 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$4,622 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (3) As these warrants are agent's warrants, a fair value of \$3,335 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$386 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (4) As these warrants are agent's warrants, a fair value of \$20,747 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 147%, risk-free rate 0.57%, expected life 3 years, and expected dividend yield 0%.
- (5) As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.
- (6) As these warrants are agent's warrants, a fair value of \$11,460 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 125%, risk-free rate 0.71%, expected life 2 years, and expected dividend yield 0%.
- (7) On July 14, 2017, the Company extended the term of the expiry period of the warrants by one year from July 31, 2017 to July 31, 2018, which expired unexercised.
- (8) These warrants expired unexercised on their respective expiry dates in 2019.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 12. Share Capital (continued)

### (d) Warrants: (continued)

At December 31, 2017, the Company had outstanding warrants as follows:

| Exercise Prices (CAD\$) | Expiry Dates                          | Outstanding at December 31, 2016 | Issued  | Exercised | Expired   | Outstanding at December 31, 2017 |
|-------------------------|---------------------------------------|----------------------------------|---------|-----------|-----------|----------------------------------|
| \$0.10                  | July 31, 2018 <sup>(1),(7)</sup>      | 8,450,000                        | -       | -         | -         | 8,450,000                        |
| \$0.15                  | March 18, 2017                        | 55,000                           | -       | -         | (55,000)  | -                                |
| \$0.15                  | September 18, 2018 <sup>(1)</sup>     | 5,254,055                        | -       | -         | -         | 5,254,055                        |
| \$0.15                  | September 18, 2018 <sup>(1),(2)</sup> | 661,718                          | -       | -         | -         | 661,718                          |
| \$0.15                  | April 3, 2017                         | 346,250                          | -       | -         | (346,250) | -                                |
| \$0.15                  | October 3, 2018 <sup>(1)</sup>        | 4,153,750                        | -       | -         | -         | 4,153,750                        |
| \$0.15                  | October 3, 2018 <sup>(1),(3)</sup>    | 60,725                           | -       | -         | -         | 60,725                           |
| \$0.08                  | September 21, 2018                    | 5,332,776                        | -       | -         | -         | 5,332,776                        |
| \$0.08                  | September 21, 2018 <sup>(4)</sup>     | 536,511                          | -       | -         | -         | 536,511                          |
| \$0.12                  | March 3, 2019                         | 8,852,576                        | -       | -         | -         | 8,852,576                        |
| \$0.12                  | March 14, 2019                        | 2,497,222                        | -       | -         | -         | 2,497,222                        |
| \$0.12                  | March 14, 2019 <sup>(5)</sup>         | 155,556                          | -       | -         | -         | 155,556                          |
| \$0.12                  | April 21, 2019 <sup>(6)</sup>         | -                                | 250,000 | -         | -         | 250,000                          |
|                         |                                       | 36,356,139                       | 250,000 | -         | (401,250) | 36,204,889                       |

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## 12. Share Capital (continued)

### (d) Warrants: (continued)

- (1) On August 28, 2015, the Company extended the terms of the expiry periods of the warrants by 18 months.
- (2) As these warrants are agent's warrants, a fair value of \$43,120 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$4,622 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (3) As these warrants are agent's warrants, a fair value of \$3,335 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$386 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (4) As these warrants are agent's warrants, a fair value of \$20,747 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 147%, risk-free rate 0.57%, expected life 3 years, and expected dividend yield 0%.
- (5) As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.
- (6) As these warrants are agent's warrants, a fair value of \$11,460 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 125%, risk-free rate 0.71%, expected life 2 years, and expected dividend yield 0%.
- (7) On July 14, 2017, the Company extended the term of the expiry period of the warrants by one year from July 31, 2017 to July 31, 2018.

# CANARC RESOURCE CORP.

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(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 12. Share Capital (continued)

### (d) Warrants: (continued)

At December 31, 2016, the Company had outstanding warrants as follows:

| Exercise Prices (CAD\$) | Expiry Dates                          | Outstanding at December 31, 2015 | Issued     | Exercised   | Expired     | Outstanding at December 31, 2016 |
|-------------------------|---------------------------------------|----------------------------------|------------|-------------|-------------|----------------------------------|
| \$0.20                  | January 11, 2016 <sup>(1)</sup>       | 600,000                          | -          | -           | (600,000)   | -                                |
| \$0.20                  | January 18, 2016 <sup>(1)</sup>       | 1,000,000                        | -          | -           | (1,000,000) | -                                |
| \$0.10                  | January 31, 2016                      | 550,000                          | -          | -           | (550,000)   | -                                |
| \$0.10                  | July 31, 2017 <sup>(2)</sup>          | 8,450,000                        | -          | -           | -           | 8,450,000                        |
| \$0.15                  | March 18, 2017                        | 55,000                           | -          | -           | -           | 55,000                           |
| \$0.15                  | September 18, 2018 <sup>(2)</sup>     | 5,254,055                        | -          | -           | -           | 5,254,055                        |
| \$0.15                  | September 18, 2018 <sup>(2),(3)</sup> | 661,718                          | -          | -           | -           | 661,718                          |
| \$0.15                  | April 3, 2017                         | 346,250                          | -          | -           | -           | 346,250                          |
| \$0.15                  | October 3, 2018 <sup>(2)</sup>        | 4,153,750                        | -          | -           | -           | 4,153,750                        |
| \$0.15                  | October 3, 2018 <sup>(2),(4)</sup>    | 60,725                           | -          | -           | -           | 60,725                           |
| \$0.15                  | July 9, 2016                          | 2,500,000                        | -          | -           | (2,500,000) | -                                |
| \$0.08                  | September 21, 2018                    | 5,749,443                        | -          | (416,667)   | -           | 5,332,776                        |
| \$0.08                  | September 21, 2018 <sup>(5)</sup>     | 594,844                          | -          | (58,333)    | -           | 536,511                          |
| \$0.08                  | October 30, 2018                      | 833,333                          | -          | (833,333)   | -           | -                                |
| \$0.12                  | March 3, 2019                         | -                                | 8,852,576  | -           | -           | 8,852,576                        |
| \$0.12                  | March 14, 2019                        | -                                | 2,497,222  | -           | -           | 2,497,222                        |
| \$0.12                  | March 14, 2019 <sup>(6)</sup>         | -                                | 155,556    | -           | -           | 155,556                          |
|                         |                                       | 30,809,118                       | 11,505,354 | (1,308,333) | (4,650,000) | 36,356,139                       |



# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 12. Share Capital (continued)

### (d) Warrants: (continued)

- (1) The warrants were subject to an accelerated expiry whereby if after the four month plus one day hold period from the closing date of the private placement, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.
- (2) On August 28, 2015, the Company extended the terms of the expiry periods of the warrants by 18 months.
- (3) As these warrants are agent's warrants, a fair value of \$43,120 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$4,622 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (4) As these warrants are agent's warrants, a fair value of \$3,335 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$386 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (5) As these warrants are agent's warrants, a fair value of \$20,747 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 147%, risk-free rate 0.57%, expected life 3 years, and expected dividend yield 0%.
- (6) As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 12. Share Capital (continued)

### (e) Basic and diluted (loss) earnings per share:

The calculation of basic and diluted (loss) earnings per share for the relevant periods is based on the following:

|  | December 31, |             |             |
|--|--------------|-------------|-------------|
|  | 2018         | 2017        | 2016        |
| Basic weighted average number of common shares outstanding   | 218,460,355  | 218,473,845 | 211,483,671 |
| Effect of dilutive securities                                | -            | -           | 1,190,625   |
| Diluted weighted average number of common shares outstanding | 218,460,355  | 218,473,845 | 212,674,296 |

### (f) Common shares reserved for issuance:

|                            | Number of Shares |            |            |
|----------------------------|------------------|------------|------------|
|                            | December 31,     |            |            |
|                            | 2018             | 2017       | 2016       |
| Stock options (Note 12(c)) | 16,400,000       | 19,357,500 | 16,445,000 |
| Warrants (Note 12(d))      | 11,755,354       | 36,204,889 | 36,356,139 |
| Balance                    | 28,155,354       | 55,562,389 | 52,801,139 |

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 13. Corporate Development and General and Administrative

|                              | Years ended December 31, |               |               |
|------------------------------|--------------------------|---------------|---------------|
|                              | 2018                     | 2017          | 2016          |
| Corporate Development:       |                          |               |               |
| Corporate advisory           | \$ -                     | \$ 13         | \$ 69         |
| Geology and technical review | 26                       | 21            | 22            |
| Legal                        | -                        | 5             | 7             |
| Salaries and remuneration    | 1                        | -             | 3             |
| Sundry                       | -                        | -             | 4             |
| Travel and transportation    | 22                       | 18            | 31            |
|                              | <u>\$ 49</u>             | <u>\$ 57</u>  | <u>\$ 136</u> |
| General and Administrative:  |                          |               |               |
| Accounting, audit and tax    | \$ 36                    | \$ 39         | \$ 27         |
| Legal                        | 15                       | 16            | 29            |
| Office and sundry            | 56                       | 67            | 53            |
| Regulatory                   | 50                       | 70            | 53            |
| Rent                         | 66                       | 44            | 31            |
|                              | <u>\$ 223</u>            | <u>\$ 236</u> | <u>\$ 193</u> |

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# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 14. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management is disclosed in the table below.

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following general and administrative costs with related parties during the years ended December 31, 2018, 2017 and 2016:

|   | Years ended December 31, |                 |               | Net balance receivable (payable) |               |
|---|--------------------------|-----------------|---------------|----------------------------------|---------------|
|   | 2018                     | 2017            | 2016          | as at December 31,<br>2018       | 2017          |
| Key management compensation:  |                          |                 |               |                                  |               |
| Executive salaries and remuneration <sup>(1)</sup>  | \$ 490                   | \$ 720          | \$ 460        | \$ -                             | \$ -          |
| Severance   | 184                      | -               | -             | -                                | -             |
| Directors fees  | 27                       | 98              | 8             | (7)                              | (2)           |
| Share-based payments  | 118                      | 351             | 245           | -                                | -             |
|   | <u>\$ 819</u>            | <u>\$ 1,169</u> | <u>\$ 713</u> | <u>\$ (7)</u>                    | <u>\$ (2)</u> |
| Net office, sundry, rent and salary allocations recovered from (incurred to) company(ies) sharing certain common director(s) <sup>(2)</sup> |                          |                 |               |                                  |               |
|   | 2                        | (16)            | (41)          | 1                                | 1             |

<sup>(1)</sup> Includes key management compensation which is included in employee and director remuneration, mineral property interests, and corporate development.

<sup>(2)</sup> The companies include Endeavour, Aztec Minerals Corp., a company sharing one common director, ("AzMin") and AzMet.

The above transactions are incurred in the normal course of business. Note 7(a) for the Sale Transaction with Endeavour; and Note 8 for marketable securities held in Endeavour, AzMin and AzMet.

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 15. Segment Disclosures

The Company has one operating segment, being mineral exploration, with assets located in Canada and the United States, as follows:

|                                      | December 31, 2018 |          |       |           | December 31, 2017 |          |           |
|--------------------------------------|-------------------|----------|-------|-----------|-------------------|----------|-----------|
|                                      | Canada            | USA      | Other | Total     | Canada            | USA      | Total     |
| Mineral property interests           | \$ 10,840         | \$ 3,387 | \$ 10 | \$ 14,237 | \$ 11,202         | \$ 3,263 | \$ 14,465 |
| Leasehold improvements and equipment | 80                | -        | -     | 80        | 107               | -        | 107       |

## 16. Commitments

In February 2017, the Company entered into an office lease arrangement for a term of five years with a commencement date of August 1, 2017. The basic rent per year is CAD\$46,000 for years 1 to 3 and CAD\$48,000 for years 4 to 5. As at December 31, 2018, the Company is committed to the following payments for base rent at its corporate head office in Vancouver, BC, as follows:

|       | Amount     |
|-------|------------|
|       | (CAD\$000) |
| Year: |            |
| 2019  | \$ 46      |
| 2020  | 47         |
| 2021  | 48         |
| 2022  | 28         |
|       | \$ 169     |

For the Fondaway Canyon project, the 3% NSR has a buyout provision which is subject to advance royalty payments of \$35,000 per year by July 15<sup>th</sup> of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out. A balance of \$355,000 remains payable as at December 31, 2018. (Note 7(b)).

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

## 17. Deferred Income Taxes

- (a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

|   | 2018       | 2017       |
|---|------------|------------|
| Net (loss) income for the year                                  | \$ (1,125) | \$ (1,960) |
| Canadian statutory tax rate                                     | 27.0%      | 26.0%      |
| Income tax expense (benefit) computed at statutory rates        | \$ (304)   | \$ (510)   |
| Temporary differences   | (70)       | 12         |
| Items not taxable/deductible for income tax purposes            | 44         | 102        |
| Tax losses and tax offsets recognized/unrecognized in tax asset | 359        | 502        |
| Under (over) provided in prior years                            | 104        | -          |
| Expired losses  | -          | 63         |
| Effect of change in tax rates                                   | -          | (107)      |
| Impact of foreign exchange on tax assets and liabilities        | (133)      | (62)       |
| Deferred income tax recovery                                    | \$ -       | \$ -       |

Effective January 1, 2018, the Canadian federal corporate tax rate is 15% and the British Columbia provincial tax rate is 12% for a total Canadian statutory tax rate of 27%.

- (b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2018 and 2017 are presented below:

|   | December 31, |      |
|---|--------------|------|
|   | 2018         | 2017 |
| Deferred tax assets                                     |              |      |
| Non-capital losses carried forward                      | \$ -         | \$ - |
| Deferred tax assets                                     | -            | -    |
| Deferred tax liabilities                                |              |      |
| Marketable securities                                   |              |      |
| Book value over tax value of property, plant and equipm | -            | -    |
| Book value over tax value of mineral properties         | -            | -    |
| Deferred tax liabilities                                | -            | -    |
| Net deferred tax assets                                 | \$ -         | \$ - |

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2018, 2017 and 2016

(tabular dollar amounts expressed in thousands of United States dollars, except per share amounts)

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## 17. Deferred Income Taxes (continued)

- (c) The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets have been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

|   | December 31, |           |
|---|--------------|-----------|
|   | 2018         | 2017      |
| Non-capital losses                              | \$ 6,278     | \$ 5,573  |
| Marketable securities                           | 164          | 106       |
| Share issue costs                               | 86           | 173       |
| Unrealized foreign exchange                     | 336          | 186       |
| Tax value over book value of mineral properties | 6,544        | 7,262     |
| Tax value over book value of equipment          | 1,259        | 1,345     |
| Unrecognized deductible temporary differences   | \$ 14,667    | \$ 14,645 |

As at December 31, 2018, the Company's unrecognized unused non-capital losses have the following expiry dates:

|      |          |
|------|----------|
| 2026 | \$ 53    |
| 2027 | 225      |
| 2030 | 455      |
| 2031 | 778      |
| 2032 | 834      |
| 2033 | 272      |
| 2034 | 813      |
| 2035 | 1,013    |
| 2036 | -        |
| 2037 | 1,172    |
| 2038 | 662      |
|      | \$ 6,277 |

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Bradford Cooke  
Scott Eldridge  
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Kai Hoffmann

**OFFICERS**

Scott Eldridge ~ Chief Executive Officer  
Garry Biles ~ President and Chief Operating Officer  
Jacob Margolis ~ Vice President (Exploration)  
Philip Yee ~ Chief Financial Officer and Corporate Secretary

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**SHARES LISTED**

Trading Symbols  
TSX: CCM  
OTC-QB: CRCUF  
DBFrankfurt: CAN





**CANARC RESOURCE CORP.**

**Fourth Quarter Report**

**Management Discussion and Analysis**

**(expressed in United States dollars)**

**Years ended December 31, 2018 and 2017**

**CANARC RESOURCE CORP.**  
(the “Company”)

**Fourth Quarter Report**

**Management’s Discussion and Analysis**  
**For the Years ended December 31, 2018 and 2017**  
(expressed in United States dollars)

**CAUTION – FORWARD LOOKING STATEMENTS**

Certain statements contained herein regarding the Company and its operations constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations of future performance, are “forward-looking statements”. We caution you that such “forward looking statements” involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Such risks and uncertainties include fluctuations in precious metal prices, unpredictable results of exploration activities, uncertainties inherent in the estimation of mineral reserves and resources, if any, fluctuations in the costs of goods and services, problems associated with exploration and mining operations, changes in legal, social or political conditions in the jurisdictions where the Company operates, lack of appropriate funding and other risk factors, as discussed in the Company’s filings with Canadian and American Securities regulatory agencies. The Company expressly disclaims any obligation to update any forward-looking statements, other than as may be specifically required by applicable securities laws and regulations.

**1.0 Preliminary Information**

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying audited consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive (loss) income, changes in shareholders’ equity and cash flows for the years ended December 31, 2018, 2017 and 2016, and a summary of significant accounting policies and other explanatory information, all of which are available at the SEDAR website at [www.sedar.com](http://www.sedar.com).

Financial information in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of March 21, 2019 unless otherwise indicated.

**1.1 Background**

The Company was incorporated under the laws of British Columbia, and is engaged in the acquisition, exploration, development and exploitation of precious metal properties.

As the Company is focused on its mineral exploration activities, there is no mineral production, sales or inventory in the conventional sense. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of reserves in its mineral property interests, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its property interests, confirmation of the Company’s interest in certain properties, and upon future profitable production or proceeds from the disposition thereof. Such exploration and development activities normally take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty at this time. Many of the key factors are outside of the Company’s control. As the carrying value and amortization of mineral property interests and capital assets are, in part, related to the Company’s mineral reserves and resources, if any, the estimation of such reserves and resources is significant to the Company’s financial position and results of operations.

## CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Year ended December 31, 2018

(expressed in United States dollars)

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### 1.2 Overall Performance

The Company currently owns a direct interest in the precious metal properties, known as the New Polaris property (British Columbia), the Windfall Hills property (British Columbia) and Fondaway Canyon property (Nevada).

#### *New Polaris property (British Columbia, Canada)*

The Company owns a 100% interest in the New Polaris property, located in the Atlin Mining Division, British Columbia, which is subject to a 15% net profit interest and may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd.

The Company has been reviewing various processes for treating concentrates to produce gold doré bars at the New Polaris mine site to improve the economics and to possibly reduce certain risks to developing the project.

In the first half of 2018, the Company assessed pressure oxidation to treat the refractory concentrate and produce dore bars at the mine site. The autoclave study concluded that it would be uneconomic due to excessively high capital and operating costs. In the latter half of 2018, bench-scale testing of New Polaris gold concentrate using bio-oxidation treatment process was conducted. Metallurgical test using bio-oxidation treatment on flotation concentrate resulted in gold extractions up to 96%. Bio-oxidation testing of New Polaris concentrates dramatically increased the cyanide-recoverable gold from 8% for un-oxidized concentrate up to 96% on bio-oxidized material.

On March 4, 2019, the Company announced the results of an updated NI 43-101 preliminary economic assessment study by Moose Mountain Technical Services ("Moose Mountain") for the New Polaris gold project (the "New Polaris Preliminary Economic Report"), using flotation/bio-oxidation and CIL leaching process. The New Polaris Preliminary Economic Report will be available under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com) by April 18, 2019.

The New Polaris Preliminary Economic Report is based upon building and operating a 750 tonne per day gold mine using bio-oxidation followed by a leaching process to produce 80,000 ounces gold per year in doré bars at site. The updated parameters in the base case economic model includes a gold price of US\$1,300 per oz, CAD\$/US\$ foreign exchange rate of 0.77, and cash costs of US\$433 per oz and all in sustaining cost US\$510 per oz. The New Polaris Preliminary Economic Report for the New Polaris project results in an after-tax net present value of CAD\$280 million using a discount rate of 5%, an after-tax internal rate of return of 38%, and an after tax pay-back period of 2.7 years. The New Polaris Preliminary Economic Report is preliminary in nature, and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Given the inherent uncertainties of resources, especially inferred resources compared to reserves, the New Polaris gold mine project cannot yet be considered to have proven economic viability and there is no certainty that the results of the New Polaris Preliminary Economic Report will be realized.

The mineral resources, run of mine production and preliminary economic assessment economics are summarized below:

|                  |   |
|------------------|---|
| Mineral Resource | Indicated resources of 1,686,000 tonnes at 10.8 g/t Au<br>Inferred resources of 1,483,000 tonnes at 10.2 g/t Au |
| PEA Production   | 2,306,000 tonnes (subset of Mineral Resource)   |
| Production Rate  | 750 tonnes per day  |
| Au Grade         | 10.3 grams per tonne  |
| Au Recovery      | 90.5% gold into doré  |
| Average Output   | 80,000 oz gold per year   |
| Mine life        | 8.7 years   |
|                  |   |
| Gold Price       | US \$ 1,300 per oz  |
| Exchange Rate    | US \$ 1.00 = CA\$ 1.30  |

## CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Year ended December 31, 2018

(expressed in United States dollars)

|                          |                            |
|--------------------------|----------------------------|
| Initial Capital Cost     | US \$111 million           |
| Cash Cost                | US \$ 433 per oz           |
|                          |                            |
|                          | <u>After-Tax</u>           |
| Cash Flow (life of mine) | CAD\$ 414 million          |
| Net Present Value (5%)   | CAD\$ 280 million          |
| Net Present Value (8%)   | CAD\$ 222 million          |
|                          |                            |
|                          | <u>Pre-Tax / After Tax</u> |
| Internal Rate of Return  | 47% / 38%                  |
| Payback Period (years)   | 2.3 / 2.7                  |

Notes for mineral resource estimate:

- The mineral resource estimate was prepared by Sue Bird, P.Eng. in accordance with CIM Definition Standards and NI 43-101, with an effective date of February 28, 2019.
- A mineral resource is a concentration or occurrence of solid material of economic interest in the earth's crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling.
- Mineral resources are reported within an underground mining shape targeting mineralization over 4.0 g/t. This target grade shell includes the following considerations: gold price of US\$1,300/oz, exchange rate of 0.77 US\$/CAD\$; payable gold percent of 99.9%, offsite refining costs of US\$7/oz, mining costs of CAD\$65.20/t, process costs of CAD\$62.70/t, general and administration costs of CAD\$37/t, sustaining capital costs of CAD\$19.83/t, and a 90.5% process recovery.
- An indicated mineral resource is that part of the mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing and is sufficient to assume geological and grade or quality continuity between points of observation.
- An inferred mineral resource is that part of the mineral resource for which quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade or quality continuity. It is reasonably expected that the majority of inferred mineral resources could be upgraded to indicated mineral resources with continued exploration.
- Factors that may affect the estimates include: metal price assumptions, changes in interpretations of mineralization geometry and continuity of mineralization zones, changes to kriging assumptions, metallurgical recovery assumptions, operating cost assumptions, confidence in the modifying factors, including assumptions that surface rights to allow mining infrastructure to be constructed will be forthcoming, delays or other issues in reaching agreements with local or regulatory authorities and stakeholders, and changes in land tenure requirements or in permitting requirement.

The net present values and life of mine net cash flows are shown at various discount rates. Cash costs include all costs to produce a gold-sulphide concentrate followed by bio-oxidation and CIL leaching process to produce doré gold bars at site. Given the inherent uncertainties of resources, especially inferred resources compared to reserves, the New Polaris gold mine project cannot yet be considered to have proven economic viability.

The project economics are most sensitive to variations in the gold price and least sensitive to changes in capital and operating costs, as shown by the following sensitivity analysis:

## CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Year ended December 31, 2018

(expressed in United States dollars)

| <b>New Polaris Post Tax Cash Flow Sensitivity Analysis</b> |                    |                |                |                |            |
|--|--------------------|----------------|----------------|----------------|------------|
| Description of Sensitivity                                 | Input              | Cash Flow      | NPV @ 5%       | NPV @ 8%       | IRR        |
|  |                    | \$CA (000,000) | \$CA (000,000) | \$CA (000,000) | %          |
| Gold Price   | US\$1100/oz        | \$271          | \$172          | \$129          | 26%        |
| Gold Price   | US\$1200/oz        | \$342          | \$226          | \$175          | 32%        |
| <b>Gold Price</b>  | <b>US\$1300/oz</b> | <b>\$414</b>   | <b>\$280</b>   | <b>\$222</b>   | <b>38%</b> |
| Gold Price   | US\$1400/oz        | \$486          | \$335          | \$268          | 43%        |
| Gold Price   | US\$1500/oz        | \$558          | \$389          | \$315          | 48%        |
| Exchange Rate (US\$/C\$)                                   | 0.85               | \$318          | \$208          | \$160          | 30%        |
| Exchange Rate (US\$/C\$)                                   | 0.81               | \$364          | \$242          | \$189          | 34%        |
| <b>Exchange Rate (US\$/C\$)</b>                            | <b>0.77</b>        | <b>\$414</b>   | <b>\$280</b>   | <b>\$222</b>   | <b>38%</b> |
| Exchange Rate (US\$/C\$)                                   | 0.73               | \$471          | \$323          | \$258          | 42%        |
| Exchange Rate (US\$/C\$)                                   | 0.69               | \$535          | \$371          | \$299          | 47%        |
| Gold Grade   | Base - 10%         | \$321          | \$210          | \$162          | 30%        |
| Gold Grade   | Base - 5%          | \$368          | \$245          | \$192          | 34%        |
| <b>Gold Grade</b>  | <b>Base + 0%</b>   | <b>\$414</b>   | <b>\$280</b>   | <b>\$222</b>   | <b>38%</b> |
| Gold Grade   | Base + 5%          | \$461          | \$316          | \$252          | 41%        |
| Gold Grade   | Base + 10%         | \$508          | \$351          | \$282          | 45%        |
| Capital Costs  | Base + 20%         | \$377          | \$246          | \$188          | 30%        |
| Capital Costs  | Base + 10%         | \$395          | \$263          | \$205          | 33%        |
| <b>Capital Costs Initial US\$111M Sustaining US\$43M</b>   | <b>Base + 0%</b>   | <b>\$414</b>   | <b>\$280</b>   | <b>\$222</b>   | <b>38%</b> |
| Capital Costs  | Base - 10%         | \$433          | \$298          | \$238          | 43%        |
| Capital Costs  | Base - 20%         | \$452          | \$315          | \$255          | 49%        |
| Operating Costs  | Base + 20%         | \$354          | \$234          | \$182          | 33%        |
| Operating Costs  | Base + 10%         | \$384          | \$257          | \$202          | 35%        |
| <b>Operating Costs \$164.95 \$/t</b>                       | <b>Base + 0%</b>   | <b>\$414</b>   | <b>\$280</b>   | <b>\$222</b>   | <b>38%</b> |
| Operating Costs  | Base - 10%         | \$445          | \$304          | \$242          | 40%        |
| Operating Costs  | Base - 20%         | \$475          | \$327          | \$262          | 43%        |

Readers are cautioned that the effective date of New Polaris Preliminary Economic Report is February 28, 2019 (the "Effective Date"). Accordingly, the economic analysis contained in the New Polaris Preliminary Economic Report is based on commodity prices, costs, sales, revenue, and other assumptions and projections that may significantly change from the Effective Date, including a gold price of US\$1,300 per oz, CAD\$/US\$ foreign exchange rate of 0.77, and cash costs of US\$433 per oz. Readers should not place undue reliance on the economic analysis contained in the New Polaris Preliminary Economic Report because the Company cannot give any assurance that the assumptions underlying the report remain current.

The Qualified Person ("QP") pursuant to NI 43-101 for the New Polaris Preliminary Economic Report is Marc Schulte, P. Eng.

The mineral resource estimate in the New Polaris Preliminary Economic Report dated February 28, 2019 was based on ordinary kriging of 174 drill holes and 1,464 gold assay intervals with 1,320 m of drill intercepts within the modelled domains. Targeting mineralization over 4.0 gram per tonne (g/t) gold, a mining shape has delineated a mineral resource estimate:

- Indicated mineral resource totals 1,687,000 tonnes grading 10.8 g/t gold containing 586,000 oz gold.
- Inferred mineral resource totals 1,483,000 tonnes grading 10.2gpt gold containing 485,000 oz gold.

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The mine plan and run of mine production targets mineralization over 6.0 g/t gold within the 4.0 g/t resource shell, and uses a combination of conventional cut and fill and longhole stoping, depending on mineralization thickness and continuity. Development will include a decline from surface, extraction drifts on sublevels across the footwall of the orebody, and ventilation raises to the surface. An onsite mill will produce a float concentrate feeding a bio-leaching and CIL plant to produce doré. Process water will go through the ASTER treatment process and reclaim water will be stored in surface settling ponds near the plant.

The Company shall file the New Polaris Preliminary Economic Report on its SEDAR profile, at [www.sedar.com](http://www.sedar.com), by April 18, 2019.

Further details of the bio-oxidation and the New Polaris Preliminary Economic Report are provided in the Company's news releases:

- News release dated January 14, 2019 and titled, "*Canarc Achieves up to 96% Gold Recovery from BIOX Metallurgical Tests on High Grade New Polaris Project Flotation Concentrate*"; and
- News release dated March 4, 2019 and titled, "*Canarc Announces Robust Preliminary Economic Assessment on the New Polaris Gold Mine Delivering Post Tax IRR of 38%*".

The Company continues with its efforts to seek a joint venture partner to advance the New Polaris project through permitting and feasibility.

### ***Purchase Agreement with American Innovative Minerals, LLC***

On March 20, 2017, the Company entered and closed a Membership Interest Purchase Agreement (the "Membership Agreement") with American Innovative Minerals, LLC ("AIM") and securityholders of AIM ("the AIM Securityholders") to acquire either a direct or indirect 100% legal and beneficial interests in mineral resource properties located in Nevada, Idaho and Utah (USA) for a purchase price of \$2 million in cash and honouring pre-existing NSRs.

Certain of the mineral properties are subject to royalties. For the Fondaway Canyon project, it bears both a 3% NSR and a 2% NSR. The 3% NSR has a buyout provision for an initial amount of \$600,000 which is subject to advance royalty payments of \$35,000 per year by July 15<sup>th</sup> of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out. A balance of \$425,000 was outstanding upon the closing of the Membership Agreement and a balance of \$355,000 remains payable as at December 31, 2018; an advance royalty payment of \$35,000 was made in July 2018. The 2% NSR has a buyout provision of either \$2 million in cash or 19.99% interest of a public entity which owns AIM if AIM were to close an initial public offering of at least \$5 million.

AIM owns 10 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates, and owns one gold property in Idaho, and has two royalty interests on other properties. These properties include the following:

- **Fondaway Canyon** is an advanced exploration stage gold property located in Churchill County, Nevada. The land package contains 136 unpatented lode claims. The property has a history of previous surface exploration and mining in the late 1980s and early 1990s. The Fondaway Canyon mineralization is contained in a series of 12 steeply dipping *en-echelon* quartz-sulphide shears outcropping at surface and extending laterally over 1200 m, with drill-proven depth extensions to > 400m. Additional exploration targets include near-surface oxide gold along favourable structural and host rock targets and deeper extensions of the sulphide zones.
- **Dixie Comstock**, also located in Churchill County, Nevada, consists of 26 unpatented lode claims. It has evidence of some historic mining but no records of production are available.

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- **Clear Trunk** property is located in Pershing and Humboldt Counties, Nevada on 4500 acres of fee mineral and unpatented claims in the Sonoma Range, south of Winnemucca. Identified exploration target include breccia pipes and quartz stockwork with untested gold anomalies and untested soil gold anomaly overlying intrusive host rock.
- **Bull Run** property is located in Elko County, Nevada on two large patented claim groups of 500 acres near Jerritt Canyon.
- **Hot Springs Point** property is located in Eureka County, Nevada on 160 acres of fee land on north end of the prolific Cortez Trend. Klondex Mining claims surround the project on three sides.
- **Jarbidge** property is located in Elko County, Nevada on 8 patented claims along the east end of major gold veins in the Jarbidge mining district.
- **Lightning Tree** property is located in Lemhi County, Idaho on 11 unpatented claims near the Musgrove gold deposit.
- **Silver King** property is located in Humboldt County, Nevada on 4 patented claims near Golconda Summit. Previous exploration focused on low grade gold values but the property was never been explored for silver.
- **A&T** property is located in Humboldt Co., Nevada on 2 patented claims on Winnemucca Mountain. The property contains two veins and a quartz breccia in altered shale adjacent to intrusive dikes.
- **Eimis** property is located in Elko County, Nevada on one 20 acre patented claim adjacent to a new Coleman Canyon gold discovery by Arnevet Resources. Gold anomalies extend onto Eimis property.
- **Silver Peak** property is located in Esmeralda County, Nevada on 2 patented (40 acre) mining claims. The property is surrounded by claim blocks held by Scorpio Gold Corporation at the Mineral Ridge mine.

In April 2017, the Company commissioned Techbase International, Ltd ("Techbase") of Reno, Nevada to complete a technical Report for the Fondaway Canyon Project. The resource estimate was prepared by Michael Norred, SME Registered Member 2384950, President of Techbase, and Simon Henderson, MSc, MAusIMM CP 110883 (Geology), Consulting Geologist with Wairaka Rock Services Limited of Wellington, New Zealand, both Qualified Persons ("QP"), as such term is defined under NI 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101"). The resource estimate included in the technical report is shown in the table below:

| Resource Category | Tonnes <sup>1</sup><br>(t) | Grade<br>(g/t) Au | Ounces <sup>2</sup><br>(oz) Au | Type       |
|-------------------|----------------------------|-------------------|--------------------------------|------------|
| Indicated         | 2,050,000                  | 6.18              | 409,000                        | UG/Sulfide |
| Inferred          | 3,200,000                  | 6.40              | 660,000                        | UG/Sulfide |

<sup>1</sup> Resource based on cut-off of 1.8m horizontal width  $\geq$  3.43 g/t  
<sup>2</sup> Rounding differences may occur

1. *CIM Definition Standards were followed for reporting the Mineral Resource estimates.*
2. *Mineral Resources are reported on a dry, in-situ basis. A bulk density of 2.56 tonnes/m<sup>3</sup> was applied for volume to tonnes conversion.*
3. *The reporting cutoff grade of 3.43 g/t was based on capital and operating costs for a similar project, the three-year trailing average Au price of \$US 1,225/ oz Au , a metallurgical recovery of 90%, and an underground mining method suitable for steeply-dipping veins.*

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4. *Mineral Resources are estimated from surface to approximately 400 m depth.*
5. *The quantity and grade of Inferred Resources in this estimate are uncertain in nature, there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category. Environmental, geotechnical, permitting, legal, title, taxation, socio-political, marketing or other relevant issues could materially affect the mineral resource estimate.*

The Fondaway Canyon mineralization is contained in a series of 12 steeply dipping, en-echelon quartz-sulfide vein-shear zones outcropping at surface and extending laterally over 1200 m and vertically to depths of > 400m. The Paperweight, Half-moon and Colorado zones host the bulk of the resources, with the remainder in parallel veins or splays of the major vein-shears. A total of 591 historic drill holes were validated for resource estimation, with coordinate information and down hole assays. These included 8411 m of core drilling in 49 holes and 40,675 m of RC drilling in 551 holes. Drill core was inspected at the Fallon, NV storage facility and assay certificates were viewed to verify gold intercept grades used in the estimate. Check assays were run systematically on approximately 5% of the total assays, including 23% of assays greater than 3.43 g/t. Duplicate assays were run on slightly less than 1% of the total assays, including 14% of assays greater than 3.43 g/t. Consistency was good for the check assays and duplicates, with correlations greater than 98% in each case. A mineral resource was estimated for each vein using polygonal estimation on drill intercepts projected onto a vertical long-section parallel to the average strike direction of that vein. The polygons were truncated at faults that were interpreted to limit the extent of the mineralization. The mineral resources are reported at a cut-off of 3.43 g/t, over a minimum horizontal width of 1.8 m, based on projects of similar size, a gold price of \$US 1,225 per oz, a metallurgical recovery of 90%, and an underground mining method suitable for steeply-dipping veins. A processing method has not yet been selected. Metallurgical testing showed that acceptable recoveries could be obtained from the sulfide material by using an oxidizing pre-treatment, followed by CIL leaching, with recoveries up to 86 to 95%. Further metallurgical testing and design work will be needed in order to design the most cost-effective method. No capping or cutting of grades was applied. The assayed grades were found to be very consistent when compared to check assays and duplicates, as well as between twinned holes. The consistency in assay results was interpreted as being due to the very fine-grained nature of the gold mineralization (1 to 10 µm). This consistency provided confidence that the higher-grade assays were reasonable.

A 30-hole drill program, estimated to cost \$2.0 million, had been recommended by Techbase to explore the identified targets as well upgrade more of the resources into the indicated category.

In the second quarter of 2017, the Company completed 92 surface rock chip sampling and mapping program which returned several high grade gold values.

In the fourth quarter of 2017, the Company completed an initial 7-hole, 2500-meter core-drilling program at the Fondaway Canyon project. All seven holes intersected gold mineralization with the following highlights from the drill results:

- 65.4 meters (m) grading 2.83 grams per tonne (gpt) Au (including 10.20 gpt Au over 1.4 m, 7.69 gpt Au over 9.8 m and 7.70 gpt Au over 3.7 m) in hole FC17-3
- 62.9 m grading 1.77 gpt Au (including 4.39 gpt Au over 3.5 m, 4.48 gpt Au over 3.2 m and 6.15 gpt Au over 3.0 m) in hole FC17-2
- 30.1 m grading 1.45 gpt Au and 6.1 m grading 3.74 gpt Au (including 0.6 m grading 14.20 gpt Au) in hole FC17-1
- 24.4 meters (m) grading 1.80 grams per tonne (gpt) Au including 6.35 gpt Au over 0.9 m, 5.58 gpt Au over 1.6 m and 6.96 gpt Au over 1.3 m in hole FC17-4
- 12.8 m grading 3.48 gpt Au including 5.97 gpt Au over 6.1 m (contains 13.50 gpt Au over 0.6 m) in hole FC17-5
- 8.3 m grading 2.83 gpt Au including 5.91 gpt Au over 3.7 m in hole FC17-4
- 5.2 m grading 2.06 gpt Au including 5.99 gpt Au over 1.2 m in hole FC17-7
- 4.0 m grading 4.19 gpt Au including 13.40 gpt Au over 0.9m in hole FC17-5



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The 2017 drilling results, integrated with historical drilling, indicate the project has bulk-mineable, open-pit potential, as opposed to the underground mining of narrow high-grade zones that was the focus of previous project owners.

Further details of the drilling program for the Fondaway Canyon project are provided in the Company's news releases:

- News Release dated December 5, 2017 and titled, "*Canarc Intersects Significant Gold Mineralization in First Three Drill Holes at Fondaway Canyon Project in Nevada, Including 2.83 Grams per Tonne Gold over 65.4 Meters*"; and
- News Release dated January 16, 2018 and titled, "*Canarc Continues to Intersect High-Grade Gold at Fondaway Canyon, Nevada, Including 3.24 Grams per Tonne Gold over 12.8 Meters*".

In 2018, the Company completed 3D modelling of the Fondaway Canyon deposit and identified drill targets for the next stage of diamond drilling. Surface mapping and sampling program on the property and trenching in the Reed Pit continue to better define possible high-grade gold mineralization and to refine targets for the next phase of exploration drilling.

On October 25, 2018, the Company entered into an option agreement with Brownstone Ventures (US) Inc., a subsidiary of Casino Gold Corp., ("Brownstone Ventures") on the Company's wholly owned Silver King patented claim group located in Humboldt County, Nevada. Under the terms of the ten-year agreement, the Company will receive annual payments of US\$12,000 plus an option exercise payment of US\$120,000. Upon exercise of the option, the Company will retain a 2% NSR royalty on the property of which Brownstone Ventures will have the right to buy back one-half (1%) of the royalty for US\$1 million. The Silver King property is a non-core asset in the Company's Nevada property portfolio.

Dr. Jacob Margolis is a qualified person, as defined by National Instrument 43-101, and has approved the technical information from the drilling program for the Fondaway project. Dr. Margolis is engaged as a consultant to the Company as Vice-President (Exploration).

### ***Windfall Hills property (British Columbia, Canada)***

In April 2013, the Company entered into two property purchase agreements to acquire 100% interests in two adjacent gold properties located in British Columbia. The Company entered into a property purchase agreement with Atna Resources Ltd. ("Atna") whereby the Company acquired a 100% undivided interest in the Uduk Lake properties by the issuance of 1,500,000 common shares at a fair value of CAD\$0.10 per share, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting Atna a 3% NSR production royalty. The Company entered into a property purchase agreement whereby the Company acquired a 100% undivided interest in the Dunn properties by the issuance of 500,000 common shares at a fair value of CAD\$0.10 per share and granting the vendor a 2% NSR royalty which can be reduced to 1% NSR royalty for \$500,000.

The Windfall Hills gold project is located 65 km south of Burns Lake, readily accessible by gravel logging roads and a lake ferry crossing in the summer-time, or by charter aircraft year-round. The project consists of the Atna properties, comprised of 2 mineral claims totalling 959 hectares and the Dunn properties, comprised of 8 mineral claims totalling 2820 hectares.

In October 2016, the Company completed a geophysical 3D IP-resistivity survey which covered 3.8 sq km, representing about 10% of the property. The survey was at 100 m intervals on 200 m spaced line to a depth of 350 m below surface. The main exploration targets are low sulphidation epithermal, disseminated and stockwork gold-silver deposits with tertiary rhyolite volcanic centers. The IP survey identified four geophysical anomalies which cover an area of coincidental high resistivity and chargeability.

In 2018, the Company completed its exploration program which included reconnaissance stream sediment sampling, soil sampling, machine trenching and airborne geophysics to detect new gold-silver anomalies, to better delineate the known epithermal stock-work gold-silver mineralization and to better define drill targets, after which a drilling program and budget will be developed for 2019.

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### ***Princeton property (British Columbia, Canada)***

In December 2018, the Company entered into a property option agreement jointly with Tasca Resources Ltd. ("Tasca") and an individual whereby the Company has an option to earn a 80% interest in the Princeton property by incurring exploration expenditures of CAD\$900,000 over a two year period and granting a 1% NSR to Tasca which can be acquired for CAD\$1 million and honoring a 2% NSR to the individual of which 1% NSR can be acquired for CAD\$1 million.

The Princeton gold property consists of 14,650 hectares located 35 kilometers (km) south of Princeton, British Columbia, and is readily accessible by road. The property is underlain by volcanic rocks of both the Eocene Princeton Group and the Triassic-Jurassic Nicola Group.

In 2018, the Company completed a 2,350 line-kilometer magnetic survey on the property to identify drill targets for a drill program in 2019.

### ***Hard Cash and Nigel (Nunavut, Canada)***

In November 2018, the Company entered into a property option agreement with Silver Range Resources Ltd. ("Silver Range") whereby the Company has an option to earn a 100% undivided interests in the Hard Cash and Nigel properties by paying CAD\$150,000 in cash and issuing 1.5 million common shares to Silver Range over a four year period. Silver Range retains a 2% NSR of which a 1% NSR can be acquired for CAD\$1 million. Silver Range shall also be entitled to receive \$1 per Au oz of measured and indicated resource estimate and \$1 per Au oz of proven or probable reserve estimate, payable in either cash or common shares of the Company at the Company's election.

Hard Cash is located 310 km NE of Stony Rapids, Saskatchewan, on the shores of Ennadai Lake. Access is provided by float plane or helicopter, and there is an all-weather gravel strip at Ennadai Lake Lodge, 35 km east of the property. Nigel is located 15 km west of Hard Cash. Hard Cash is underlain by the Ennadai Greenstone Belt of the Churchill Province. Gold mineralization at Hard Cash and Nigel occurs in high grade quartz veins and lower grade shear zones hosted by basal mafic volcanics overlain by felsic volcanics metamorphosed to upper greenschist/lower amphibolite facies and intruded by granite.

The Company's consulting geologist visited the property in September 2018 and collected samples in quartz vein float and outcrop at and near the Swamp showing. In January 2019, the Company completed a 970 line-km airborne magnetic and radiometric survey over the 2,090 hectare Hard Cash property. The new geophysical survey results define the magnetic and radiometric responses of the known gold mineralization and help identify new high priority drill targets along the gold mineralized trend where it is covered by glacial overburden.

### ***Corral Canyon property (Nevada, USA)***

In 2018, the Company staked 92 mining claims covering 742 hectares in Nevada, USA.

Corral Canyon property lies 35 km west of the town of McDermitt in Humboldt County along the western flank of the McDermitt caldera complex, an area of volcanic rocks that hosts significant lithium and uranium mineralization in addition to gold. It contains volcanic-hosted, epithermal, disseminated and vein gold mineralization evidenced by previous drilling.

### ***Silver King (Nevada, USA)***

In October 2018, the Company entered into a property option agreement for its Silver King property with Brownstone Ventures (US) Inc. ("Brownstone") whereby Brownstone has an option to earn a 100% undivided interest by paying \$240,000 in cash over a 10 year period with early option exercise payment of \$120,000. The Company will retain a 2% NSR of which a 1% NSR can be acquired by Brownstone for \$1 million.

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Silver King property is located in Humboldt County, Nevada on 4 patented claims near Golconda Summit. Previous exploration focused on low grade gold values but the property was never been explored for silver.

### ***Other Mineral Property***

In December 2018, the Company entered into a Memorandum of Understanding for an exploration and development project in South America whereby the Company paid \$10,000 in 2018 and another \$10,000 is payable as a success fee to close on an acceptable agreement for such project.

### ***Eskay Creek property (British Columbia, Canada)***

In December 2017, the Company signed an agreement with Barrick Gold Inc ("Barrick") and Skeena Resources Ltd. ("Skeena") involving the Company's 33.3% carried interest in certain mining claims adjacent to the past-producing Eskay Creek Gold mine located in northwest British Columbia, whereby the Company will retain its 33.33% carried interest. The Company and Barrick have respectively 33.33% and 66.67% interests in 6 claims and mining leases totaling 2323 hectares at Eskay Creek. Pursuant to an option agreement between Skeena and Barrick, Skeena has the right to earn Barrick's 66.67% interest in the property. The Company wrote off the property in 2005.

### ***FG Gold property (British Columbia, Canada)***

On August 24, 2016, the Company entered into a property option agreement with Eureka Resources, Inc., ("Eureka") which closed on October 12, 2016. In consideration for the grant of the property option agreement, the Company issued 250,000 common shares at a value of CAD\$0.10 per share to Eureka, and subscribed to Eureka's private placement for 750,000 units at a price of CAD\$0.14 per unit for a total of CAD\$105,000; each unit was comprised of one common share of Eureka and one-half of one common share purchase warrant with an exercise price of CAD\$0.20 and expiry date of September 9, 2018. The Company can earn up to a 75% interest in the FG Gold property in two stages.

In the first stage, the Company can earn an initial 51% interest over three years by:

- incurring CAD\$1.5 million in exploration expenditures with an annual minimum of CAD\$500,000;
- issuing 750,000 common shares in three annual tranches of 250,000 shares; and
- paying 50% of the annual BC mineral exploration tax credits ("BC METC") claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

In the second stage, the Company can earn an additional 24% interest for a total interest of 75% over the following two years by:

- incurring CAD\$1.5 million in exploration expenditures;
- issuing 1.5 million common shares in two annual tranches of 750,000 shares; and
- paying the greater of: (i) CAD\$75,000 and (ii) 50% of the annual BC METC claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

If the Company failed to satisfy the consideration necessary to exercise the second stage, then a joint venture will be deemed to have formed with the Company having a 51% interest and Eureka with a 49% interest.

In 2017, the Company terminated the option agreement with Eureka and wrote off the FG Gold project.

The FG Gold project is located in the historic Cariboo Gold Camp within the Quesnel Trough area of central British Columbia. Mineralization occurs as quartz veins and stringer zones containing coarse free gold and finer grained iron sulphides bearing gold in a broad shear zone conformable to bedding within deformed and metamorphosed Paleozoic sedimentary rocks. The property consisted of 33 contiguous mineral claims totalling 10,400 hectares.

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### *Other Matters*

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million of its common shares representing approximately up to 5% of its issued and outstanding common shares at that time. The bid commenced on February 8, 2017 and terminated on February 7, 2018. The actual number of common shares purchased under the bid and the timing of any such purchases was at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were returned to treasury and cancelled. For the year ended December 31, 2017, the Company purchased 2.6 million shares for CAD\$213,700 with an average price of CAD\$0.08 per share, of which 2.5 million common shares have been cancelled and the remaining common shares were cancelled in February 2018. In January 2018, a further 86,000 common shares for CAD\$6,450 were purchased at an average price of CAD\$0.08 per share and which were all cancelled in February 2018.

In January 2018, Mr. Jacob Margolis, PhD, was appointed Vice President of Exploration for the Company.

On February 12, 2018, the Company entered into a Forbearance Agreement with the debtor in which the loan principal totaling \$220,000, which was previously written off in 2014, will be repaid in full in 2018 as follows:

| Date   | Principal (1) |
|--|---------------|
|  | (\$000s)      |
| February 14, 2018 (received)                 | \$ 25         |
| June 30, 2018 (received)                     | 25            |
| September 30, 2018 (received)                | 85            |
| December 31, 2018 (received in January 2019) | 85            |
|  | <hr/>         |
|  | \$ 220        |

(1) Funds of \$94,500 were received in 2018 with a balance of \$59,500 received in January 2019, net of legal fees.

In June 2018, the Company again proceeded with a normal course issuer bid which received regulatory approval to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid is effective on June 21, 2018 and will terminate on June 20, 2019, or on such earlier date as the bid was completed. The actual number of common shares purchased under the bid and the timing of any such purchases was at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company shall pay the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018.

In June 2018, Mr. Bradford Cooke replaced Mr. Catalin Kilofliski as the Chief Executive Officer of the Company. In October 2018, Mr. Scott Eldridge replaced Mr. Bradford Cooke as Chief Executive Officer of the Company; Mr. Cooke continues to be Chairman and a Director, and Mr. Eldridge continues to be a Director.

At the Company's annual general meeting on June 29, 2018, Mr. Leonard Harris did not stand for re-election as Director and retired from the Board. Messrs. Bradford Cooke, Martin Burian and Deepak Malhotra were re-elected to the Board of Directors for the ensuing year. Messrs. Scott Eldridge and Kai Hoffmann were elected as new Directors to the Board of the Company.

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In June 2018, the Company granted 3,250,000 stock options to directors, officers and employees with an exercise price of CAD\$0.08 and an expiry date of June 29, 2023, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In November 2018, the Company granted 1 million stock options to a senior officer, of which 500,000 options have an exercise price of CAD\$0.05 and 500,000 options have an exercise price of CAD\$0.06 and an expiry date of November 12, 2023, and which are subject to vesting provisions whereby 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In February 2019, the Company granted 700,000 stock options to consultants with an exercise price of \$0.07 per share and an expiry date of February 22, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

### 1.3 Selected Annual Information

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

| (in \$000s except per share amounts)                                  | Years ended December 31, |            |           |
|---|--------------------------|------------|-----------|
|   | 2018                     | 2017       | 2016      |
| Total revenues  | \$ -                     | \$ -       | \$ -      |
| (Loss) Income before discontinued operations and extraordinary items: |                          |            |           |
| (i) Total   | \$ (1,125)               | \$ (1,960) | \$ 1,965  |
| (ii) Basic per share  | \$ (0.01)                | \$ (0.01)  | \$ 0.01   |
| (iii) Fully diluted per share   | \$ (0.01)                | \$ (0.01)  | \$ 0.01   |
| Income (loss) from discontinued operations:                           |                          |            |           |
| (i) Total   | \$ -                     | \$ -       | \$ 4,826  |
| (ii) Basic per share  | \$ -                     | \$ -       | \$ 0.02   |
| (iii) Fully diluted per share   | \$ -                     | \$ -       | \$ 0.02   |
| Net (loss) earnings:  |                          |            |           |
| (i) Total   | \$ (1,125)               | \$ (1,960) | \$ 6,791  |
| (ii) Basic per share  | \$ (0.01)                | \$ (0.01)  | \$ 0.03   |
| (iii) Fully diluted per share   | \$ (0.01)                | \$ (0.01)  | \$ 0.03   |
| Total assets  | \$ 17,511                | \$ 19,763  | \$ 19,708 |
| Total long-term liabilities   | \$ 130                   | \$ 136     | \$ -      |
| Dividends per share   | \$ -                     | \$ -       | \$ -      |

### 1.4 Results of Operations

#### *Fourth Quarter of Fiscal 2018 – Year ended December 31, 2018 compared with December 31, 2017*

The Company incurred a net loss of \$1.1 million for the year ended December 31, 2018 which is significantly lower than the net loss of \$2 million for fiscal 2017, with the latter having commensurately higher operating expenses. Net loss was impacted by different functional expense items.

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The Company has no sources of operating revenues. Operating losses were incurred for ongoing activities of the Company in acquiring and exploring its mineral property interests, seeking an appropriate joint venture partner to advance the New Polaris property, and pursuing mineral projects of merit.

Amortization is for the leasehold improvements and office furnishings and equipment for the Company's new office facilities which the Company moved into in July 2017. In prior periods, the Company used shared office premises. A full year's amortization was recognized in 2018 with additional office equipment acquired resulting in a higher expense.

Corporate development expenses were lower in the current period than in the prior comparative periods. Corporate development efforts in the first quarter of fiscal 2017 involve due diligence activities which led to the eventual acquisition of AIM which owns 10 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates, and owns one gold property in Idaho, and has two royalty interests on other properties. A NI 43-101 technical report for resource estimate was completed for the Fondaway Canyon project in April 2017. During the remaining quarters of fiscal 2017, nominal efforts were sustained on corporate development as the Company focused on detailed data review of the Fondaway Canyon project and development of a new structural model for gold mineralization to prepare for a Phase 1 exploration program which included ground magnetic survey, rock chip sampling and permitting, and on the 7 hole diamond drilling program which was mobilized and completed in the fourth quarter. In the first and second quarters of 2018, corporate development efforts continued at a reduced level which involve site visits and preliminary discussions and technical overview of possible projects of merit which have possible near term gold mining properties but such discussions did not advance. Negligible corporate development was done in the third quarter as the Company focused on a 3D model for Fondaway Canyon property, various scenarios for processing concentrates into gold dore bars at the New Polaris property site, and mobilization of the trenching and exploration program for Windfall Hills property. Corporate development activities increased in the fourth quarter with a heightened emphasis on "elephant hunting" in seeking projects with potential to be discoveries. These efforts in the last quarter of 2018 culminated in two property option agreements for the Princeton (British Columbia, Canada) and Hard Cash and Nigel (Nunavut, Canada) properties and staking of 92 mining claims in northwestern Nevada (USA).

Remuneration for employees in 2018 was lower than 2017. Employee remuneration directly related to mineral exploration projects and corporate development were allocated to those specific activities rather than to operations, in which in the first quarter of 2017 the Company was active in its due diligence on the Fondaway Canyon project. The Company accomplished financial and corporate milestones in fiscal 2016 which resulted in the assessment and payment of bonuses to senior officers and directors for strategic guidance which were not determinable in 2016 as resolved by the Company's Compensation Committee in the first quarter of 2017 which contributed to significant remunerations in that quarter. In the remaining three quarters of 2017, employee remuneration was lower due to management allocations to the Fondaway Canyon project for the technical report for the resource estimate and for implementation of the Phase 1 drilling program for that project which was completed in December 2017. The slight increase in the fourth quarter relative to the second and third quarters of 2017 was the year end settlement for banked time and unused vacation time due to the added responsibilities by personnel in advancing the Company's projects during the fiscal year. No bonuses were assessed for fiscal 2017 resulting in lower payouts in employer remuneration in the first quarter of fiscal 2018. Remuneration for employees was substantially lower in the first quarter of 2018 than in the same quarter in 2017 but significantly higher in the second quarter of 2018 than the first quarter of 2018. In the second quarter of 2018, the departure of a senior officer resulted in the incurrence of severance pay which increased employee remuneration. Remuneration for employees was lower in the third quarter than comparable quarters in 2018 and 2017 due to the departure of a senior officer at the end of June 2018. Heightened corporate development efforts, active exploration programs for the Windfall Hills, Princeton and Hard Cash properties, and ongoing assessment of scenarios for processing concentrates into gold dore bars at the New Polaris property site would reduce technical employee remuneration in the fourth quarter of 2018 as these costs would be allocated to the applicable projects. Such reduction would be offset by the employment of a non technical senior officer in October 2018.

Overall general and administrative expenses were comparable for both 2018 and 2017 but were affected by different expense segments. Audit, tax and legal expenses were similar for both fiscal periods as audit fees did not change, and no changes in corporate tax issues, and legal fees for debt settlement in 2018 were applied against the recovery of the debt principal. Office and sundry are similar across comparative quarters given the fixed nature of such expense; such expense was higher in the third quarter of 2017 due to the office move to its own new facilities. Regulatory expenses are generally higher in the second

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quarter as the Company normally holds its annual general shareholders in June of its fiscal year. Expenses for its annual general meeting were higher in the second quarter of 2017 as the Company sought shareholder approval for changes in the corporate articles and increased the number of stock options grantable under its stock option plan, which the Company sought greater shareholder notification in both Canada and the US. Regulatory expenses for the third and fourth quarters of both comparable fiscal periods were similar. Rent increased in 2018 for a full year of office rent, due to the office move and the Company having its own primary office facilities beginning in July 2017.

In the first quarter of fiscal 2017, shareholder communications and marketing programs were initiated to specifically create market awareness of the Company's acquisition of AIM along with its 10 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates and one gold property in Idaho, and has two royalty interests on other properties. A NI 43-101 resource estimate was completed for Fondaway Canyon in May 2017. These activities subsided in the remaining quarters relative to the first quarter of 2017 given the stagnancy in the markets, and such reduced efforts continued into fiscal 2018 resulting in lower comparable expenses.

Share-based payments were lower in 2018 than in 2017 with ongoing vesting provisions of outstanding stock options. In June 2017, stock options for 2.25 million common shares which were performance based were fully vested by the Company's Board of Directors. Also in the same month, the Company granted 3.1 million stock options to directors, officers and employees with an exercise price of CAD\$0.10 and an expiry date of June 2, 2022, and which are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every six months thereafter. In September 2017, additional stock options for 500,000 common shares were granted to an employee, with an exercise price of CAD\$0.09 and expiry date of September 13, 2022, and which are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every six months thereafter. Share-based payments would be higher in those respective quarters of fiscal 2017. In late June 2018, the departure of a senior officer resulted in the forfeiture of unvested stock options which would reduce share-based payments with vested stock options being cancelled in July 2018. Also at the end of June 2018, the Company granted 3,250,000 stock options to directors, officers and employees with an exercise price of CAD\$0.08 and an expiry date of June 29, 2023, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter. Then in November 2018, the Company granted 1,000,000 stock options to an officer of which 500,000 stock options have an exercise price of CAD\$0.05 and 500,000 stock options with an exercise price of CAD\$0.06 and an expiry date of November 12, 2023, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

Interest income is earned from the Company's premium investment savings account which is interest bearing and its guaranteed investment certificate which matured in August 2018. The Company's cash resources are expended on mineral exploration and operating activities, given the Company does not have any sources of revenues or operating cash inflows, which can be expected to reduce interest bearing investments but have been offset by several rate hikes by the central bank since July 2017. As cash resources are expended, interest income can be expected to be commensurately lower.

Change in the fair value of marketable securities is attributable to disposition of marketable securities, the quoted market price changes in investments in shares, and impairment if any. Marketable securities are classified as financial assets at fair value through profit or loss with any resulting gains or losses in fair values being recognized in profit or loss. The Company disposed of marketable securities in the second quarter of 2017 and realized gains thereto but had realized losses from dispositions in the third quarter of 2017. The net decreases in the market prices of marketable securities at the end of the third quarter further contributed to the recognition of losses in the fair values of held for trading financial assets, which were slightly offset by gains in the fourth quarter of 2017. The Company's shareholdings decreased in fair value in the first quarter of 2018, then increased in the second quarter, significantly decreased in the third quarter and again increasing in the fourth quarter as market prices of its financial instruments fluctuate to market conditions; there were no dispositions of marketable securities in 2018.

Flow through financing costs represent the tax effects for using the look back rule for the Company's flow through private placement whereby the subscriber was eligible to write off flow through expenditures in 2017 whereas the Company fully expended the flow through funds in 2018.

Interest expense was incurred and accrued for the remaining buyout amount of \$425,000 which the Company recognized as a deferred royalty liability upon the acquisition of AIM in March 2017 for the 3% NSR for the Fondaway Canyon project; the

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original buyout amount was \$600,000. Advance royalty payments of \$35,000 are due and payable by July 15<sup>th</sup> of each year until the buyout amount has been fully paid for the 3% NSR for the Fondaway Canyon project. Interest expense shall continue to be incurred until the buyout amount has been fully paid by the annual advance royalty payments at which time the 3% NSR would be bought out.

Foreign exchange gain or loss reflects the transactional impact from the foreign exchange fluctuations of the US\$ relative to the CAD\$ and the translation effects to the Company's functional currency which is the CAD\$; its reporting or presentation currency is the US\$. Upon the acquisition of AIM in March 2017, foreign exchange was affected by the translation effects of the US\$ for the Company's wholly owned US subsidiaries.

On February 12, 2018, the Company entered into a Forbearance Agreement with the debtor in which the loan principal totaling \$220,000 shall be repaid in full in 2018, which loan had been written off in 2014. Legal fees, a portion of which is subject to a contingency fee, were netted against the loan principal.

The Company received \$12,000 from Brownstone in 2018 and recognized a recovery for the Silver King property. In the second quarter of 2017, the FG Gold property was written off.

The income tax recovery is the allocation of the premium in the flow through private placement which closed in April 2017 on a pro rata basis of exploration expenditures incurred during the period. The Company mobilized its exploration and trenching program for the Windfall Hills project in September 2018 given delays from forest fire issues in the immediate area. Flow through exploration programs for the Princeton and Hard Cash were implemented in the fourth quarter in 2018, and for the FG Gold property in 2017.

As at December 31, 2018, the Company has mineral property interests which are comprised of the following:



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|   | Canada           |                |         |           |           |       | USA             |               |       |      | Total |           |
|---|------------------|----------------|---------|-----------|-----------|-------|-----------------|---------------|-------|------|-------|-----------|
|   | British Columbia |                |         | Nunavut   |           |       | Fondaway Canyon | Corral Canyon | Other |      |       |           |
|   | New Polaris      | Windfall Hills | FG Gold | Princeton | Hard Cash | Nigel |                 |               |       |      |       |           |
| <b>Acquisition Costs:</b>                 |                  |                |         |           |           |       |                 |               |       |      |       |           |
| Balance, December 31, 2016                | \$ 3,858         | \$ 349         | \$ 19   | \$ -      | \$ -      | \$ -  | \$ -            | \$ -          | \$ -  | \$ - | \$ -  | \$ 4,226  |
| Acquisition of subsidiary                 | -                | -              | -       | -         | -         | -     | 2,183           | -             | -     | -    | -     | 2,183     |
| Additions, net of recoveries              | 6                | -              | 28      | -         | -         | -     | 44              | -             | -     | -    | -     | 78        |
| Foreign currency translation adjustment   | 11               | 25             | 1       | -         | -         | -     | (54)            | -             | -     | -    | -     | (17)      |
| Write off                                 | -                | -              | (48)    | -         | -         | -     | -               | -             | -     | -    | -     | (48)      |
| Balance, December 31, 2017                | 3,875            | 374            | -       | -         | -         | -     | 2,173           | -             | -     | -    | -     | 6,422     |
| Additions, net of recoveries              | 6                | -              | -       | -         | 9         | 2     | 12              | 23            | 10    | -    | -     | 62        |
| Foreign currency translation adjustment   | 7                | (30)           | -       | -         | -         | -     | (175)           | -             | -     | -    | -     | (198)     |
| Balance, December 31, 2018                | \$ 3,888         | \$ 344         | \$ -    | \$ -      | \$ 9      | \$ 2  | \$ 2,010        | \$ 23         | \$ 10 | \$ - | \$ -  | \$ 6,286  |
| <b>Deferred Exploration Expenditures:</b> |                  |                |         |           |           |       |                 |               |       |      |       |           |
| Balance, December 31, 2016                | \$ 5,817         | \$ 447         | \$ 6    | \$ -      | \$ -      | \$ -  | \$ -            | \$ -          | \$ -  | \$ - | \$ -  | \$ 6,270  |
| Additions, net of recoveries              | 27               | 44             | 14      | -         | -         | -     | 1,090           | -             | -     | -    | -     | 1,175     |
| Foreign currency translation adjustment   | 587              | 31             | 1       | -         | -         | -     | -               | -             | -     | -    | -     | 619       |
| Write off                                 | -                | -              | (21)    | -         | -         | -     | -               | -             | -     | -    | -     | (21)      |
| Balance, December 31, 2017                | 6,431            | 522            | -       | -         | -         | -     | 1,090           | -             | -     | -    | -     | 8,043     |
| Additions, net of recoveries              | 88               | 150            | -       | 69        | 120       | -     | 351             | 1             | -     | -    | -     | 779       |
| Foreign currency translation adjustment   | (741)            | (42)           | -       | -         | -         | -     | (88)            | -             | -     | -    | -     | (871)     |
| Balance, December 31, 2018                | \$ 5,778         | \$ 630         | \$ -    | \$ 69     | \$ 120    | \$ -  | \$ 1,353        | \$ 1          | \$ -  | \$ - | \$ -  | \$ 7,951  |
| <b>Mineral property interests:</b>        |                  |                |         |           |           |       |                 |               |       |      |       |           |
| Balance, December 31, 2017                | \$ 10,306        | \$ 896         | \$ -    | \$ -      | \$ -      | \$ -  | \$ 3,263        | \$ -          | \$ -  | \$ - | \$ -  | \$ 14,465 |
| Balance, December 31, 2018                | 9,666            | 974            | -       | 69        | 129       | 2     | 3,363           | 24            | 10    | -    | -     | 14,237    |

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### 1.5 Summary of Quarterly Results (Unaudited)

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, December 31, 2018. All dollar amounts are expressed in U.S. dollars unless otherwise indicated.

| (in \$000s except<br>per share amounts)                                     | 2018      |           |           |           | 2017      |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   | Dec 31    | Sept 30   | June 30   | Mar 31    | Dec 31    | Sept 30   | June 30   | Mar 31    |
| Total revenues  | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| (Loss) income before<br>discontinued operations and<br>extraordinary items: |           |           |           |           |           |           |           |           |
| (i) Total   | \$ (452)  | \$ (300)  | \$ (284)  | \$ (89)   | \$ (259)  | \$ (496)  | \$ (469)  | \$ (736)  |
| (ii) Basic per share  | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| (iii) Fully diluted<br>per share  | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Net (loss) income:  |           |           |           |           |           |           |           |           |
| (i) Total   | \$ (452)  | \$ (300)  | \$ (284)  | \$ (89)   | \$ (259)  | \$ (496)  | \$ (469)  | \$ (736)  |
| (ii) Basic per share  | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| (iii) Fully diluted<br>per share  | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Total assets  | \$ 17,511 | \$ 18,376 | \$ 18,621 | \$ 19,118 | \$ 19,763 | \$ 20,147 | \$ 19,643 | \$ 19,145 |
| Total long-term liabilities   | \$ 130    | \$ 123    | \$ 151    | \$ 143    | \$ 136    | \$ -      | \$ -      | \$ -      |
| Dividends per share   | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |

### 1.6 Liquidity

The Company is in the pre-development stage and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is entirely dependent upon the existence of reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production. The Company knows of no trends, demands, commitments, events or uncertainties that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future except as disclosed in this MD&A and in its regulatory filings. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration and development programs and overall market conditions for smaller mineral exploration companies. Since its incorporation in 1987, the Company has endeavored to secure mineral property interests that in due course could be brought into production to provide the Company with cash flow which would be used to undertake work programs on other projects. To that end, the Company has expended its funds on mineral property interests that it believes have the potential to achieve cash flow within a reasonable time frame. As a result, the Company has incurred losses during each of its fiscal years since incorporation. This result is typical of smaller exploration companies and will continue unless positive cash flow is achieved.

The following table contains selected financial information of the Company's liquidity:

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| (\$000s)        | December 31, |          |
|-----------------|--------------|----------|
|                 | 2018         | 2017     |
| Cash            | \$ 2,329     | \$ 4,304 |
| Working capital | 2,897        | 4,944    |

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Ongoing operating expenses continue to reduce the Company's cash resources and working capital, as the Company has no sources of operating revenues.

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million of its common shares representing approximately up to 5% of its issued and outstanding common shares at that time. The bid commenced on February 8, 2017 and terminated on February 7, 2018. The actual number of common shares purchased under the bid and the timing of any such purchases was at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be returned to treasury and cancelled. For the year ended December 31, 2017, the Company purchased 2.6 million shares for CAD\$213,700 with an average price of CAD\$0.08 per share, of which 2.5 million common shares have been cancelled and the remaining common shares were cancelled in February 2018. In January 2018, a further 86,000 common shares for CAD\$6,450 were purchased at an average price of CAD\$0.08 per share and which were all cancelled in February 2018.

On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000.

On February 12, 2018, the Company entered into a Forbearance Agreement with the debtor in which the loan principal totaling \$220,000, which was previously written off, will be repaid in full in 2018 as follows:

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| Date   | Principal (1) |
|--|---------------|
|  | (\$000s)      |
| February 14, 2018 (received)                 | \$ 25         |
| June 30, 2018 (received)                     | 25            |
| September 30, 2018 (received)                | 85            |
| December 31, 2018 (received in January 2019) | 85            |
|  | <hr/>         |
|  | \$ 220        |

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- (1) Funds of \$94,500 were received in 2018 with a balance of \$59,500 received in January 2019, net of legal fees.

In June 2018, the Company again proceeded with a normal course issuer bid which received regulatory approval to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid is effective on June 21, 2018 and will terminate on June 20, 2019, or on such earlier date as the bid is completed. The actual number of common shares purchased under the bid and the timing of any such purchases is at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company shall pay the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018.

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In the past, the Company has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.7, further details of contractual obligations are provided as at December 31, 2018. The Company will continue to rely upon equity financing as its principal source of financing its projects.

### 1.7 Capital Resources

At December 31, 2018, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

|  | Cash<br>Payments<br>(CAD\$000) | Exploration<br>Expenditures<br>(CAD\$000) | Cash<br>Payments<br>(US\$000) | Annual<br>Payments<br>(US\$000) | Number of<br>Shares |
|--|--------------------------------|---|-------------------------------|---------------------------------|---------------------|
| New Polaris:   |                                |   |                               |                                 |                     |
| Net profit interest reduction or buydown                                   | \$ -                           | \$ -                                      | \$ -                          | \$ -                            | 150,000             |
| Fondaway Canyon:   |                                |   |                               |                                 |                     |
| Advance royalty payment for buyout of 3% net smelter return <sup>(1)</sup> | -                              | -   | -                             | 35                              | -                   |
| Buyout provision for net smelter return of 2% <sup>(2)</sup>               | -                              | -   | 2,000                         | -                               | -                   |
| Windfall Hills:  |                                |   |                               |                                 |                     |
| Buyout provision for net smelter return of 1.5%                            | 1,000                          | -   | -                             | -                               | -                   |
| Reduction of net smelter return of 2% to 1%                                | -                              | -   | 500                           | -                               | -                   |
| Princeton:   |                                |   |                               |                                 |                     |
| On or before:  |                                |   |                               |                                 |                     |
| January 31, 2019 (expended)  | -                              | 1   | -                             | -                               | -                   |
| December 31, 2019  | -                              | 340                                       | -                             | -                               | -                   |
| December 31, 2020  | -                              | 460                                       | -                             | -                               | -                   |
| Buyout provision for net smelter return of 1%                              | 1,000                          | -   | -                             | -                               | -                   |
| Reduction of net smelter return of 2% to 1%                                | 1,000                          | -   | -                             | -                               | -                   |
| Hard Cash and Nigel:   |                                |   |                               |                                 |                     |
| On or before:  |                                |   |                               |                                 |                     |
| November 23, 2019  | 20                             | -   | -                             | -                               | 200,000             |
| November 23, 2020  | 30                             | -   | -                             | -                               | 300,000             |
| November 23, 2021  | 40                             | -   | -                             | -                               | 400,000             |
| November 23, 2022  | 50                             | -   | -                             | -                               | 500,000             |
| Reduction of net smelter return of 2% to 1%                                | 1,000                          | -   | -                             | -                               | -                   |
| Other:   |                                |   |                               |                                 |                     |
| Success fee  | -                              | -   | 10                            | -                               | -                   |
|  | \$ 4,140                       | \$ 801                                    | \$ 2,510                      | \$ 35                           | 1,550,000           |

(1) Advance royalty payments of \$355,000 remain payable as at December 31, 2018 with annual payments of \$35,000 in which a cash payment of \$35,000 was made in July 2018.

(2) The 2% NSR has a buyout provision of either \$2 million in cash or 19.99% interest of a public entity which owns AIM if AIM were to close an initial public offering of at least \$5 million.

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These amounts may be reduced in the future as the Company determines which properties to continue to explore and which to abandon.

In February 2017, the Company entered into an office lease arrangement for a term of five years with a commencement date of August 1, 2017. The basic rent per year is CAD\$46,000 for years 1 to 3 and CAD\$48,000 for years 4 to 5.

The following schedule provides the contractual obligations related to the basic office lease for its Vancouver, BC office and the advance royalty payments for the Fondaway Canyon property as at December 31, 2018:

|                          | Payments due by Period<br>(CAD\$000) |                     |           |           |                  | Payments due by Period<br>(US\$000) |                     |           |           |                  |
|--------------------------|--------------------------------------|---------------------|-----------|-----------|------------------|-------------------------------------|---------------------|-----------|-----------|------------------|
|                          | Total                                | Less than<br>1 year | 1-3 years | 3-5 years | After<br>5 years | Total                               | Less than<br>1 year | 1-3 years | 3-5 years | After<br>5 years |
| Basic office lease       | \$ 169                               | \$ 46               | \$ 123    | \$ -      | \$ -             | \$ -                                | \$ -                | \$ -      | \$ -      | \$ -             |
| Advance royalty payments | -                                    | -                   | -         | -         | -                | 355                                 | 35                  | 105       | 105       | 110              |
| Total                    | \$ 169                               | \$ 46               | \$ 123    | \$ -      | \$ -             | \$ 355                              | \$ 35               | \$ 105    | \$ 105    | \$ 110           |

In July 2018, the Company paid the advance royalty commitment of \$35,000.

The Company will continue to rely upon debt and equity financings as its principal sources of financing its projects and for working capital.

### 1.8 Off-Balance Sheet Arrangements

At the discretion of the Board, certain stock option grants provide the option holder the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options that represent the share appreciation since granting the stock options.

### 1.9 Transactions with Related Parties

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management is disclosed in the table below.

Except as disclosed elsewhere in the MD&A, the Company had the following general and administrative costs with related parties during the years ended December 31, 2018 and 2017:

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| (\$000s)  | Years ended December 31, |                 |               | Net balance receivable (payable)<br>as at December 31, |               |
|---|--------------------------|-----------------|---------------|--|---------------|
|   | 2018                     | 2017            | 2016          | 2018   | 2017          |
| Key management compensation:  |                          |                 |               |  |               |
| Executive salaries and remuneration <sup>(1)</sup>  | \$ 490                   | \$ 720          | \$ 460        | \$ -   | \$ -          |
| Severance   | 184                      | -               | -             | -  | -             |
| Directors fees  | 27                       | 98              | 8             | (7)  | (2)           |
| Share-based payments  | 118                      | 351             | 245           | -  | -             |
|   | <u>\$ 819</u>            | <u>\$ 1,169</u> | <u>\$ 713</u> | <u>\$ (7)</u>  | <u>\$ (2)</u> |
| Net office, sundry, rent and salary allocations<br>recovered from (incurred to) company(ies)<br>sharing certain common director(s) <sup>(2)</sup> |                          |                 |               |  |               |
|   | 2                        | (16)            | (41)          | 1  | 1             |

(1) Includes key management compensation which is included in employee and director remuneration, mineral property interests, and corporate development.

(2) The companies include Aztec Minerals Corp. Endeavour Silver Corp., and Aztec Metals Corp. which share a common director.

The above transactions are incurred in the normal course of business.

### 1.10 Fourth Quarter

Items 1.2, 1.4, 1.5, 1.6 and 1.7 provide further details for the fourth quarter of fiscal 2018.

### 1.11 Proposed Transactions

There are no proposed material asset or business acquisitions or dispositions, other than those in the ordinary course of business and other than those already disclosed in this MD&A, before the board of directors for consideration, and other than those already disclosed in its regulatory and public filings.

### 1.12 Critical Accounting Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and judgements and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; amount of flow-through obligations; deferred royalty liability; recognition of deferred income tax liability; the variables used in the determination of the fair value of stock options granted and finder's fees warrants issued or modified; recoverability of receivables; and the recoverability of deferred

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tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The Company applies judgment in assessing the functional currency of each entity consolidated in the financial statements.

The Company applies judgment in assessing whether material uncertainties exist that would cast substantial doubt as to whether the Company could continue as a going concern.

Acquisition costs of mineral properties and exploration and development expenditures incurred thereto are capitalized and deferred. The costs related to a property from which there is production will be amortized using the unit-of-production method. Capitalized costs are written down to their estimated recoverable amount if the property is subsequently determined to be uneconomic. The amounts shown for mineral property interests represent costs incurred to date, less recoveries and write-downs, and do not reflect present or future values.

At the end of each reporting period, the Company assesses each of its mineral properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore; expected renewals of exploration rights; whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned; and results of exploration and evaluation activities on the exploration and evaluation assets. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

In the acquisition of AIM in March 2017, judgement was required to determine if the acquisition represented a business combination or an asset purchase. More specifically, management concluded that AIM did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill generated on the transaction and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements.

### **1.13 Changes in Accounting Policies including Initial Adoption**

The Company has adopted IFRS 9 *Financial Instruments* ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for the classification and measurement of financial instrument and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, with the exception that for financial liabilities designated at fair value through profit or loss, the change in fair value that is attributable to changes in credit risk of that liability is presented in other comprehensive (loss) income instead of in statement of operations as previously applied.

The Company has classified its financial instruments as follows under IFRS 9 compared to the Company's previous accounting policy under IAS 39:

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|  | IAS 39   | IFRS 9         |
|--|--|----------------|
| <b>Financial Assets</b>                  |  |                |
| Cash                                     | Fair value through profit or loss ("FVTPL")      | FVTPL          |
| Marketable securities                    | FVTPL  | FVTPL          |
| Receivables                              | Loans and receivable at amortized cost           | Amortized cost |
| <b>Financial Liability</b>               |  |                |
| Accounts payable and accrued liabilities | Other financial liabilities under amortized cost | Amortized cost |
| Flow through premium liability           | Other financial liabilities under amortized cost | Amortized cost |
| Deferred royalty liability               | Other financial liabilities under amortized cost | Amortized cost |

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The Company did not early adopt any recent pronouncements as disclosed in Note 2(f), "*New accounting standards and recent pronouncements*", of the audited consolidated financial statements for the year ended December 31, 2018.

### 1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

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|  |  |       |
|--|--|-------|
| <b>Financial Assets</b>                  |  |       |
| Cash                                     |  | FVTPL |
| Marketable securities                    |  | FVTPL |
| Receivables                              | Loans and receivable at amortized cost           |       |
| <b>Financial Liability</b>               |  |       |
| Accounts payable and accrued liabilities | Other financial liabilities under amortized cost |       |
| Flow through premium liability           | Other financial liabilities under amortized cost |       |
| Deferred royalty liability               | Other financial liabilities under amortized cost |       |

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### Management of Financial Risk

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk, and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are provided as follows.

The fair value hierarchy categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

The fair values of the Company's receivables, accounts payable and accrued liabilities, and flow through premium liability approximate their carrying values due to the short terms to maturity. Cash and certain marketable securities are measured at



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fair values using Level 1 inputs. Other marketable securities are measured using Level 3 of the fair value hierarchy. The fair value of deferred royalty liability approximates its carrying value as it is at estimated market interest rates using Level 2 inputs.

(a) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions.

Management has reviewed the items comprising the accounts receivable balance which may include amounts receivable from certain related parties, and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. As at December 31, 2018, the Company had a working capital of \$2.9 million (December 31, 2017 – \$4.9 million). The Company has sufficient funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2019.

The following schedule provides the contractual obligations related to the deferred royalty payments for the Fondaway Canyon project as at December 31, 2018:

|                           | Payments due by Period<br>(US\$000) |                     |           |           |                  |
|---------------------------|-------------------------------------|---------------------|-----------|-----------|------------------|
|                           | Total                               | Less than<br>1 year | 1-3 years | 3-5 years | After<br>5 years |
| Deferred royalty payments | \$ 355                              | \$ 35               | \$ 105    | \$ 105    | \$ 110           |
| Total                     | \$ 355                              | \$ 35               | \$ 105    | \$ 105    | \$ 110           |

An advance royalty payment of \$35,000 was made in July 2018.

Accounts payable and accrued liabilities are due in less than 90 days, and the notes payable, if any, are due on demand.

(c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

Certain of the Company's mineral property interests and operations are in Canada. Most of its operating expenses are incurred in Canadian dollars. Fluctuations in the Canadian dollar would affect the Company's consolidated statements of comprehensive income (loss) as its functional currency is the Canadian dollar,

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and fluctuations in the U.S. dollar would impact its cumulative translation adjustment as its consolidated financial statements are presented in U.S. dollars.

The Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

| (\$000s)  | Stated in U.S. Dollars<br>(Held in Canadian Dollars) |          |
|---|--|----------|
|   | 2018   | 2017     |
| Cash  | \$ 2,288   | \$ 4,118 |
| Marketable securities                           | 719  | 787      |
| Receivables                                     | 17   | 100      |
| Accounts payable and accrued liabilities        | (215)  | (104)    |
| Flow through premium liability                  | -  | (54)     |
| Net financial assets (liabilities), December 31 | \$ 2,809   | \$ 4,847 |

Based upon the above net exposure as at December 31, 2018 and assuming all other variables remain constant, a 10% (December 31, 2017 - 15%) depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$281,000 (December 31, 2017 - \$727,000) in the cumulative translation adjustment in the Company's shareholders' equity.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. Interest rate risk is not significant to the Company as it has no cash equivalents at period-end and the promissory notes receivable and notes payable, if any, are stated at fixed interest rates.

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company's other price risk includes equity price risk, whereby investments in marketable securities are held for trading financial assets with fluctuations in quoted market prices recorded at FVTPL. There is no separately quoted market value for the Company's investments in the shares of certain strategic investments.

As certain of the Company's marketable securities are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's marketable securities. Based upon the net exposure as at December 31, 2018 and assuming all other variables remain constant, a net increase or decrease of 50% (2017 - 60%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by \$360,000 (2017 - \$472,000).

In February 2017, the Company adopted a normal course issuer bid whereby the Company may acquire up to 10.9 million common shares of the Company, and shall pay the prevailing market price at the time of purchase, and which terminated on February 7, 2018. In June 2018, the normal course issuer bid was again adopted whereby the Company may acquire up to 10.9 million common shares of the Company until June

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20, 2019. The cash consideration paid for any such purchases would have been subject to fluctuations in the market price of its common shares.

### 1.15 Other MD&A Requirements

#### 1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at [www.sedar.com](http://www.sedar.com);
- (b) may be found in the Company's annual information form; and
- (c) is also provided in the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017.

#### 1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the year ended December 31, 2018 are as follows:

|  | Number of Shares | Amount<br>(in \$000s) |
|--|------------------|-----------------------|
| Balance at December 31, 2017                         | 218,779,144      | \$ 66,328             |
| Issued:  |                  |                       |
| Property acquisition                                 | 100,000          | 4                     |
| Common share buy-back under normal course issuer bid | (524,000)        | (27)                  |
| Balance at December 31, 2018                         | 218,355,144      | \$ 66,305             |

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid was effective on February 8, 2017 and terminated on February 7, 2018. The actual number of common shares purchased under the bid and the timing of any such purchases was at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were cancelled. For the year ended December 31, 2017, the Company purchased 2.6 million shares for CAD\$213,700 with an average price of CAD\$0.08 per share, of which 2.5 million common shares have been cancelled and the remaining common shares were cancelled in February 2018. In January 2018, a further 86,000 common shares for CAD\$6,450 were purchased at an average price of CAD\$0.08 per share, which were cancelled in February 2018.

In June 2018, the Company again proceeded with a normal course issuer bid which received regulatory approval to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid is effective on June 21, 2018 and will terminate on June 20, 2019, or on such earlier date as the bid was completed. The actual number of common shares purchased under the bid and the timing of any such purchases was at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company shall pay

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the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018.

In December 2018, the Company issued 100,000 common shares at a value of CAD\$0.05 per share to Silver Range for the Hard Cash and Nigel properties.

At March 21, 2019, there were 218,355,144 common shares issued and outstanding.

At December 31, 2018, the Company had outstanding stock options to purchase an aggregate 16,400,000 common shares as follows:

|  | December 31, 2018  |   |
|--|--------------------|---|
|  | Number of Shares   | Weighted average exercise price (CAD\$) |
| Outstanding balance, beginning of period | 19,357,500         | \$0.08                                  |
| Granted                                  | 4,250,000          | \$0.07                                  |
| Forfeited                                | (1,012,500)        | \$0.09                                  |
| Cancelled and expired                    | <u>(6,195,000)</u> | \$0.08                                  |
| Outstanding balance, end of period       | <u>16,400,000</u>  | \$0.08                                  |

In February 2019, the Company granted 700,000 stock options to consultants with an exercise price of \$0.07 per share and an expiry date of February 22, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

At March 21, 2019, stock options for 17,100,000 common shares remain outstanding of which 13,790,000 stock options are exercisable.

At December 31, 2018, the Company had outstanding warrants as follows:

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| Exercise Prices (CAD\$) | Expiry Dates                           | Outstanding at December 31, 2017 | Issued | Exercised | Expired      | Outstanding at December 31, 2018 |
|-------------------------|--|----------------------------------|--------|-----------|--------------|----------------------------------|
| \$0.10                  | July 31, 2018 <sup>(1), (7)</sup>      | 8,450,000                        | -      | -         | (8,450,000)  | -                                |
| \$0.15                  | September 18, 2018 <sup>(1)</sup>      | 5,254,055                        | -      | -         | (5,254,055)  | -                                |
| \$0.15                  | September 18, 2018 <sup>(1), (2)</sup> | 661,718                          | -      | -         | (661,718)    | -                                |
| \$0.15                  | October 3, 2018 <sup>(1)</sup>         | 4,153,750                        | -      | -         | (4,153,750)  | -                                |
| \$0.15                  | October 3, 2018 <sup>(1), (3)</sup>    | 60,725                           | -      | -         | (60,725)     | -                                |
| \$0.08                  | September 21, 2018                     | 5,332,776                        | -      | -         | (5,332,776)  | -                                |
| \$0.08                  | September 21, 2018 <sup>(4)</sup>      | 536,511                          | -      | -         | (536,511)    | -                                |
| \$0.12                  | March 3, 2019 <sup>(8)</sup>           | 8,852,576                        | -      | -         | -            | 8,852,576                        |
| \$0.12                  | March 14, 2019 <sup>(8)</sup>          | 2,497,222                        | -      | -         | -            | 2,497,222                        |
| \$0.12                  | March 14, 2019 <sup>(5), (8)</sup>     | 155,556                          | -      | -         | -            | 155,556                          |
| \$0.12                  | April 21, 2019 <sup>(6)</sup>          | 250,000                          | -      | -         | -            | 250,000                          |
|                         |  | 36,204,889                       | -      | -         | (24,449,535) | 11,755,354                       |

- (1) On August 28, 2015, the Company extended the terms of the expiry periods of the warrants by 18 months.
- (2) As these warrants are agent's warrants, a fair value of \$43,120 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$4,622 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (3) As these warrants are agent's warrants, a fair value of \$3,335 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$386 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.
- (4) As these warrants are agent's warrants, a fair value of \$20,747 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 147%, risk-free rate 0.57%, expected life 3 years, and expected dividend yield 0%.
- (5) As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.

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- (6) As these warrants are agent's warrants, a fair value of \$11,460 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 125%, risk-free rate 0.71%, expected life 2 years, and expected dividend yield 0%.
- (7) On July 14, 2017, the Company extended the term of the expiry period of the warrants by one year from July 31, 2017 to July 31, 2018, which expired unexercised.
- (8) These warrants expired unexercised on their respective expiry dates in 2019.

At March 21, 2019, warrants for 250,000 common shares remain outstanding.

### **1.16 Outlook**

The Company will continue to depend upon equity financings to continue exploration work on and to advance its mineral property interests, and to meet its administrative overhead costs for the 2019 fiscal year. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

### **1.17 Risk Factors**

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

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

There is no assurance given by the Company that its exploration and development programs and mineral property interests will result in the discovery, development or production of a commercially viable ore body.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of bodies of commercial ore. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grades and tonnages of ore mined, fluctuating mineral market prices, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Substantial expenditures are required to establish reserves through drilling and other work, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that 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 foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling and smelting 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. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for exploitation concessions. There can be no guarantee that such concessions will be granted.

#### ***Financing Risks***

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There is no assurance given by the Company that it will be able to secure the financing necessary to explore, develop and produce its mineral property interests.

The Company does not presently have sufficient financial resources or operating cash-flow to undertake by itself all of its planned exploration and development programs. The development of the Company's mineral property interests may therefore depend on the Company's joint venture partners and on the Company's ability to obtain additional required financing. There is no assurance the Company will be successful in obtaining the required financing, the lack of which could result in the loss or substantial dilution of its interests (as existing or as proposed to be acquired) in its properties as disclosed herein. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise debt and equity capital financings, the attainment of profitable operations, external financings, and further share issuance to satisfy working capital and operating needs.

### ***Estimates of Mineral Deposits***

There is no assurance given by the Company that any estimates of mineral deposits herein will not change.

Although all figures with respect to the size and grade of mineralized deposits, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are historic estimates only and are not compliant with NI 43-101, except for the Company's Fondaway Canyon project which was the subject of a NI 43-101 report dated April 3, 2017 and New Polaris project which was the subject of a NI 43-101 report dated February 28, 2019 which shall be filed on the Company's SEDAR profile, at [www.sedar.com](http://www.sedar.com), by April 18, 2019, and no assurance can be given that any identified mineralized deposit will ever qualify as a commercially viable mineable ore body that can be legally and economically exploited. Estimates regarding mineralized deposits can also be affected by many factors such as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grades and tonnages of ore ultimately mined may differ from that indicated by drilling results and other work. There can be no assurance that gold recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions. Material changes in mineralized tonnages, grades, dilution and stripping ratios or recovery rates may affect the economic viability of projects. The existence of mineralized deposits should not be interpreted as assurances of the future delineation of ore reserves or the profitability of future operations. The refractory nature of gold mineralization at New Polaris and Fondaway projects may adversely affect the economic recovery of gold from mining operations.

### ***Mineral Prices***

There is no assurance given by the Company that mineral prices will not change.

The mining industry is competitive and mineral prices fluctuate so that there is no assurance, even if commercial quantities of a mineral resource are discovered, that a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of precious and base metals fluctuate on a daily basis, have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates, central bank transactions, world supply for precious and base metals, international investments, monetary systems, and global or regional consumption patterns (such as the development of gold coin programs), speculative activities and increased production due to improved mining and production methods. The supply of and demand for gold are affected by various factors, including political events, economic conditions and production costs in major gold producing regions, and governmental policies with respect to gold holdings by a nation or its citizens. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. There is no assurance that the prices of gold and other precious and base metals will be such that the Company's mineral property interests can be mined at a profit.

### ***Title Matters***

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There is no assurance given by the Company that it owns legal title to certain of its mineral property interests.

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to any of the Company's mining concessions may come under dispute. While the Company has diligently investigated title considerations to its mineral property interests, in certain circumstances, the Company has only relied upon representations of property partners and government agencies. There is no guarantee of title to any of the Company's property interests. The properties may be subject to prior unregistered agreements or transfers, and title may be affected by unidentified and undetected defects. In British Columbia and elsewhere, native land claims or claims of aboriginal title may be asserted over areas in which the Company's properties are located.

### ***Conflicts of Interest***

There is no assurance given by the Company that its directors and officers will not have conflicts of interest from time to time.

The Company's directors and officers may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The interests of these companies may differ from time to time. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of the Province of British Columbia, Canada, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in any particular exploration or mining project at any given time, the directors will primarily consider the upside potential for the project to be accretive to shareholders, the degree of risk to which the Company may be exposed and its financial position at that time.

### ***Uninsured Risks***

There is no assurance given by the Company that it is adequately insured against all risks.

The Company may become subject to liability for cave-ins, pollution or other hazards against which it cannot insure or against which it has elected not to insure because of high premium costs or other reasons. The payment of such liabilities would reduce the funds available for exploration and mining activities.

### ***Environmental and Other Regulatory Requirements***

There is no assurance given by the Company that it has met all environmental or regulatory requirements.

The current or future operations of the Company, including exploration and development activities and commencement of production on its mineral property interests, require permits from various foreign, federal, state and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that approvals and permits required in order for the Company to commence production on its various properties will be obtained. Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, are necessary prior to operation of the other properties in which the Company has interests and there can be no assurance that the Company will be able to obtain or maintain all necessary permits that may be required to commence construction, development or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs.



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Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. New laws or regulations or amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation of current laws, regulations or permits, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

### ***Reclamation***

There is a risk that monies allotted for land reclamation may not be sufficient to cover all risks, due to changes in the nature of the waste rock or tailings and/or revisions to government regulations. Therefore additional funds, or reclamation bonds or other forms of financial assurance may be required over the tenure of the project to cover potential risks. These additional costs may have material adverse impact on the financial condition and results of the Company.

### ***Foreign Countries and Regulatory Requirements***

Certain of the Company's properties may be located in countries outside of Canada, and mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry. Any changes in regulations or shifts in political attitudes may vary from country to country and are beyond the control of the Company and may adversely affect its business. Such changes have, in the past, included nationalization of foreign owned businesses and properties. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income and other taxes and duties, expropriation of property, environmental legislation and mine safety. These uncertainties may make it more difficult for the Company and its joint venture partners to obtain any required production financing for its mineral property interests.

### ***Currency Fluctuation and Foreign Exchange Controls***

The Company maintains a portion of its funds in U.S. dollar denominated accounts. Certain of the Company's property and related contracts may be denominated in U.S. dollars. The Company's operations in countries other than Canada are normally carried out in the currency of that country and make the Company subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. In addition, the Company is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its properties outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Company holds property interests and future impositions of such restrictions could have a materially adverse effect on the Company's future profitability or ability to pay dividends.

### ***Third Party Reliance***

The Company's rights to acquire interests in certain mineral properties may have been granted by third parties who themselves hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

### ***Volatility of Shares Could Cause Investor Loss***

The market price of a publicly traded stock, especially a junior issuer like the Company, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of the market for junior resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of the common shares on the TSX and NASD-OTC suggests that the Company's shares will continue to be volatile. Therefore, investors could

## **CANARC RESOURCE CORP.**

Management's Discussion and Analysis

For the Year ended December 31, 2018

(expressed in United States dollars)

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suffer significant losses if the Company's shares are depressed or illiquid when an investor seeks liquidity and needs to sell the Company's shares.

### ***Possible Dilution to Current Shareholders based on Outstanding Options and Warrants***

At December 31, 2018, the Company had 218,355,144 common shares, and 16,400,000 outstanding share purchase options and 11,755,354 share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At December 31, 2018, securities that could be dilutive represented approximately 12.9% of the Company's issued shares. None of these dilutive securities were exercisable at prices below the December 31, 2018 closing market price of CAD\$0.05 for the Company's shares, which accordingly would not result in dilution to existing shareholders.

## **1.18 Controls and Procedures**

### ***Evaluation of Disclosure Controls and Procedures***

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013)*. Based on its evaluation, management has concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at December 31, 2018, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of the audited consolidated financial statements. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

### ***Internal Controls over Financial Reporting***

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting ("ICOFR") or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In common with many other smaller companies, the Company has insufficient resources to appropriately review increasingly complex areas of accounting within the accounting function such as those in relation to financial instruments and deferred income tax.

The Company shall engage the services of an external accounting firm to assist in applying complex areas of accounting as needed.

Management concluded that the audited consolidated financial statements for the year ended December 31, 2018 fairly present the Company's financial position and its financial performance for the period then ended.

### ***Changes in Internal Controls over Financial Reporting***

Except as disclosed above, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date the CEO and CFO completed their evaluation.