



CANARC RESOURCE CORP.

Third Quarter Report

Condensed Consolidated Interim Financial Statements

(expressed in United States dollars)

Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

**Notice of No Auditor Review of
Unaudited Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2018**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these unaudited condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Canarc Resource Corp. (the “Company”) for the three and nine months ended September 30, 2018 (the “Financial Statements”) have been prepared by and are the responsibility of the Company’s management, and have not been reviewed by the Company’s auditors. The Financial Statements are stated in terms of United States dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 (“IAS 34”) and International Financial Reporting Standards (“IFRS”).

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Notes	September 30, 2018	December 31, 2017
ASSETS			
CURRENT ASSETS			
Cash		\$ 2,846	\$ 4,304
Marketable securities	8	706	787
Receivables and prepaids	14	55	100
Loan receivable	6	170	-
Total Current Assets		3,777	5,191
NON-CURRENT ASSETS			
Mineral property interests	7, 9	14,513	14,465
Equipment	10	86	107
Total Non-Current Assets		14,599	14,572
Total Assets		\$ 18,376	\$ 19,763
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	14	\$ 44	\$ 158
Flow through premium liability	11(a)	41	54
Deferred royalty liability, current	7 and 11(b)	35	35
Total Current Liabilities		120	247
LONG TERM LIABILITIES			
Deferred royalty liability, long term	7 and 11(b)	123	136
Total Liabilities		243	383
SHAREHOLDERS' EQUITY			
Share capital	12(b) and (c)	66,314	66,328
Reserve for share-based payments		775	1,101
Accumulated other comprehensive loss		(2,634)	(1,995)
Deficit		(46,322)	(46,054)
Total Shareholders' Equity		18,133	19,380
Total Liabilities and Shareholders' Equity		\$ 18,376	\$ 19,763

Refer to the accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board:

/s/ Bradford Cooke

Director

/s/ Martin Burian

Director

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income

(Unaudited – Prepared by Management)

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

	Notes	Three Months ended September 30,		Nine Months ended September 30,	
		2018	2017	2018	2017
Expenses:					
Amortization	10	\$ 6	\$ 6	\$ 18	\$ 6
Corporate development	13, 14	3	4	14	55
Employee and director remuneration	14	63	94	490	654
General and administrative	13	57	44	154	143
Shareholder relations		7	26	46	151
Share-based payments	12(d), 14	29	66	86	310
Loss before the undernoted		(165)	(240)	(808)	(1,319)
Interest income		11	13	33	39
Interest expense	11(b)	(7)	(15)	(23)	(15)
Foreign exchange gain (loss)		82	(22)	89	(33)
Change in fair value of marketable securities	8	(227)	(206)	(193)	(309)
Recovery of demand loan receivable	6	-	-	220	-
Write-off of mineral property interest	9(a)(iii)	(1)	(28)	(1)	(66)
Net loss before income tax		(307)	(498)	(683)	(1,703)
Income tax recovery	11(a)	7	2	10	2
Net loss for the period		(300)	(496)	(673)	(1,701)
Other comprehensive (loss) income:					
Items that will not be reclassified into profit or loss:					
Foreign currency translation adjustment		(283)	788	(639)	1,377
Comprehensive (loss) income for the period		\$ (583)	\$ 292	\$ (1,312)	\$ (324)
Basic and diluted loss per share		\$ -	\$ -	\$ -	\$ (0.01)
Weighted average number of shares outstanding		218,570,611	220,392,524	218,600,800	219,098,588

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Share Capital		Reserve for Share-Based Payments	Accumulated Other Comprehensive Income (Loss)		Deficit	Total
	Number of Shares	Amount					
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))	(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))	(294,000)	(14)	-	-	-		(14)
Cancellation and expiration of stock options	-	-	(337)	-	337		-
Expiration of finders fee warrants	-	-	(66)	-	66		-
Share-based payments	-	-	86	-	-		86
Other comprehensive income (loss):							
Foreign currency translation adjustment	-	-	(9)	(639)	2		(646)
Net loss for the period	-	-	-	-	(673)		(673)
Balance, September 30, 2018	218,485,144	\$ 66,314	\$ 775	\$ (2,634)	\$ (46,322)	\$	18,133
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	313	-	-	-		313
Exercise of share appreciation rights	301,893	23	(24)	-	1		-
Common share buy-back under normal course issuer bid (Note 12(b))	(1,226,500)	(85)	-	-	-		(85)
Share issuance expense	-	(39)	-	-	-		(39)
Share-based payments	-	-	310	-	-		310
Cancellation and expiration of stock options	-	-	(13)	-	13		-
Finders fee warrants	-	(11)	11	-	-		-
Other comprehensive income (loss):							
Foreign currency translation adjustment	-	-	-	1,377	(14)		1,363
Net loss for the period	-	-	-	-	(1,701)		(1,701)
Balance, September 30, 2017	220,111,144	\$ 66,411	\$ 1,043	\$ (1,892)	\$ (45,794)	\$	19,768

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Cash provided from (used by):				
Operations:				
Net loss	\$ (300)	\$ (496)	\$ (673)	\$ (1,701)
Items not involving cash:				
Accrued interest	7	15	23	15
Amortization	6	6	18	6
Share-based payments	29	66	86	310
Change in fair value of marketable securities	227	206	193	309
Recovery of promissory note receivable	-	-	(220)	-
Income tax recovery	(7)	(2)	(10)	(2)
Write off of mineral properties	1	30	1	66
	(37)	(175)	(582)	(997)
Changes in non-cash working capital items:				
Receivables and prepaids	68	35	42	(1)
Accounts payable and accrued liabilities	(200)	28	(121)	56
Net cash used by operating activities	(169)	(112)	(661)	(942)
Financing:				
Issuance of common shares, net of share issuance costs	-	(1)	-	331
Share buyback under normal course issuer bid	(7)	(45)	(14)	(85)
Cash (used by) provided from financing activities	(7)	(46)	(14)	246
Investing:				
Acquisition of marketable securities	2	-	(291)	-
Proceeds from disposition of marketable securities	155	29	155	103
Expenditures for mineral properties, net of recoveries	(216)	(628)	(500)	(2,595)
Advance royalty payment	(35)	(35)	(35)	(35)
Proceeds from promissory note receivable	25	-	50	-
Expenditures for leasehold improvements and equipment	-	(5)	-	(119)
Cash used by investing activities	(69)	(639)	(621)	(2,646)
Unrealized foreign exchange (loss) gain on cash	57	607	(162)	607
Decrease in cash	(188)	(190)	(1,458)	(2,735)
Cash, beginning of period	3,034	5,534	4,304	8,079
Cash, end of period	\$ 2,846	\$ 5,344	\$ 2,846	\$ 5,344

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Non-cash financing and investing activities:				
Fair value of deferred royalty liability (Notes 7 and 11(b))	\$ -	\$ 183	\$ -	\$ 183
Fair values from the exercise of:				
Share appreciation rights (Note 12(c))	-	-	-	23
Fair values of finders fee warrants from:				
Issuance of finders fee warrants (Notes 12(c) and (e))	-	-	-	11
Cancellation and expiration of:				
Stock options	176	(2)	337	13
Finders fee warrants	-	-	66	-
Income taxes paid	-	-	-	-
Interest paid	-	-	-	-

Refer to the accompanying notes to the condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

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 #810 – 625 Howe Street, Vancouver, BC, Canada, V6C 2T6.

The Company has no operating revenues, has incurred a significant net loss of \$673,000 for the nine months ended September 30, 2018 (September 30, 2017 - \$1.7 million) and has a deficit of \$46.3 million as at September 30, 2018 (December 31, 2017 - \$46.1 million). In addition, the Company has negative cash flows from operations. These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Standards Interpretations Committee. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required for full and complete annual financial statements, and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017. The Company has consistently applied the same accounting policies for all periods as presented. Certain of the prior periods’ comparative figures may have been reclassified to conform to the presentation adopted in the current period.

(b) Approval of condensed consolidated interim financial statements:

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors on November 12, 2018.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(c) Basis of presentation:

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 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 condensed consolidated interim 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 condensed consolidated interim 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.

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(Unaudited – Prepared by Management)

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

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 condensed consolidated interim 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 acquisitions 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 in 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. (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 condensed consolidated interim 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 Company is currently assessing the impact of these future standards on the condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited – Prepared by Management)

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

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*.

Applicable to the Company's annual period beginning January 1, 2019.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

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

(ii) Annual Improvements to IFRS Standards 2014–2016 Cycle

The following standards have been revised to incorporate amendments issued by the IASB in December 2016:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – The amendments remove some short-term exemptions for first-time adopters.
- IFRS 12 *Disclosure of Interests in Other Entities* – The amendments clarify that the disclosure requirements in the standard apply to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- IAS 28 *Investments in Associates and Joint Ventures* – The amendments clarify that the election available to some types of investment entities to measure investees at fair value through profit or loss at initial recognition is applied on an investment-by-investment basis. The amendments also clarify that an entity that is not an investment entity decides on an investment-by-investment basis whether to retain the fair value measurements applied by its associates and joint ventures that are investment entities.

Applicable to the Company's annual period beginning January 1, 2018.

(iii) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-based Payment*)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Applicable to the Company's annual period beginning January 1, 2018.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

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

(iv) **IFRS 9 *Financial Instruments***

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

Applicable to the Company's annual period beginning January 1, 2018. The Company has not fully assessed the impact of IFRS 9 on its condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies

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

(a) Basis of consolidation:

These condensed consolidated interim 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 condensed consolidated interim 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 classifies its financial assets in the following categories: fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity (“HTM”) and available-for-sale (“AFS”). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

The Company classifies its financial liabilities in the following categories: FVTPL and other financial liabilities.

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) 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.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies (continued)

(c) Mineral property interests: (continued)

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 of 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.

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. In the past 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 nine months ended September 30, 2018.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

5. Management of Financial Risk

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

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. Flow through premium liability at initial recognition is measured using Level 1 inputs, and deferred royalty liability using Level 2 inputs.

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 September 30, 2018, the Company had a working capital of \$3.7 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 2018.

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5. Management of Financial Risk (continued)

(b) Liquidity risk: (continued)

The following schedule provides the contractual obligations related to the deferred royalty payments (Notes 7 and 11(b)) as at September 30, 2018:

	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 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.

(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 condensed consolidated interim 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 condensed consolidated interim 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 (Held in Canadian Dollars)	
	September 30, 2018	December 31, 2017
Cash	\$ 2,788	\$ 4,118
Marketable securities	706	787
Receivables	22	100
Accounts payable and accrued liabilities	(43)	(104)
Flow through premium liability	(41)	(54)
Net financial assets (liabilities)	\$ 3,432	\$ 4,847

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5. Management of Financial Risk (continued)

(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

Based upon the above net exposure as at September 30, 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 \$343,000 (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 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 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 September 30, 2018 and assuming all other variables remain constant, a net increase or decrease of 75% (December 31, 2017 - 60%) in the market prices of the underlying securities would increase or decrease net loss by \$530,000 (December 31, 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. The cash consideration paid for any such purchases would have been subject to fluctuations in the market price of its common shares. (Note 12(b))

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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	Amount
February 14, 2018 (received)	\$ 25
June 30, 2018 (received)	25
September 30, 2018	85
December 31, 2018	85
	<hr/>
	\$ 220

7. Acquisition of 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 for a total cash purchase price of \$2 million 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 15th 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 September 30, 2018 in which \$35,000 was paid 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.

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.

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7. Acquisition of American Innovative Minerals, LLC (continued)

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 Innovative 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>

8. Marketable Securities

	September 30, 2018	December 31, 2017
Balance, begin of period	\$ 787	\$ 955
Investment in held for trading securities	291	175
Recission of investment in held for trading securities	(155)	-
Disposition of held for trading securities at fair value	-	(104)
Impairment of held for trading securities at fair value	(93)	-
Change in fair value of marketable securities	(100)	(293)
Foreign currency translation adjustment	(24)	54
Balance, end of period	<u>\$ 706</u>	<u>\$ 787</u>

The quoted market value and fair value of shares of companies was \$706,000 at September 30, 2018 (December 31, 2017 - \$787,000).

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9. Mineral Property Interests

	British Columbia (Canada)			USA		Total
	New Polaris (Note 9(a)(i))	Windfall Hills (Note 9(a)(ii))	FG Gold (Note 9(a)(iii))	Fondaway Canyon (Notes 7 and 9(b))		
Acquisition Costs:						
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	7	-	-	3	-	10
Foreign currency translation adjustment	(5)	(12)	-	(67)	-	(84)
Balance, September 30, 2018	\$ 3,877	\$ 362	\$ -	\$ 2,109	\$ -	\$ 6,348
Deferred Exploration Expenditures:						
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	79	72	-	298	-	449
Foreign currency translation adjustment	(276)	(16)	-	(35)	-	(327)
Balance, September 30, 2018	\$ 6,234	\$ 578	\$ -	\$ 1,353	\$ -	\$ 8,165
Mineral property interests:						
Balance, December 31, 2017	\$ 10,306	\$ 896	\$ -	\$ 3,263	\$ -	\$ 14,465
Balance, September 30, 2018	10,111	940	-	3,462	-	14,513

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9. Mineral Property Interests (continued)

(a) Canada:

(i) New Polaris:

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 September 30, 2018 include a reclamation bond for \$194,000 (December 31, 2017 - \$200,000).

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra Gold (British Columbia) Limited, a wholly-owned subsidiary of PanTerra Gold Limited, (“PanTerra”). PanTerra had a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment activities including metallurgical test work, drilling, detailed mine planning, tailings dam design, environmental permitting, and completion of a definitive feasibility study. In September 2016, PanTerra provided 30-day notice of its intent to withdraw from the first option of the agreement, which agreement was effectively terminated on October 22, 2016.

(ii) Windfall Hills:

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:

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.

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9. Mineral Property Interests (continued)

(a) Canada: (continued)

(iii) FG Gold: (continued)

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 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) 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.

(b) United States:

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

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9. Mineral Property Interests (continued)

(b) United States: (continued)

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 \$12,000 plus an option exercise payment of \$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 \$1 million. The Silver King property is a non-core asset in the Company’s Nevada property portfolio.

(c) Expenditure options:

As at September 30, 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 Payments (CAD\$000)	Cash Payments (US\$000)	Annual Payments (US\$000)	Number of Shares
New Polaris (Note 9(a)(i)):				
Net profit interest reduction or buydown	\$ -	\$ -	\$ -	150,000
Fondaway Canyon (Notes 7 and 9(b)):				
Advance royalty payment for buyout of 3% net smelter return ⁽¹⁾	-	-	35	-
Buyout provision for net smelter return of 2% ⁽²⁾	-	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	-	-
	\$ 1,000	\$ 2,500	\$ 35	150,000

⁽¹⁾ Advance royalty payments of \$355,000 remain payable as at September 30, 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.

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)

(d) 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.

(e) 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.

(f) 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 Improvements	Office Furnishings and Equipment	Total
Cost:			
Balance, December 31, 2016	\$ -	\$ 8	\$ 8
Acquisitions	90	31	121
Write-off	-	(8)	(8)
Balance, December 31, 2017	90	31	121
Acquisitions	-	1	1
Write-off	-	(2)	(2)
Foreign currency translation adjustment	(3)	(1)	(4)
Balance, September 30, 2018	87	29	116
Accumulated amortization:			
Balance, December 31, 2016	\$ -	\$ 7	\$ 7
Amortization	10	4	14
Write-off	-	(7)	(7)
Balance, December 31, 2017	10	4	14
Amortization	13	5	18
Write-off	-	(1)	(1)
Foreign currency translation adjustment	(1)	-	(1)
Balance, September 30, 2018	22	8	30
Net book value:			
Balance, December 31, 2017	\$ 80	\$ 27	\$ 107
Balance, September 30, 2018	\$ 65	\$ 21	\$ 86

11. Flow Through Premium Liability and Deferred Royalty Liability

(a) 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(c)).

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	(10)
Foreign currency translation adjustment	(3)
Balance, September 30, 2018	\$ 41

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11. Flow Through Premium Liability and Deferred Royalty Liability (continued)

(b) 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 15th of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out in full; an advance royalty payment of \$35,000 was made in July 2018. A balance of \$425,000 was outstanding upon the closing of the Membership Agreement. (Note 7).

	Deferred Royalty 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	23
Less:	
Advance royalty payment	(35)
Foreign currency translation adjustment	(1)
Balance, September 30, 2018	\$ 158

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) Normal course issuer bid:

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, 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 86,128 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. 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, all of which were cancelled in February 2018.

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12. Share Capital (continued)

(b) Normal course issuer bid: (continued)

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 September 2018, the Company purchased 208,000 shares for CAD\$17,400 with an average price of CAD\$0.06 per share; the shares were cancelled on September 28, 2018. Subsequent to September 30, 2018, a further 230,000 common shares for CAD\$9,430 were purchased at an average price of CAD\$0.04 per share; the cancellation of these shares will be completed in due course.

(c) Issued:

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. Funds of CAD\$337,000 remain for flow through purposes as at September 30, 2018.

(d) 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.

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12. Share Capital (continued)

(d) Stock option plan: (continued)

The continuity of outstanding stock options for the nine months ended September 30, 2018 is as follows:

	September 30, 2018	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	19,357,500	\$0.08
Granted	3,250,000	\$0.08
Forfeited	(1,012,500)	\$0.09
Cancelled and expired	(4,870,000)	\$0.08
Outstanding balance, end of period	16,725,000	\$0.08

The following table summarizes information about stock options exercisable and outstanding at September 30, 2018:

Exercise Prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number Outstanding at Sept 30, 2018	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)	Number Exercisable at Sept 30, 2018	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.10	2,600,000	0.79	\$0.10	2,600,000	0.79	\$0.10
\$0.06	4,200,000	2.19	\$0.06	4,200,000	2.19	\$0.06
\$0.08	3,900,000	2.77	\$0.08	3,900,000	2.77	\$0.08
\$0.10	2,275,000	3.67	\$0.10	1,762,500	3.67	\$0.10
\$0.09	500,000	3.95	\$0.09	375,000	3.95	\$0.09
\$0.08	3,250,000	4.74	\$0.08	650,000	4.74	\$0.08
	16,725,000	2.86	\$0.08	13,487,500	2.45	\$0.08

During the nine months ended September 30, 2018, the Company recognized share-based payments of \$86,000 (September 30, 2017 - \$310,000), 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:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Directors and officers	\$ 29	\$ 59	\$ 86	\$ 301
Employees	-	7	-	9
	\$ 29	\$ 66	\$ 86	\$ 310

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(d) Stock option plan: (continued)

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:

	September 30,	
	2018	2017
Number of stock options granted	3,250,000	3,600,000
Fair value of stock options granted (CAD\$)	\$0.04	\$0.08
Market price of shares on grant date (CAD\$)	\$0.06	\$0.10
Pre-vest forfeiture rate	16.59%	15.41%
Risk-free interest rate	2.02%	0.95%
Expected dividend yield	0%	0%
Expected stock price volatility	120.48%	133.87%
Expected option life in years	4.24	4.03

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

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 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 for a 5 year period, 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.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(e) Warrants:

At September 30, 2018, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2017	Issued	Exercised	Expired	Outstanding at September 30, 2018
\$0.10	July 31, 2018 ^{(1),(7)}	8,450,000	-	-	(8,450,000)	-
\$0.15	September 18, 2018 ⁽¹⁾	5,254,055	-	-	(5,254,055)	-
\$0.15	September 18, 2018 ^{(1),(2)}	661,718	-	-	(661,718)	-
\$0.15	October 3, 2018 ^{(1),(8)}	4,153,750	-	-	-	4,153,750
\$0.15	October 3, 2018 ^{(1),(3),(8)}	60,725	-	-	-	60,725
\$0.08	September 21, 2018	5,332,776	-	-	(5,332,776)	-
\$0.08	September 21, 2018 ⁽⁴⁾	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 ⁽⁵⁾	155,556	-	-	-	155,556
\$0.12	April 21, 2019 ⁽⁶⁾	250,000	-	-	-	250,000
		36,204,889	-	-	(20,235,060)	15,969,829

⁽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%.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(e) Warrants: (continued)

- (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.

(f) Common shares reserved for issuance as at September 30, 2018:

	Number of Shares
Stock options (Note 12(d))	16,725,000
Warrants (Note 12(e))	15,969,829
Common shares reserved for issuance	32,694,829

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

13. Corporate Development and General and Administrative

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Corporate Development:				
Geology and advisory	\$ -	\$ 2	\$ -	\$ 33
Legal and sundry	-	-	-	5
Travel and transportation	3	2	14	17
	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 14</u>	<u>\$ 55</u>
General and Administrative:				
Accounting and audit	\$ 1	\$ -	\$ (2)	\$ 1
Legal	11	1	28	12
Office and sundry	12	21	41	48
Regulatory	11	10	31	54
Rent	22	12	56	28
	<u>\$ 57</u>	<u>\$ 44</u>	<u>\$ 154</u>	<u>\$ 143</u>

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

(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 nine months ended September 30, 2018 and 2017:

	Nine months ended September 30,		Net balance receivable (payable)	
	2018	2017	September 30,	December 31,
			2018	2017
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 369	\$ 560	\$ -	\$ -
Severance	185	-	-	-
Directors fees	22	96	7	(2)
Share-based payments	86	301	-	-
	<u>\$ 662</u>	<u>\$ 957</u>	<u>\$ 7</u>	<u>\$ (2)</u>
Net office, sundry, rent and salary allocations recovered from (charged by) company(ies) sharing certain common director(s) ⁽²⁾	\$ 2	\$ (18)	\$ 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 AzMet which share a common director.

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

15. Segment Disclosures

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

	September 30, 2018			December 31, 2017		
	Canada	U.S.	Total	Canada	U.S.	Total
Mineral property interests	11,051	3,462	14,513	11,202	3,263	14,465
Equipment	86	-	86	107	-	107

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months ended September 30, 2018

(Unaudited – Prepared by Management)

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

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 September 30, 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:		
2018	\$	11
2019		46
2020		47
2021		48
2022		28
	\$	180

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 15th 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 September 30, 2018 in which \$35,000 was paid in July 2018. (Notes 7 and 11(b)).

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Bradford Cooke
Martin Burian
Deepak Malhotra
Scott Eldridge
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

**REGISTRAR AND
TRANSFER AGENT**

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SHARES LISTED

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



CANARC RESOURCE CORP.

Third Quarter Report

Management Discussion and Analysis

(expressed in United States dollars)

Three and Nine Months ended September 30, 2018

CANARC RESOURCE CORP.

(the “Company”)

Third Quarter Report

Management’s Discussion and Analysis For the Three and Nine Months ended September 30, 2018 (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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018, audited consolidated statement of financial position as at December 31, 2017 and 2016 and the consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the years ended December 31, 2017, 2016 and 2015, and a summary of significant accounting policies and other explanatory information, all of which are available at the SEDAR website at www.sedar.com.

Financial information in this MD&A is prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”) based upon the principles of 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 November 12, 2018 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 Three and Nine Months ended September 30, 2018

(expressed in United States dollars)

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).

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 15th 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 September 30, 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.
- **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.

CANARC RESOURCE CORP.

Management's Discussion and Analysis

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(expressed in United States dollars)

- **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 ¹ (t)	Grade (g/t) Au	Ounces ² (oz) Au	Type
Indicated	2,050,000	6.18	409,000	UG/Sulfide
Inferred	3,200,000	6.40	660,000	UG/Sulfide
¹ Resource based on cut-off of 1.8m horizontal width \geq 3.43 g/t ² 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/m³ 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.*
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.

CANARC RESOURCE CORP.

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(expressed in United States dollars)

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 1.8m, 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

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*".

A three dimensional study of all historic drill results is currently underway to help identify where to drill with the goal to expand the gold resources, after which a Phase 2 exploration program and budget will be developed for 2019.

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

CANARC RESOURCE CORP.

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(expressed in United States dollars)

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).

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.

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra Gold (British Columbia) Limited, a wholly-owned subsidiary of PanTerra Gold Limited, ("PanTerra"). PanTerra had a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment activities including metallurgical test work, drilling, detailed mine planning, tailings dam design, environmental permitting, and completion of a definitive feasibility study. In September 2016, PanTerra provided 30-day notice of its intent to withdraw from the first option of the agreement, which agreement was effectively terminated on October 22, 2016.

The Company is reviewing various processes for treating concentrates from drill core to produce gold dore bars at the New Polaris mine site to improve the economics and to possibly reduce certain risks to developing the project.

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

In 2007, the Company retained Moose Mountain Technical Services ("Moose Mountain") and Giroux Consultants Limited to update resource estimates for the New Polaris gold project. Their technical report entitled "Resource Potential, New Polaris Project" (the "New Polaris Resource Report") was authored by R.J. Morris, MSc, PGeo, and G.H. Giroux, MASc, PEng, respectively, who are independent Qualified Person as defined by NI 43-101, dated March 14, 2007, and was prepared in compliance with NI 43-101, to the best of the Company's knowledge. The New Polaris Resource Report is available at www.sedar.com.

Based upon the New Polaris Resource Report, measured and indicated undiluted resources range from 570,000 to 457,000 oz of gold contained in 1,670,000 to 1,009,000 tonnes (1,840,861 to 1,112,233 tons) of mineralized vein material grading 10.6 to 14.1 grams per tonne (0.31 to 0.41 oz per ton) using a range of cutoff grades from 2 to 8 gpt (0.06 to 0.23 opt). Greater than 95% of the measured and indicated resources are located within the C vein system where infill drilling programs were conducted.

Inferred undiluted resources range from 697,000 to 571,000 oz of gold contained in 2,060,000 to 1,340,000 tonnes (2,270,763 to 1,477,098 tons) of mineralized vein material grading 10.5 to 13.3 grams per tonne (0.31 to 0.39 oz per ton) using a range of cutoff grades from 2 to 8 gpt (0.06 to 0.23 opt). Approximately 75% of the inferred resources are also located within the C vein system, with the remainder attributable to the Y19 and Y20 veins.

MEASURED UNDILUTED RESOURCE

Cutoff Grade		Mineralized Tonnage		Average Grade		Contained Gold
<u>(g/tonne)</u>	<u>(oz/ton)*</u>	<u>(tonnes)</u>	<u>(tons)</u>	<u>(g/tonne)</u>	<u>(oz/ton)</u>	<u>Au (oz)</u>

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2	0.058	390,000	429,902	9.48	0.277	119,000
4	0.117	330,000	363,763	10.62	0.310	113,000
6	0.175	271,000	298,727	11.89	0.347	104,000
8	0.233	203,000	223,769	13.54	0.395	88,000

INDICATED UNDILUTED RESOURCE

Cutoff Grade		Mineralized Tonnage		Average Grade		Contained Gold
<u>(g/tonne)</u>	<u>(oz/ton)*</u>	<u>(tonnes)</u>	<u>(tons)</u>	<u>(g/tonne)</u>	<u>(oz/ton)</u>	<u>Au (oz)</u>
2	0.058	1,280,000	1,410,960	10.97	0.320	451,000
4	0.117	1,180,000	1,300,728	11.65	0.340	442,000
6	0.175	1,017,000	1,121,052	12.71	0.371	416,000
8	0.233	806,000	888,464	14.22	0.415	368,000

MEASURED PLUS INDICATED UNDILUTED RESOURCE

Cutoff Grade		Mineralized Tonnage		Average Grade		Contained Gold
<u>(g/tonne)</u>	<u>(oz/ton)*</u>	<u>(tonnes)</u>	<u>(tons)</u>	<u>(g/tonne)</u>	<u>(oz/ton)</u>	<u>Au (oz)</u>
2	0.058	1,670,000	1,840,861	10.62	0.310	570,000
4	0.117	1,510,000	1,664,491	11.42	0.333	555,000
6	0.175	1,288,000	1,419,778	12.54	0.366	519,000
8	0.233	1,009,000	1,112,233	14.08	0.411	457,000

INFERRED UNDILUTED RESOURCE

Cutoff Grade		Mineralized Tonnage		Average Grade		Contained Gold
<u>(g/tonne)</u>	<u>(oz/ton)*</u>	<u>(tonnes)</u>	<u>(tons)</u>	<u>(g/tonne)</u>	<u>(oz/ton)</u>	<u>Au (oz)</u>
2	0.058	2,060,000	2,270,763	10.5	0.307	697,000
4	0.117	1,925,000	2,121,951	11.0	0.322	683,000
6	0.175	1,628,000	1,794,564	12.2	0.354	636,000
8	0.233	1,340,000	1,477,098	13.3	0.387	571,000

* ton equals short dry ton

The resource estimate uses ordinary kriging of 192 drill holes and 1,432 gold assay intervals constrained within 4 main vein segments as modelled in three dimensions by the Company's geologists. The total New Polaris database consisted of 1,056 diamond drill holes with a total of 31,514 sample intervals. For this study, the classification for each resource block was a function of the semivariogram range. In general, blocks estimated using ¼ of the semivariogram range were classed as measured, blocks estimated using ½ the semivariogram range were classed as indicated and all other blocks estimated using the full semivariogram range were classed as inferred. A review of gold grade distribution outlined 6 overlapping lognormal gold populations within the resource database. On this basis, a total of 10 gold assays were capped at 63 g/t.

In April 2011, the Company completed a NI 43-101 preliminary economic assessment report by Moose Mountain for the New Polaris gold project (the "New Polaris Preliminary Economic Report"). The New Polaris Preliminary Economic Report is available at www.sedar.com.

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The New Polaris Preliminary Economic Report is based upon building and operating a 600 tonne per day gold mine, averaging 72,000 ounces gold per year. The parameters in the base case economic model includes a gold price of US\$1,200 per oz, CAD\$/US\$ foreign exchange rate of 1.00, cash costs of US\$481 per oz, and a cut-off grade 7 grams per tonne. The New Polaris Preliminary Economic Report for the New Polaris project results in an after-tax net present value of CAD\$129.8 million using a discount rate of 5%, an after-tax internal rate of return of 31.4%, and a pay-back period of 2.5 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 its conceptual nature, there is no certainty that the results of the New Polaris Preliminary Economic Report will be realized.

The base case mine model in the New Polaris Preliminary Economic Report is summarized below (stated in Canadian dollars):

Scheduled Resources	1,056,000 tonnes measured and indicated grading 11.7 gpt Au (after dilution) and 1,132,000 tonnes inferred grading 10.8 gpt Au (after dilution) and a 7 gpt cutoff
Production Rate	600 tonnes per day
Grade	11.3 grams per tonne (diluted 13%)
Recoveries	91% gold into concentrate
Average Output	72,000 oz gold per year
Mine life	10 years

The base case financial parameters are (in Canadian dollars):

Gold Price	US\$ 1200 per oz	
Exchange Rate	US\$ 1.00 = CA\$ 1.00	
Capital Cost	\$101.1 million	
Cash Cost	US\$ 481 per oz (excluding offsites)	
Cash Flow (LoM)	<u>Pre-Tax</u> \$280.8 million	<u>After-Tax</u> \$188.1 million
Net Present Value (NPV)		
NPV (5%)	\$197.2 million	\$129.8 million
NPV (8%)	\$160.0 million	\$103.7 million
NPV (10%)	\$139.3 million	\$ 89.0 million
Internal Rate of Return	<u>Pre-Tax</u> 38.1%	<u>After Tax</u> 31.4%
Payback Period	2.41 years	2.51 years

The net present values are life of mine net cash flows shown at various discount rates. The internal rates of return assume 100% equity financing. Cash costs include all site-related costs to produce a gold-sulphide concentrate but offsite costs for concentrate transportation and processing were treated as deductions against sales. The preferred processing alternative entails reducing the ore to a bulk gold-sulphide concentrate and shipping the concentrate to existing autoclave facilities in Nevada for the production of dore gold bars.

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:

New Polaris AFTER TAX CASH FLOW SENSITIVITY ANALYSIS			
Description of Sensitivity	Cash Flow	NPV @ 5%	NPV @ 8%

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	CAD\$ (000)s	CAD\$ (000)s	CAD\$ (000)s
Gold US\$1,000/oz -17%	\$104,287	\$63,920	\$45,788
Gold US\$1,100/oz -8%	\$146,197	\$96,981	\$74,907
Base Case US\$1,200/oz	\$188,107	\$129,819	\$103,707
Gold US\$1,300/oz +8%	\$230,017	\$162,657	\$132,507
Gold US\$1,400/oz +17%	\$271,927	\$195,347	\$161,090
Grade -10%	\$137,815	\$90,403	\$69,132
Grade -5%	\$162,961	\$110,116	\$86,427
Base Case Grade 11.25 gpt	\$188,107	\$129,819	\$103,707
Grade +5%	\$213,253	\$149,522	\$120,987
Grade +10%	\$238,399	\$169,225	\$138,267
Capital Cost -10%	\$193,775	\$135,816	\$109,850
Capital Cost -5%	\$190,941	\$132,817	\$106,778
Base Case \$101M Capital	\$188,107	\$129,819	\$103,707
Capital Cost +5%	\$185,273	\$126,821	\$100,635
Capital Cost +10%	\$182,440	\$123,822	\$97,564
Operating Cost -10%	\$208,383	\$145,818	\$117,799
Operating Cost -5%	\$198,245	\$137,819	\$110,753
Base Case	\$188,107	\$129,819	\$103,707
Operating Cost +5%	\$177,969	\$121,819	\$96,661
Operating Cost +10%	\$167,831	\$113,820	\$89,614
Exchange rate \$0.90 -10%	\$238,750	\$169,523	\$138,540
Exchange rate \$0.95 -5%	\$212,104	\$148,633	\$120,213
Base Case \$1.00	\$188,107	\$129,819	\$103,707
Exchange rate \$1.05 +5%	\$166,384	\$112,788	\$88,765
Exchange rate \$1.10 +10%	\$146,625	\$97,297	\$75,174

This New Polaris Preliminary Economic Report is based on resources, not reserves, and a portion of the modeled resources in the mine plan are in the inferred resource category. Given the inherent uncertainties of resources, especially inferred resources compared to reserves, the New Polaris gold project cannot yet be considered to have proven economic viability. However, the mine plan only takes into account approximately 80 % of the total estimated resources at a 7 gpt cut-off grade.

Readers are cautioned that the effective date of New Polaris Preliminary Economic Report is on April 10, 2011 (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 have significantly changed from the Effective Date, including a gold price of US\$1,200 per oz, CAD\$/US\$ foreign exchange rate of 1.00, cash costs of US\$481 per oz, and a cut-off grade 7 grams per tonne. 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.

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Jim Gray, P. Eng. is the QP that reviewed and approved the disclosure in this MD&A in connection with New Polaris Preliminary Economic Report.

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.

In June 2014, the Company received government permit for the drilling program which was mobilized in July 2014 and was financed by a flow-through financing of CAD\$400,000 which closed in July 2014. In 2014, the Company completed 3 holes and 1,149 metres of drilling that intersected an alteration zone anomalous in gold-silver.

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 September 2018, the Company conducted its exploration program which included reconnaissance stream sediment sampling, soil sampling, mapping, prospecting, airborne geophysics and machine trenching to better define drill targets, after which a Phase 2 exploration program and budget will be developed for 2019.

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

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- 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.

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, 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 will be at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company will 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 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	Amount
	(\$000s)
February 14, 2018 (received)	\$ 25
June 30, 2018 (received)	25
September 30, 2018	85
December 31, 2018	85
	<hr/>
	\$ 220

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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 September 2018, the Company purchased 208,000 shares for CAD\$17,400 with an average price of CAD\$0.06 per share; the shares were cancelled on September 28, 2018. Subsequent to September 30, 2018, a further 230,000 common shares for CAD\$9,430 were purchased at an average price of CAD\$0.04 per share; the cancellation of these shares will be completed in due course.

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.

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 for a 5 year period, 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.

1.3 Selected Annual Information

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

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(in \$000s except per share amounts)	Years ended December 31,		
	2017	2016	2015
Total revenues	\$ -	\$ -	\$ -
(Loss) Income before discontinued operations and extraordinary items:			
(i) Total	\$ (1,960)	\$ 1,965	\$ (927)
(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	\$ (5)
(ii) Basic per share	\$ -	\$ 0.02	\$ -
(iii) Fully diluted per share	\$ -	\$ 0.02	\$ -
Net (loss) earnings:			
(i) Total	\$ (1,960)	\$ 6,791	\$ (932)
(ii) Basic per share	\$ (0.01)	\$ 0.03	\$ (0.01)
(iii) Fully diluted per share	\$ (0.01)	\$ 0.03	\$ (0.01)
Total assets	\$ 19,763	\$ 19,708	\$ 11,941
Total long-term liabilities	\$ 106	\$ -	\$ 117
Dividends per share	\$ -	\$ -	\$ -

1.4 Results of Operations

Third Quarter of Fiscal 2018 – Nine months ended September 30, 2018 compared with September 30, 2017

The Company incurred a net loss of \$673,000 for the nine months ended September 30, 2018 which is significantly lower than the net loss of \$1.7 million for the same period in fiscal 2017, with the latter having commensurately higher operating expenses. Net loss was impacted by different functional expense items.

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.

Corporate development expenses were lower in the current period than in the prior comparative period. 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

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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.

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. 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. 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. In the second quarter of 2018, the departure of a senior officer resulted in the incurrence of severance pay which increased employee remuneration for the quarter.

Overall general and administrative expenses in the current quarter were higher than in comparative prior quarters but were affected by different expense segments. Audit fees were adjusted to account for lower than estimated cost for the 2017 audit. Legal fees were higher in the first quarter of 2018 due to the settlement with a debtor which owed \$220,000 to the Company which debt had been written off in 2014. A portion of legal fees is on a contingency basis as a percentage of cash received from the debtor; in February 2018, the debtor paid the first installment of \$25,000 and the second installment of \$25,000 in July 2018. 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 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 quarter of both comparable fiscal periods were similar. Rent has increased 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 the nine month period ended September 30, 2018 resulting in lower comparable expenses.

Share-based payments were higher in the second quarter of 2017, and the expense is reflective of the 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

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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.

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 earning 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 unless rate hikes continue in the future.

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 original buyout amount was \$600,000. Advance royalty payments of \$35,000 are due and payable by July 15th 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.

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 held for trading financial assets 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. Certain of the Company's shareholdings increased in fair values during the six months ended June 30, 2018 but was partially offset by an impairment of an investment, and then in the third quarter, the market prices of its marketable securities significantly fell resulting in the recognition of fair value losses; there were no dispositions of marketable securities in 2018.

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. The debtor paid \$25,000 to the Company in February 2018 and another \$25,000 in July 2018 and the receipt of \$85,000 due on September 30, 2018 is pending.

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.

As at September 30, 2018, the Company has mineral property interests which are comprised of the following:

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(\$000s)	British Columbia (Canada)			USA		Total
	New Polaris	Windfall Hills	FG Gold	Fondaway Canyon		
Acquisition Costs:						
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	7	-	-	3	-	10
Foreign currency translation adjustment	(5)	(12)	-	(67)	-	(84)
Balance, September 30, 2018	\$ 3,877	\$ 362	\$ -	\$ 2,109	\$ -	\$ 6,348
Deferred Exploration Expenditures:						
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	79	72	-	298	-	449
Foreign currency translation adjustment	(276)	(16)	-	(35)	-	(327)
Balance, September 30, 2018	\$ 6,234	\$ 578	\$ -	\$ 1,353	\$ -	\$ 8,165
Mineral property interests:						
Balance, December 31, 2017	\$ 10,306	\$ 896	\$ -	\$ 3,263	\$ -	\$ 14,465
Balance, September 30, 2018	10,111	940	-	3,462	-	14,513

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, September 30, 2018. All dollar amounts are expressed in U.S. dollars unless otherwise indicated.

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(in \$000s except per share amounts)	2018			2017				2016
	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Loss) income before discontinued operations and extraordinary items ⁽¹⁾ :								
(i) Total	\$ (300)	\$ (284)	\$ (89)	\$ (259)	\$ (496)	\$ (469)	\$ (736)	\$ (612)
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income (loss) from discontinued operations and extraordinary items ⁽²⁾ :								
(i) Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net (loss) income:								
(i) Total	\$ (300)	\$ (284)	\$ (89)	\$ (259)	\$ (496)	\$ (469)	\$ (736)	\$ (586)
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 18,376	\$ 18,621	\$ 19,118	\$ 19,763	\$ 20,147	\$ 19,643	\$ 19,145	\$ 19,708
Total long-term liabilities	\$ 123	\$ 151	\$ 143	\$ 136	\$ -	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) The Company recognized gains in marketable securities from the increases in the fair values of shares of Endeavour Silver Corp., a company sharing one common director, ("Endeavour") on the date of disposition of Endeavour shares and from increases in the fair values which increased from CAD\$3.99 per share on the closing date of the Purchase and Sale Agreement with Endeavour (the "Sale Transaction") to CAD\$4.75 per share on December 30, 2016.

(2) On May 27, 2016, the Company closed the Sale Agreement with Endeavour pursuant to which the Company sold to Endeavour 100% of its shares of Oro Silver Resources Ltd., which indirectly holds a 100% interest in the El Compas project in Zacatecas, Mexico, in consideration for 2,147,239 free-trading common shares of Endeavour, resulting in the recognition of a net income of \$4.8 million from discontinued operations in the Second Quarter of fiscal 2016.

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

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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:

(\$000s)	September 30, 2018	December 31, 2017
Cash	\$ 2,846	\$ 4,304
Working capital	3,657	4,944

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, or on such earlier date as the bid was complete. 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 will 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 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. Funds of CAD\$337,000 remain for flow through purposes as at September 30, 2018.

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:

Date	Amount (\$000s)
February 14, 2018 (received)	\$ 25
June 30, 2018 (received)	25
September 30, 2018	85
December 31, 2018	85
	\$ 220

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

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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 September 2018, the Company purchased 208,000 shares for CAD\$17,400 with an average price of CAD\$0.06 per share; the shares were cancelled on September 28, 2018. Subsequent to September 30, 2018, a further 230,000 common shares for CAD\$9,430 were purchased at an average price of CAD\$0.04 per share; the cancellation of these shares will be completed in due course.

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 September 30, 2018. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

At September 30, 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 Payments (CAD\$000)	Cash Payments (US\$000)	Annual Payments (US\$000)	Number of Shares
New Polaris:				
Net profit interest reduction or buydown	\$ -	\$ -	\$ -	150,000
Fondaway Canyon:				
Advance royalty payment for buyout of 3% net smelter return ⁽¹⁾	-	-	35	-
Buyout provision for net smelter return of 2% ⁽²⁾	-	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	-	-
	\$ 1,000	\$ 2,500	\$ 35	150,000

⁽¹⁾ Advance royalty payments of \$355,000 remain payable as at September 30, 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.

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 September 30, 2018:

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	Payments due by Period (CAD\$000)					Payments due by Period (US\$000)				
	Total	Less than	1-3 years	3-5 years	After 5 years	Total	Less than	1-3 years	3-5 years	After 5 years
		1 year					1 year			
Basic office lease	\$ 180	\$ 46	\$ 134	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advance royalty payments	-	-	-	-	-	355	35	105	105	110
Total	\$ 180	\$ 46	\$ 134	\$ -	\$ -	\$ 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 nine months ended September 30, 2018 and 2017:

(\$000s)	Nine months ended September 30,		Net balance receivable (payable)	
	September 30,		September 30,	December 31,
	2018	2017	2018	2017
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 369	\$ 560	\$ -	\$ -
Severance	185	-	-	-
Directors fees	22	96	7	(2)
Share-based payments	86	301	-	-
	<u>\$ 662</u>	<u>\$ 957</u>	<u>\$ 7</u>	<u>\$ (2)</u>
Net office, sundry, rent and salary allocations recovered from (charged by) company(ies) sharing certain common director(s) ⁽²⁾	\$ 2	\$ (18)	\$ 1	\$ 1

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- (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 Third Quarter

Items 1.2, 1.4, 1.5, 1.6 and 1.7 provide further details for the third 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 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 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

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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 did not early adopt any recent pronouncements as disclosed in Note 2(f) of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018.

1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as financial assets at fair value through profit or loss ("FVTPL"),
- marketable securities as held for trading financial assets at FVTPL,
- long term investments as available-for-sale ("AFS") financial assets,
- receivables as loans and receivables, and
- accounts payable and accrued liabilities, flow through premium liability and deferred royalty liability as other financial liabilities.

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.

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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 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 approximate 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 September 30, 2018, the Company had a working capital of \$3.7 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 2018.

The following schedule provides the contractual obligations related to the deferred royalty payments for the Fondaway Canyon project as at September 30, 2018:

	Payments due by Period (US\$000)				
	Total	Less than 1 year	1-3 years	3-5 years	After 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

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condensed consolidated interim 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 condensed consolidated interim 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	
	(Held in Canadian Dollars)	
	September 30, 2018	December 31, 2017
Cash	\$ 2,788	\$ 4,118
Marketable securities	706	787
Receivables	22	100
Accounts payable and accrued liabilities	(43)	(104)
Flow through premium liability	(41)	(54)
Net financial assets (liabilities)	\$ 3,432	\$ 4,847

Based upon the above net exposure as at September 30, 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 \$343,000 (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 investment in the shares of Aztec Metals Corp., a company sharing one common director.

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 September 30, 2018 and assuming all other variables remain constant, a net increase or decrease of 75% (December 31, 2017 - 60%) in the market prices of the underlying securities would increase or decrease respectively net loss by \$530,000 (December 31, 2017 - \$472,000).

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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. 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;
- (b) may be found in the Company's annual information form; and
- (c) is also provided in the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 and audited consolidated financial statements for the years ended December 31, 2017 and 2016.

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 nine months ended September 30, 2018 are as follows:

	Number of Shares	Amount (in \$000s)
Balance at December 31, 2017	218,779,144	\$ 66,328
Issued:		
Common share buy-back under normal course issuer bid	(294,000)	(14)
Balance at September 30, 2018	218,485,144	\$ 66,314

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, or on such earlier date as the bid is complete. The actual number of common shares purchased under the bid and the timing of any such purchases will be at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company will 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. 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.

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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 September 2018, the Company purchased 208,000 shares for CAD\$17,400 with an average price of CAD\$0.06 per share; the shares were cancelled on September 28, 2018. Subsequent to September 30, 2018, a further 230,000 common shares for CAD\$9,430 were purchased at an average price of CAD\$0.04 per share; the cancellation of these shares will be completed in due course.

At November 12, 2018, there were 218,255,144 common shares issued and outstanding, adjusted for the common shares which were purchased by the Company pursuant to its normal course issuer bid and which will be returned to treasury and cancelled in due course.

At September 30, 2018, the Company had outstanding stock options to purchase an aggregate 16,725,000 common shares as follows:

	September 30, 2018	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	19,357,500	\$0.08
Granted	3,250,000	\$0.08
Forfeited	(1,012,500)	\$0.09
Cancelled and expired	<u>(4,870,000)</u>	\$0.08
Outstanding balance, end of period	<u>16,725,000</u>	\$0.08

At November 12, 2018, stock options for 17,725,000 common shares remain outstanding of which 13,687,500 stock options are exercisable.

At September 30, 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 September 30, 2018
\$0.10	July 31, 2018 ^{(1), (7)}	8,450,000	-	-	(8,450,000)	-
\$0.15	September 18, 2018 ⁽¹⁾	5,254,055	-	-	(5,254,055)	-
\$0.15	September 18, 2018 ^{(1), (2)}	661,718	-	-	(661,718)	-
\$0.15	October 3, 2018 ^{(1), (8)}	4,153,750	-	-	-	4,153,750
\$0.15	October 3, 2018 ^{(1), (3), (8)}	60,725	-	-	-	60,725
\$0.08	September 21, 2018	5,332,776	-	-	(5,332,776)	-
\$0.08	September 21, 2018 ⁽⁴⁾	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 ⁽⁵⁾	155,556	-	-	-	155,556
\$0.12	April 21, 2019 ⁽⁶⁾	250,000	-	-	-	250,000
		36,204,889	-	-	(20,235,060)	15,969,829

- (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.

At November 12, 2018, warrants for 11,755,354 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 2018 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 March 14, 2007, 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

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

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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

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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 September 30, 2018, the Company had 218,485,144 common shares, and 16,725,000 outstanding share purchase options and 15,969,829 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 September 30, 2018, securities that could be dilutive represented approximately 15.0% of the Company's issued shares. None of these dilutive securities were exercisable at prices below the September 28, 2018 closing market price of CAD\$0.04 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 September 30, 2018, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 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.