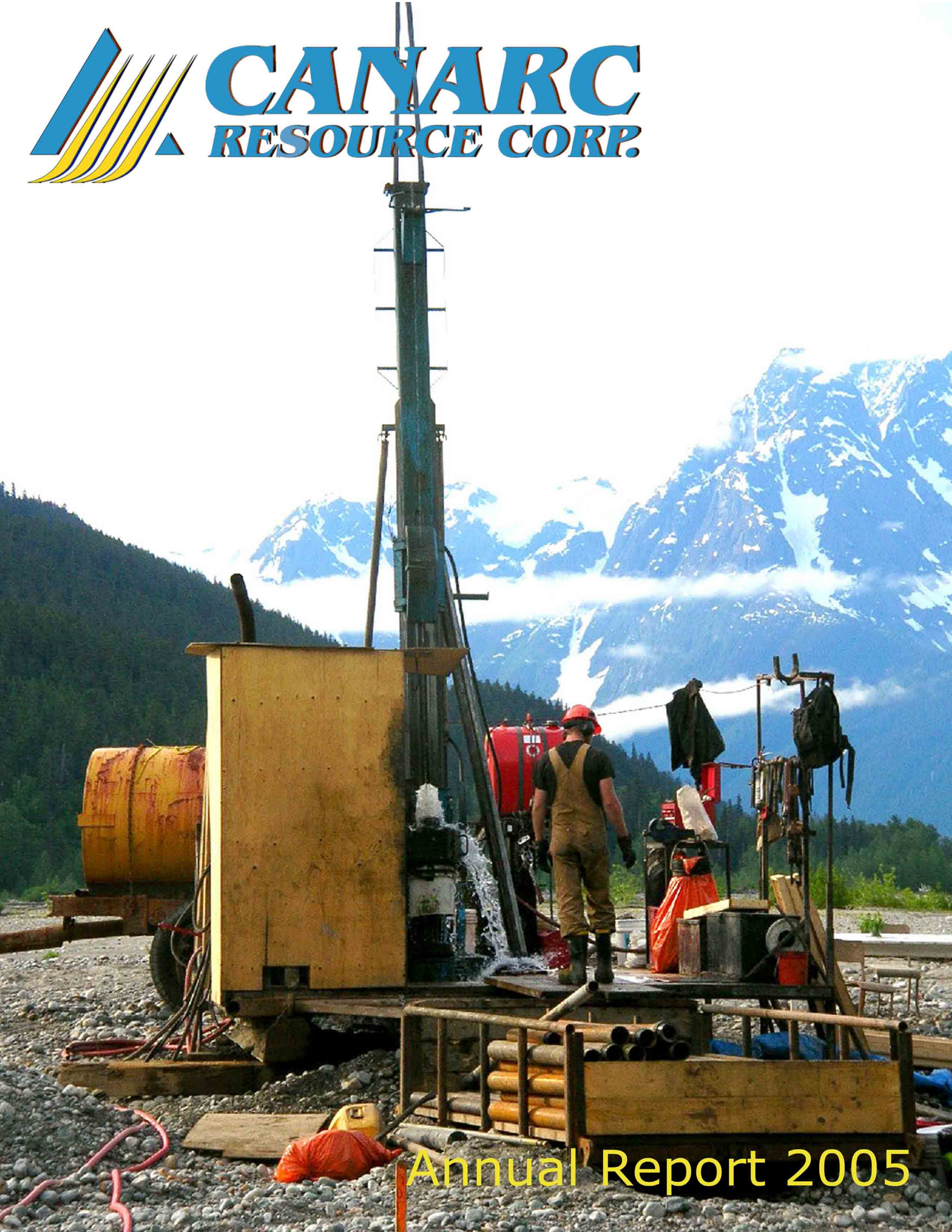
CANARC RESOURCE CORP.



Annual Report 2005

Highlights 2005

- **Phase 2, eight hole, infill drill program at New Polaris returned multiple high grade gold intercepts over robust core lengths (average 0.42 oz/ton over 22.2 ft or 14.4 gpt over 6.8 m).**

- **Optimized metallurgical testwork on New Polaris ores improved bulk flotation gold recovery to 96.6% and pressure leach extraction to 98.5% for a net optimal 95.1% gold recovery.**

- **Final drill results from Phase 3, thirteen hole, JQA drill program at Benzdorp included 395 ft at 0.033 oz/ton (120.4 m grading 1.14 gpt gold) in hole BZ04-42 and 840 ft at 0.016 oz/ton (256.0 m assaying 0.55 gpt gold) in hole BZ04-51.**

- **Preliminary metallurgical test work on JQA ores returned 80% gold and 57% copper recoveries into flotation concentrates and 100% gold recoveries from cyanide leaching of flotation tailings.**

- **The new 65,000 oz per year Bellavista gold mine in Costa Rica poured its first gold bars in June and owner-operator Glencairn Gold declared commer cial production in December.**

- **Canarc strengthened its Board with the appointment of William Price, recently retired Chairman, CEO and CIO of RCM Capital Management LLC and Global CIO of Allianz Global Investors AG, as a new Director.**

- **At year-end, the Company signaled its intent to accelerate growth by appointing Jack McClintock, previously global Exploration Manager for BHP Billiton (the world's largest mining company), as the new President and COO.**

- **In 2005, the Company enjoyed material capital gains on its shareholdings in Endeavour Silver Corp. and subsequent to year-end, saw a reduction of its holdings in affiliate Aztec Metals Corp. through a restructuring of that company.**

Corporate Profile

Canarc Resource Corp. (CCM: TSX and CRCUF: OTC-BB) is a growth-oriented gold exploration and mining company focused on the discovery and development of gold deposits in the Americas. The pre-feasibility program now underway on our principal asset, the New Polaris gold deposit, should facilitate the development of western Canada's next high grade gold mine.

Canarc stands out from other junior gold companies for its high gold grades (+14 gpt) at New Polaris and the diversified nature of its gold projects. The Company holds an 80% option on the extensive Benzdorp gold exploration project in Suriname as well as a royalty interest in the new Bellavista gold mine, Costa Rica.

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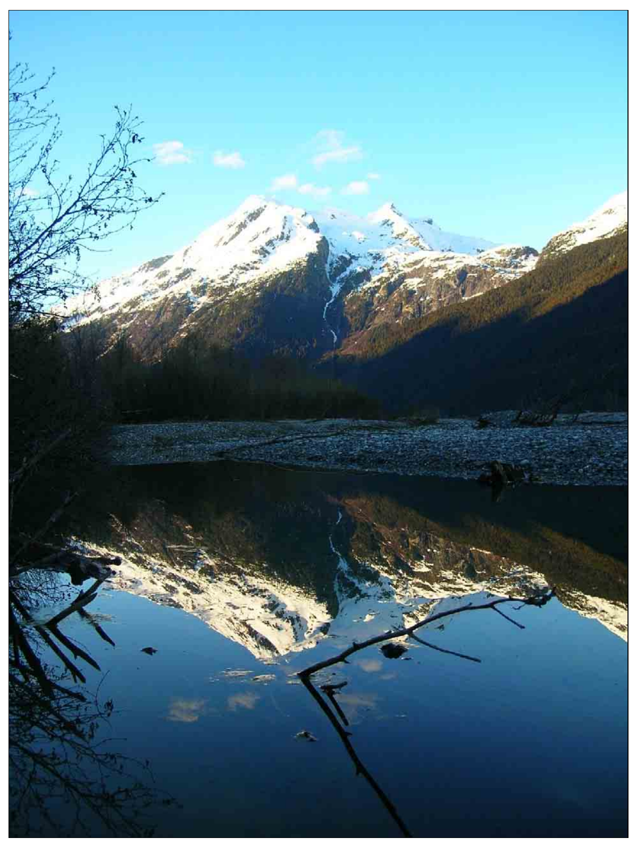


Letter to Shareholders

Dear Shareholders,

I am happy to report the progress we made in 2005 has quietly repositioned Canarc for a new phase of accelerated growth. The process of diligently moving our key projects forward and acquiring new quality assets should go long way towards increasing shareholder value. New Polaris in particular gives Canarc the opportunity to build Western Canada's next high grade gold mine.

Market Overview

After being range-bound between US$415 and US$455 for much of 2005, the gold price took off in the 4th quarter to close at a 25 year high of US$519 per oz, up 18% on the year. Having primarily tracked the devaluation of the US dollar over the first four years of this bull market, gold finally rose against all major currencies in 2005 due in part to sharply higher investment demand. Gold finally appears to be resuming its role as the currency of last resort in a world of ever-increasing political, social and economic instability.

Junior gold stocks rallied briefly early in the year, then sank into the doldrums of a 6 month correction before rising on a tide of sharply higher trading volumes through year-end. Similarly, Canarc's share prices also drifted lower for months before moving up sharply in the 4th quarter, closing at CA$0.58 per share price for a gain of 7% in 2005. The impetus for the recently escalating share prices came not only from the rising gold price but also from the numerous high grade gold drill intercepts in the recently completed, in-fill drilling program on the New Polaris property.

Review of 2005

Last year Canarc carried a 6-month program of grid preparation, soil sampling, airborne geophysics, core re-logging and geological compilation at its Benzdorp project in Suriname. Two large and exciting new gold prospects dubbed VHA and VHB were identified. The Company also started looking for a suitable industry partner to help Canarc realize Benzdorp's immense gold potential as quickly as possible.

At New Polaris, Canarc performed an eight hole Phase 2 in-fill drilling program. Robust drill results were announced in December and planning is now underway for a final, 65 hole, in-fill drilling program in order to advance the project towards feasibility and permitting. The Company also completed additional metallurgical testing and successfully increased the overall gold recoveries up to the 95% level by optimizing the grinding, flotation, autoclaving and leaching processes.

Last but not least, Glencairn Gold Corporation, the owner/operator of the new Bellavista gold mine in Costa Rica, declared commercial production in December. Canarc holds a net profit royalty interest independently valued at US$ 3.3 million, based on a US$425 gold price.

Outlook for 2006

With the appointment of Jack McClintock (most recently global Exploration Manager of BHP-Billiton) as the new President and COO on January 1, 2006 Canarc is clearly charting a more aggressive course to creating shareholder value. Management has set in a motion a three-pronged strategy for growth in 2006:

1. Complete the in-fill drilling needed at New Polaris to define a 600,000 oz, NI 43-101 compliant, measured and indicated resource (part of the 1.3 million oz historic resource, not compliant with NI 43-101 and should not be relied upon), finalize the conceptual mine plan, carry out an initial economic assessment and enter the mine permitting process for a 65,000 oz per year operation, potentially western Canada's next high grade gold mine.

2. Complete the exploration work needed at Benzdorp to attract an industry partner so the project can move forward without draining Canarc's treasury. Suriname is finally starting to attract other exploration and mining companies and Benzdorp has multiple gold prospects, either high grade or bulk tonnage, that hold significant exploration potential.

3. Complete at least one substantial new property acquisition to complement the compelling upside potential of New Polaris and Benzdorp. Management is aggressively pursuing new opportunities for growth in the gold sector.

At year-end, Canarc held about CA$3.1 million in cash and marketable securities, thanks in large part to the success of Canarc's affiliate, Endeavour Silver Corp. Canarc had an the opportunity to sell half its shareholdings in Endeavour last year but still holds about 2% of the outstanding Endeavour shares.

In the same way we were able to create value through re-activating Endeavour, management has identified some project opportunities for the re-activation of a dormant Canarc subsidiary, now called Aztec Metals. Aztec is currently pursuing attractive base metal properties with a view to going public and will follow the Endeavour model once it reaches "critical mass".

Canarc also recently transferred its interest in the Sara Kreek property to its partner in the project, Suriname Wylap Resource Company NV, in exchange for repayment of monies previously advanced for exploration of the property. Canarc will receive an immediate cash payment of US$400,000 and the greater of US$50,000 per year or a 1.5% gross royalty on annual gold production from the property over the next 6 years.

Management is of the opinion the gold price will continue to seek new highs in 2006. We appreciate the support of our many shareholders, and we look forward to a rewarding year of growth for the Company.

On Behalf of the Board of Directors

CANARC RESOURCE CORP.

Bradford J. Cooke March 20, 2006
Chairman and C.E.O.

New Polaris Gold Mine Project

Introduction

Canarc owns a 100% interest (subject to a 10% net profits royalty) in the New Polaris gold project, one of the largest, undeveloped, high grade gold deposits in western Canada. This 1196 hectare (2956 acre), past producing, gold mine property is located in B.C. about 60 km (40 miles) northeast of Juneau, Alaska and 100 km (60 miles) south of Atlin, BC on the west bank of the Tulsequah River.

The mine produced 231,000 oz gold from 1937 to 1951 and after lying dormant for 37 years, New Polaris sprang to life again as an exploration project in 1988. Canarc acquired control of the property in 1990 and by 1997, had drilled over 200 holes to successfully outline a 1.3 million ounce extension to the old mine, still open in several directions. This historic gold resource of 3.6 million tons grading 0.36 oz per ton (3.3 million tonnes grading 12.3 gpt) preceded NI 43-101, is not compliant with it and therefore should not be relied upon.

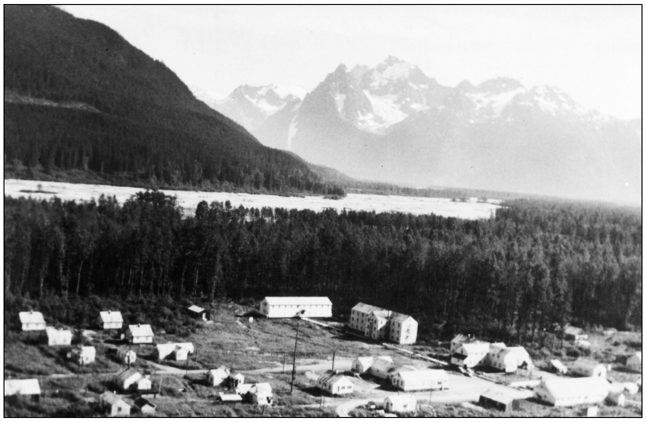
When the gold price slumped in 1997, Canarc put New Polaris on the back burner. Once the gold price started to rebound, the Company resumed work on the property with small infill drilling programs in 2003, 2004 and 2005. Because these recent drill results confirmed and slightly improved the previously estimated gold grades and vein widths, a final phase of infill drilling is planned for 2006 in order to establish an NI 43-101 compliant gold resource of 650,000 oz within 1200 feet (365 m) of surface that will serve as the basis for the conceptual mine plan, initial economic evaluation and mine permit application.

Canarc envisages building New Polaris into western Canada's next high grade gold mine by 2009. The base-case production scenario calls for output of at least 65,000 ounces gold per year over a minimum 9 year mine life at a production rate of 550 tons per day (500 tonnes per day). However, given the orogenic nature of the gold mineralization and the compelling deep drill hole results to date, this vein deposit could extend to great depths and potentially support many years of additional mine life.

New Polaris is located 100 km South of Atlin B.C.

British Columbia, Canada

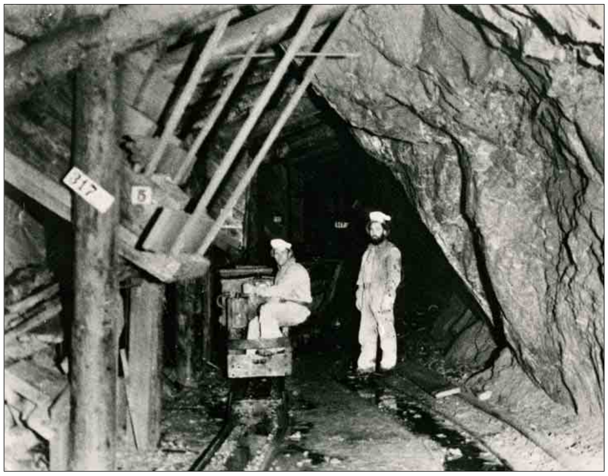
History



Prospectors making their way from Juneau to the Klondike goldfields in the Yukon Territory discovered gold in Whitewater Creek in 1929. The Polaris Taku mine as it was then called was built in 1936 and commissioned at 200 tons per day a year later. It operated for 5 years until war intervened in 1942 and then again from 1946 to 1951. A total of 231,000 oz of gold were produced from 760,000 tons of ore grading 0.35 oz/ton (689,000 tonnes grading 12.0 gpt). Gold ore was crushed to gravel size through primary and secondary crushers, ground to clay size in ball mills, and processed by flotation into sulphide concentrates which were barged to the smelter in Tacoma, WA for refining.

During its ten years of production, 51,825 feet of level development (10 levels) and 12,292 feet of raise development were completed underground at New Polaris. The deepest mine level #750 is 613 feet below sea level. An 821 foot deep internal shaft was used to haul ore up to the main access level for rail transport to the mill. Mining methods included long-hole and shrinkage.

In March, 1951, the first barge-load of gold concentrate sank off the coast of BC in a violent storm. The Polaris Taku mine then closed and the mill and townsite facilities were leased to Cominco, who owned the Tulsequah Chief and Big Bull polymetallic massive sulphide deposits located adjacent to Polaris Taku on the other side of the Tulsequah River. Cominco expanded the mill in 1952 and mined these deposits until 1957.

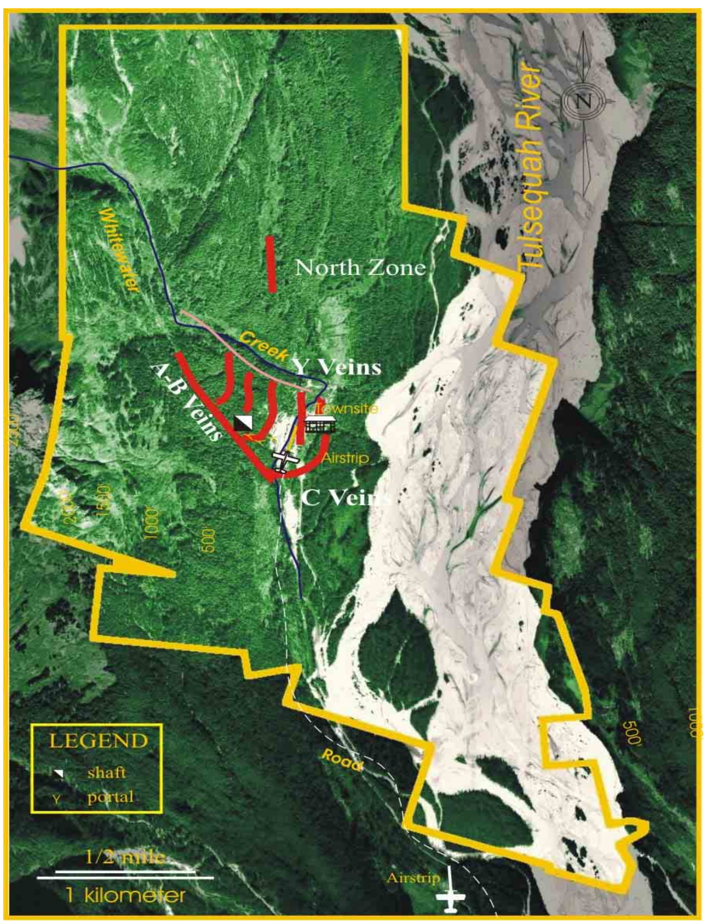


New Polaris lay dormant for 37 years until Suntac Minerals optioned the property from Rembrandt Gold Mines, the original mining company at Polaris Taku under its previous name, Polaris Gold Mines (Canada) Limited. Canarc financed and operated Suntac's drilling programs starting in 1989, merged with Suntac in 1992 and bought out Rembrandt's joint venture interest in 1994.

New Polaris Gold Mine Project

Mineralization

Gold mineralization at New Polaris is associated with disseminated arsenopyrite, pyrite, and stibnite within and surrounding quartz-carbonate veins and stockworks and their related carbonatized and sericitized alteration zones. Gold is occluded within the finely disseminated arsenopyrite that permeates the altered wall rocks and vein stockworks. Alteration consists of very fine-grained quartz, ferro-dolomite, calcite, sericite, fuchsite, and albite forming narrow envelopes around the veins and stockworks.



The AB, C and Y veins lie within the "mine wedge"

These mineralized and altered zones are developed along conjugate fault sets adjacent to a major crustal break, the Lewellyn Fault, within an area called the "mine wedge". Three major fracture sets are mineralized, as follows:

AB zones, trending northwest/southeast,

Y zones, trending north/south,

C zones, trending east/west

The C zones generally link the AB Zones with the Y Zones forming "junction arcs". Gold values within the mineralized zones show excellent continuity and uniformity with very little nugget effect. Individual zones pinch, swell, and overlap en echelon. Individual ore blocks in the old mine ranged in size up to 100,000 tons and in thickness up to 45 feet but averaging approximately 10 feet wide.

The gold mineralization is late Cretaceous to early Tertiary in age and mesothermal/orogenic in nature. Host rocks to the veins are deformed, late Paleozoic, island arc basaltic volcanics and related sediments. Limestones and serpentinites are also found within the mine wedge but the veins tend to diminish where they enter these rock types. The vein zones typically trend several hundred feet along strike and are wide open to depth within the mine wedge.

British Columbia, Canada

Resources, Metallurgy and Infrastructure

A total of 202 drill holes were used in 1997 to outline the previous geological resource of 3.6 million tons averaging 0.36 ounces per ton gold. This historic resource estimate precedes NI 43-101, is not compliant with it and should therefore not be relied upon. Infill drilling since 2003 has focused on defining the upper portions of the principal C vein at 100 foot centers. Upon completion of the final phase of infill drilling in 2006, a new, NI 43-101 compliant resource estimate will be prepared.

Historic gold recoveries averaged 90% and concentrate grades ranged from 3.5 to 5.0 ounces per ton gold. In the 1990's, Canarc performed preliminary metallurgical testwork that utilized flotation, cyanidation of the flotation tailings, and pressure oxidation (autoclaving) of the flotation concentrate in order to achieve 90% to 94% gold recoveries. Optimization work in 2004 focused on grinding and flotation to liberate and concentrate the sulfide minerals containing gold. By grinding the ore to 95% minus 200 mesh and then running it through 3 cycles of rougher flotation with conditioning, 96.6% of the gold reported to the final concentrate, which graded 2.7 oz per ton (92 gpt) gold.

This gold concentrate was then subjected to gold extraction by pressure oxidation.

Batch acid pressure oxidation (autoclave) tests achieved 100% oxidation of the sulphide minerals within 60 minutes, showing that New Polaris ores are very amenable to the autoclaving process. The oxidized concentrates were then treated by cyanide leaching to achieve a 98.5% rate of gold extraction within 24 hours from concentrate, for an over-all gold recovery of 95.1%.

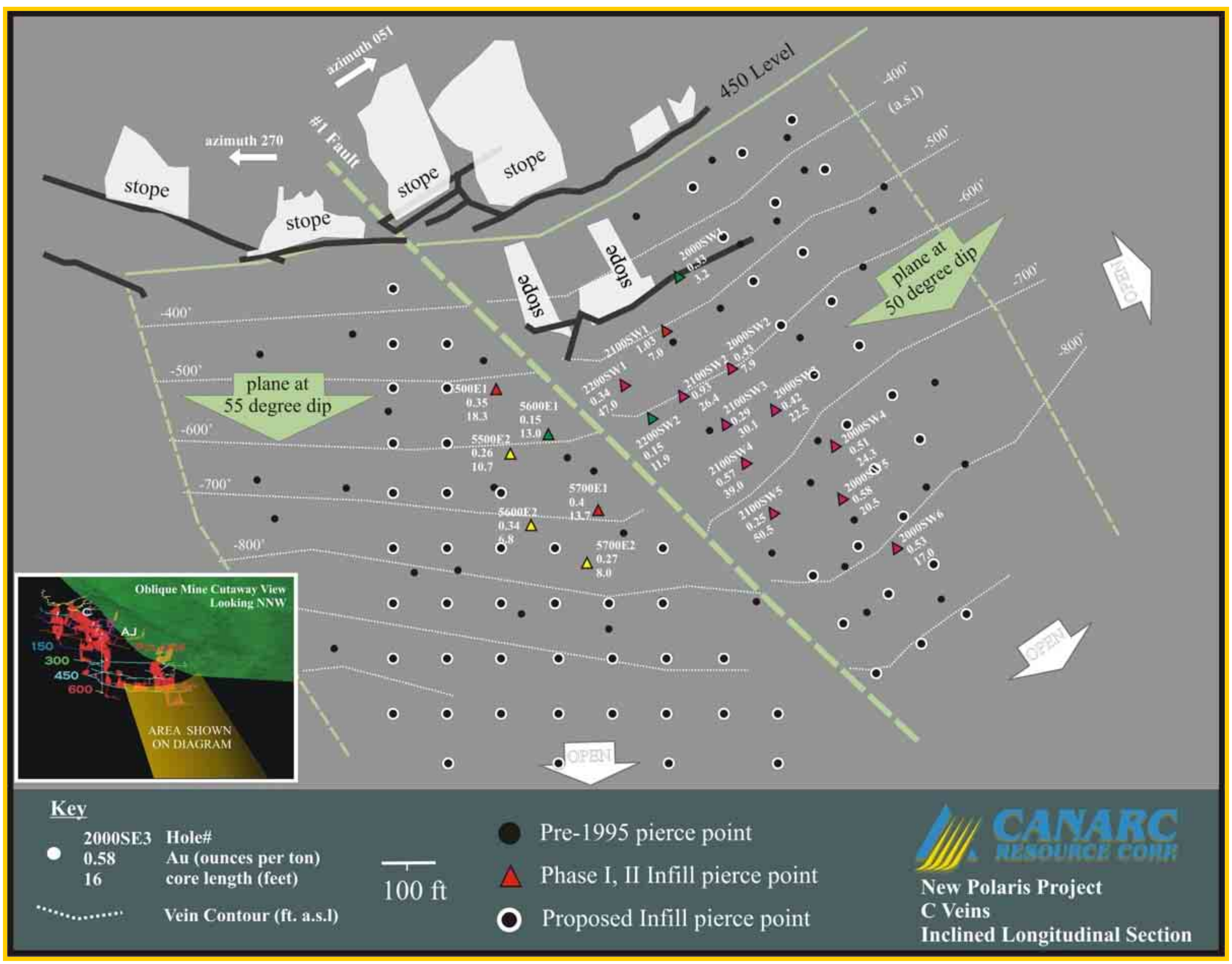
Cutting drill core for assay

In 1996, Canarc constructed a new, fully winterized office/bunkhouse complex at the New Polaris mine site so that the camp is now capable of supporting up to 35 people onsite. Several existing buildings were refurbished to serve as both sleeping quarters as well as the kitchen/dining facility. The machine shop was also upgraded to act as a maintenance facility.

New Polaris Gold Mine Project British Columbia, Canada

Plans

Subsequent to year-end, the company raised $3.5 million in financing for a 65 hole, 20,000 m, Phase 3 in-fill core drilling campaign to complete the detailed definition of an initial 600,000 oz gold resource suitable for a 9 year minimum mine life. Drilling will commence in the 2nd quarter, 2006 and should be completed by the end of the 3rd quarter so that a new resource estimate, conceptual mine plan, initial economic evaluation and mine permit application can be completed by year-end. The New Polaris project should then move to a full feasibility study and final permitting in 2007.



Targeting a 600,000 + oz, NI 43-101 compliant resource

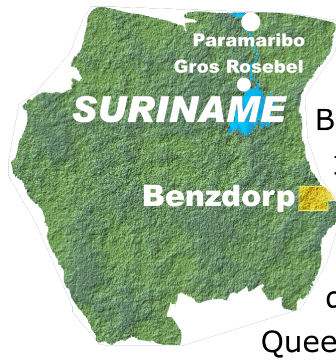
Benzdorp Gold Exploration Project Suriname, South America

Introduction

The Benzdorp gold project in southeastern Suriname covers one of the largest historic gold districts in the Guyana shield. Canarc holds operation with Grassalco, the state-owned mining company, to earn up to an 80% interest in the Benzdorp project. This huge 1,380 sq. km property, located 300 km south-east of Paramaribo, the capital city, encompasses the northern 20 km of the Benzdorp gold belt where past alluvial mine production has been estimated at over 1 million ounces of gold. There are currently more than 500 artisanal miners actively producing gold from almost every creek draining the Benzdorp district.

Canarc has already invested US$5 million on exploration at Benzdorp to identify numerous gold prospect areas. The most advanced prospect is the JQA discovery, a bulk tonnage, low grade porphyry gold-copper deposit that includes extensive, near surface gold mineralization in saprolite (soft clay like material). The JQA discovery area was tested by 51 drill holes and is still open for expansion in several directions. However, Canarc has explored less than half of the prospective greenstone belt on the Benzdorp property to date so the focus in 2006 will be to delineate additional gold prospect areas for further drilling.

History



Gold production was first recorded from Benzdorp in the late 1800's when English and Dutch companies exploited the alluvial deposits. The Jungle Queen dredge produced a lot of gold in the mid-1900's and can still be seen abandoned in Rufin Creek. The government and Grassalco carried out some initial soil sampling in the 1970's and 80's. In recent times, hundreds of small-scale miners have produced an estimated 10,000 oz of gold each year from the local creeks.

The property consists of four exploration and two exploitation concessions measuring 42 km by 31 km and is accessible by charter aircraft to the nearby Tabiki airstrip or by boat up to the Marowijne and Lawa Rivers, then by ATV on the property roads. Canarc has already acquired 40% of the shares of Benzdorp Gold NV, the local company formed by Canarc and Grassalco to own and operate the concessions, and once Canarc earns its 80% interest by completing a feasibility study, Grassalco's 20% shareholding gives it the right to either a 20% net profit interest (NPI) or a 3% net smelter interest.

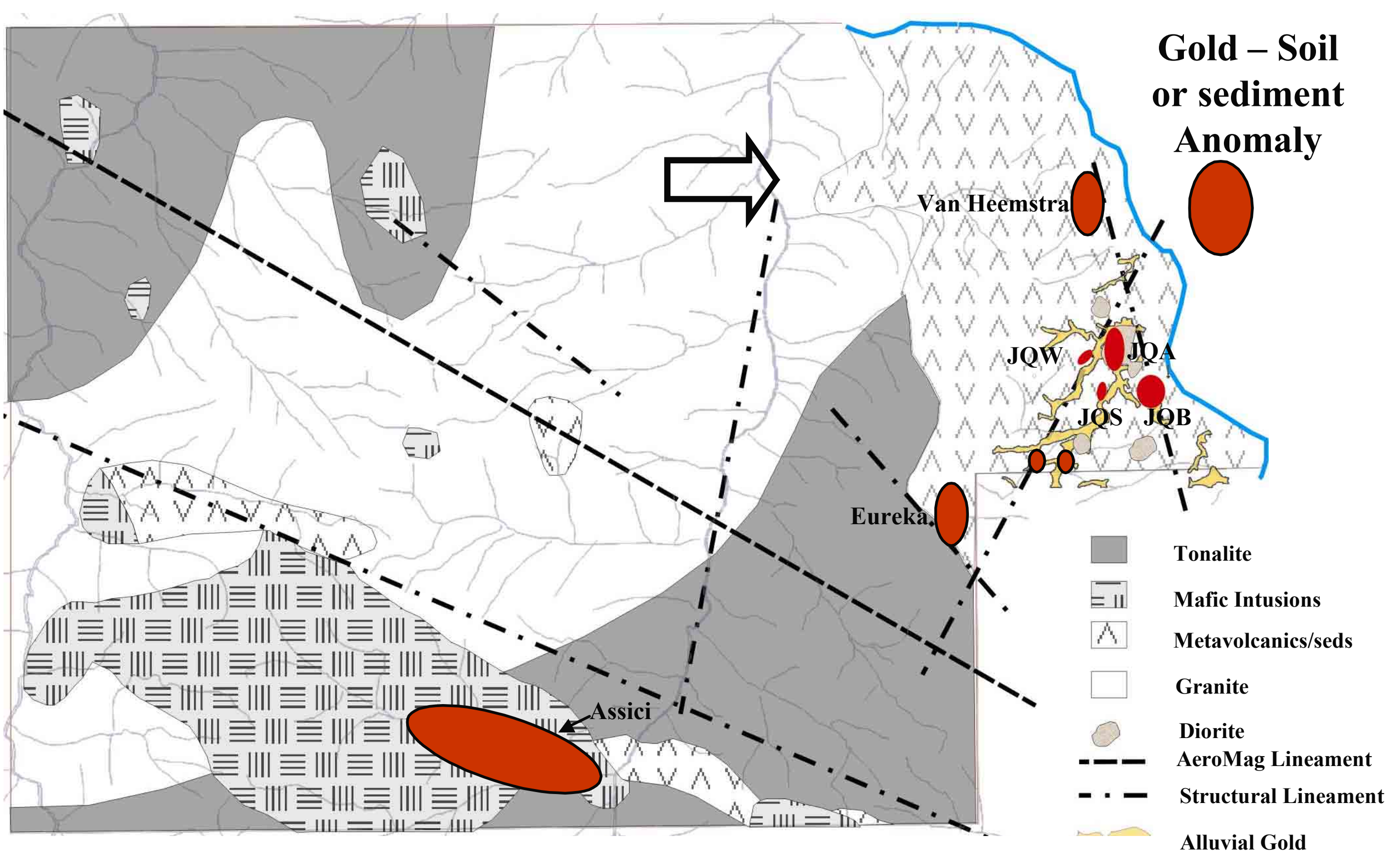
Benzdorp Gold Exploration Project

Mineralization

The Benzdorp property is underlain by a Lower Proterozoic greenstone belt of volcanic and sedimentary rocks intruded by large masses of granitoid plutons. Possible deposit types include shear-hosted gold similar to Cambior's Gros Rosebel deposit (73 million tonnes grading 1.37 g/t gold), porphyry-type gold like the 4 million oz. Omai gold deposit in Guyana and saprolite-hosted gold such as Kinross's Paracatu deposit (320 million tonnes averaging 0.47 g/t gold) in Brazil.

All of the known gold prospects occur in the eastern 20% of the property within the northwest-trending greenstone belt of metamorphosed basalt flows-tuffs and phyllitic greywackes-argillites. These rocks are intruded by several small syn-volcanic diorite bodies and dissected by northeast, north, and northwest-trending fault structures. Primary gold mineralization appears to be spatially related to both the diorite intrusions as well as some of the late faults.

To date, Canarc's exploration work has included over 100 km of grid lines, thousands of soil samples, hundreds of deep auger holes, dozens of surface trenches and 51 diamond drill holes. The main focus has been the JQA prospect area - (continued)



Targeting additional gold prospect areas

Suriname, South America

Bulldozer trench at JQA

Mineralization (cont.)

where a large low grade porphyry gold-copper discovery has been outlined. Final drill results from the Phase 3, thirteen hole, JQA drill program at Benzdorp in 2004 included 395 ft at 0.033 oz/ton (120.4 m grading 1.14 gpt gold) in hole BZ04-42 and 840 ft at 0.016 oz/ton (256.0 m assaying 0.55 gpt gold) in hole BZ04-51. Preliminary metallurgical test work on JQA ores returned 80% gold and 57% copper recoveries into flotation concentrates and 100% gold recoveries from cyanide leaching of flotation tailings.

Geochemical soil sampling by Canarc in 2005 identified several new gold prospect areas on the Van Heemstra Kreek grid at the north end of the greenstone belt. Two large new gold prospect areas were outlined, referred to as VHA and VHB. The VHA target is 650 meters long by up to 600 meters wide, and is possibly related to two separate quartz-sericite schist and quartz vein exposures, one of which assayed over 3 gpt gold in a grab sample.

The VHB target is 400 meters long by 200 meters wide, with peak values up to 1.7 gpt gold. Towards the south end of Benzdorp near the headwaters of Rufin Kreek, garimpeiro miners are mining two mineralized shear zones that lie only 2 km along strike to the north of the Haut Antino high grade gold prospect recently acquired by New Sleeper Gold Corporation. New Sleeper has reported high-grade gold values up to 30 gpt in channel samples at Haut Antino.

Plans

In the first half of 2006, an extensive grid-based soil-sampling program will examine another 30% of the prospective greenstone belt. Work will target the meta-sedimentary and meta-volcanic rocks that host the Haut Antino and Rufin prospect areas. Canarc will also complete an 1800 km high-resolution airborne magnetic and radiometric survey over the entire greenstone belt on the property in order to provide a high level of geological detail and assist in identifying the structures controlling gold mineralization.

Spot the diamond drill!

Bellavista Gold Mine

Introduction

Bellavista is a new open-pit, heap leach gold mine owned and operated by Glencairn Gold Corporation near the town of Miramar, Costa Rica, some 80 km west of the capitol city, San Jose. Canarc holds a royalty interest amounting to 5.7% of net profits during the 1st payback period, rising to 10.4% during the 2nd payback period and 20.2% of net profits thereafter.

Bellavista is expected to produce 60,000 oz gold per year, at a cash operating cost of US$257 per oz, over a minimum mine life of 7 years. Glencairn declared commercial production in December, 2005. Last year, an independent study placed a US$3.3 million net present value on Canarc's royalty interest in the Bellavista gold mine using a US$425 gold price and a 5% discount rate.

History

Gold has been produced from the property sporadically for more than 100 years. At the turn of the century, both the Bellavista and nearby Montezuma mines produced small tonnages of gold-silver ore from underground workings located on the property. Minera Rayrock acquired Bellavista in 1986 and spent more than $15 million acquiring surface rights, drilling the deposit and completing engineering studies. Wheaton River Minerals took over the project in 1997, and spent a further $10 million on definition drilling, feasibility studies, public relations and environmental permits.

Glencairn purchased the project from Wheaton River in October, 2002 and invested a further $35 million to update the feasibility study, construct the processing plant and put the mine into production. The new 60,000 oz per year Bellavista gold mine in Costa Rica poured its first gold bars in June and owner-operator Glencairn Gold declared commercial production in December. Canarc acquired its royalty interest through the acquisition of Rembrandt Gold Mines, a previous owner of both the Bellavista and New Polaris projects.

Costa Rica, Central America

Mine

Bellavista is an epithermal gold deposit hosted in Tertiary volcanic rocks where they are crosscut by a major structure, the Lizz fault zone. Gold is associated with iron-manganese oxides coating quartz-carbonate veins and stockworks, surrounded by minor quartz-sericite alteration zones. Minor disseminated pyrite is found with the veins in the deeper unoxidized portions of the orebody. Proven and probable ore reserves prior to production totaled 11.2 million tonnes grading 1.54 gpt gold, or 555,000 oz gold.

All ores are mined from one open pit and crushed to 80% minus ¼ inch. Higher-grade ore will be crushed to 80% minus 65 mesh and agglomerated with the lower grade ore prior to stacking on the heap leach pad. Gold recoveries are anticipated to be 78% over the 7.3 year minimum mine life and the strip ratio will average 1.3 tonnes of waste to 1 tonne of ore. Situated within an industrial free trade zone, the property enjoys access by paved road and is located close to the main power grid, the country's leading container port, and a major fuel supply terminal and a concrete plant.

Plans

Canarc intends to commission an update of the independent valuation at 2006 gold prices and then seek a buyer for this royalty interest so it can put the capital to work developing its other gold property assets.

Disclosure provided by Glencairn and not represent the company's.

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canarc Resource Corp. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada
March 17, 2006

Financial Statements

Years ended December 31, 2005, 2004 and 2003

CANARC RESOURCE CORP.

Consolidated Balance Sheets (expressed in thousands of United States dollars)

	December 31, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 489**	$ 715
Marketable securities (Note 3)	**899**	867
Receivables and prepaids	**48**	115
	1,436	1,697
NONCURRENT ASSETS		
Mineral properties (Note 4)	**9,658**	9,066
Equipment (Note 5)	**10**	14
Investment in affiliated company (Note 6)	**78**	-
	9,746	9,080
	$ 11,182	$ 10,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 235**	$ 273
Due to related party (Note 8)	**-**	118
	235	391
NON-CONTROLLING INTEREST IN SUBSIDIARY (Note 6)	**-**	84
SHAREHOLDERS' EQUITY		
Share capital (Note 7(a))	**49,150**	49,234
Contributed surplus (Note 7(b))	**1,502**	1,088
Deficit	**(39,705)**	(40,020)
	10,947	10,302
	$ 11,182	$ 10,777

Nature of operations (Note 1)
Commitments and contingencies (Note 4)
Subsequent events (Notes 7(a)(iii) and 7(c))

Refer to the accompanying notes to the consolidated financial statements.

Approved by the Directors:

/s/ Bradford Cooke — Director

/s/ Chris Theodoropoulos — Director

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

	Years ended December 31,		
	2005	2004	2003
Expenses:			
Amortization	**$ 4**	$ 5	$ 7
Corporate development	**8**	16	31
Employee and director remuneration (Note 8)	**137**	201	150
Foreign exchange (gain)	**(40)**	(42)	(177)
General and administrative	**317**	336	293
Shareholder relations	**113**	153	138
Share appreciation rights	**3**	-	-
Stock-based compensation (Note 7(c))	**432**	639	502
Travel	**7**	63	68
Income (loss) before the undernoted	**(981)**	(1,371)	(1,012)
Equity loss from investment in affiliated company	**(3)**	-	-
Gain on disposition of marketable securities	**1,225**	667	144
Gain on dilution from long term investment (Note 6)	**621**	-	-
Future income tax recovery (Note 7(a)(ii))	**143**	-	-
Investment and other income	**2**	13	18
Non-controlling interest	**22**	37	7
Write-down of marketable securities	**(2)**	(4)	(19)
Write-down of mineral properties	**(170)**	(3,143)	(14)
Write-off of debt due from affiliated company (Note 6)	**(542)**	-	-
Write-off of equipment	**-**	(212)	-
Income (loss) for the year	**315**	(4,013)	(876)
Deficit, beginning of the year	**(40,020)**	(36,007)	(35,131)
Deficit, end of the year	**$ (39,705)**	$ (40,020)	$ (36,007)
Basic and diluted earnings (loss) per share	**$ 0.01**	$ (0.07)	$ (0.02)
Weighted average number of shares outstanding	**58,518,229**	55,956,982	49,332,516

Refer to the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (expressed in thousands of United States dollars) 16

	Years ended December 31,		
	2005	2004	2003
Cash provided from (used for):			
Operations:			
Income (loss) for the year	**$ 315**	$ (4,013)	$ (876)
Items not involving cash:			
Amortization	**4**	5	7
Equity loss from investment in affiliated company	**3**	-	-
Gain on disposition of marketable securities	**(1,225)**	(667)	(144)
Gain on dilution from long term investment	**(621)**	-	-
Divestiture of long term investment in affiliated company	**(78)**	-	-
Future income tax recovery	**(143)**	-	-
Non-controlling interest	**(22)**	(37)	(7)
Share appreciation rights	**3**	-	-
Stock-based compensation	**432**	639	502
Unrealized currency translation gain	**(18)**	(66)	(55)
Write-down of marketable securities	**2**	4	19
Write-down of mineral properties	**170**	3,143	14
Write-off of debt due from affiliated company (Note 6)	**542**	-	-
Write-off of equipment	**-**	212	-
	(636)	(780)	(540)
Changes in non-cash working capital items:			
Receivables and prepaids	**67**	(79)	(10)
Due to/from related parties	**(118)**	149	(4)
Accounts payable and accrued liabilities	**(38)**	(65)	307
	(725)	(775)	(247)
Financing:			
Issuance of common shares	**41**	1,253	2,739
Investing:			
Proceeds from disposal of marketable securities	**2,009**	1,245	588
Acquisition of marketable securities	**(789)**	(1,190)	(217)
Mineral properties, net of recoveries	**(762)**	(1,720)	(1,155)
Purchase of equipment, net of proceeds of disposition	**-**	-	(21)
	458	(1,665)	(805)
(Decrease) increase in cash and cash equivalents	**(226)**	(1,187)	1,687
Cash and cash equivalents, beginning of year	**715**	1,902	215
Cash and cash equivalents, end of year	**$ 489**	$ 715	$ 1,902

Supplemental disclosure with respect to cash flows (Note 11).

Refer to the accompanying notes to the consolidated financial statements.

1. Nature of Operations

Canarc Resource Corp. (the "Company"), a company incorporated under the laws of British Columbia, is in the mineral exploration business and has not yet determined whether its mineral properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves in its mineral properties, the ability of the Company to arrange appropriate financing to complete the development of its properties, confirmation of the Company's interest in the underlying properties (Notes 4(e) and 4(f)), the receipt of necessary permitting and upon future profitable production or proceeds from the disposition thereof.

The Company has incurred significant operating losses and has an accumulated deficit of $39,704,767 at December 31, 2005. Furthermore, the Company has working capital of $1,201,000 as at December 31, 2005, which is not sufficient to achieve the Company's planned business objectives. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on the continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable. These 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.

2. Significant Accounting Policies

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company, its subsidiaries, all of which are wholly-owned except for:

- Sara Kreek Resource Corporation N.V., in which the Company holds an 80% interest;
- Aztec Metals Corp. (formerly, Minera Aztec Silver Corporation) ("Aztec"), in which the Company held a 63% interest as at December 31, 2004 and diluted its interest to 27% as at December 31, 2005 when its investment was accounted using the equity method (Note 6);
- Carib Industries Ltd., in which the Company holds a 78.5% interest; and
- its 40% owned investee, Benzdorp Gold N.V., which is proportionately consolidated.

All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term liquid investments having terms to maturity when acquired of three months or less. Short-term investments having terms to maturity when acquired of greater than three months and less than one year are included in marketable securities.

(c) Marketable securities:

Marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation. Share investments are carried at the lower of cost and quoted market value at the reporting date. Short-term deposits and other short-term investments are carried at the lower of cost plus accrued interest and quoted market value.

2. Significant Accounting Policies (continued)

(d) Mineral properties:

All costs related to investments in mineral properties 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 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.

The amounts shown for mineral properties represent costs incurred to date, less recoveries and write-downs, and are not intended to reflect present or future values.

(e) Equipment:

Equipment is recorded at cost and, for that equipment subject to amortization, the Company uses the declining balance method at rates varying from 20% to 30% annually. Amortization on equipment used directly on exploration projects is included in mineral properties.

(f) Investment in affiliated company:

Investment in shares of an affiliated company in which the Company's ownership is greater than 20% but no more than 50% is, where significant influence is present, accounted for by the equity method.

(g) Stock-based compensation plan:

The Company has a share option plan which is described in Note 7(c). The Company records all stock-based payments using the fair value method. Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged to operations over the vesting period. The offset is credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(h) Asset retirement obligations:

During the year ended December 31, 2004, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110 "*Asset Retirement Obligations*" ("HB 3110"). This new standard recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset.

Prior to the adoption of HB 3110, the Company had accounted for reclamation and closure costs by accruing an amount associated with the retirement of tangible long-lived assets as a charge to operations over the life of the asset. The Company adopted HB 3110 retroactively, resulting in no changes to amounts previously presented.

2. Significant Accounting Policies (continued)

(i) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

(j) Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the year. For all years presented, earnings (loss) available to common shareholders equals the reported earnings (loss). The Company uses the treasury stock method for calculating diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In the Company's case, diluted earnings (loss) per share presented is the same as basic earnings (loss) per share as the effect of outstanding options and warrants in the earnings (loss) per share calculation would be anti-dilutive.

(k) Foreign currency translation:

The Company uses the United States dollar as its reporting currency, and accounts denominated in currencies other than the United States dollar have been translated as follows:

- Revenue and expense items at the rate of exchange in effect on the transaction date;
- Non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the balance sheet date; and
- Monetary assets and liabilities at the exchange rate at the balance sheet date.

Exchange gains and losses are recorded in the statement of operations in the period in which they occur.

(l) Flow-through shares (EIC 146):

In March 2004, guidelines related to the accounting for flow-through shares were issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ("CICA") under EIC 146 *Flow-Through Shares*. EIC 146 requires the recognition of a provision at the date of the actual renunciation, by a reduction in the amount included in share capital relating to the flow-through shares, for the future income taxes related to the deductions foregone by the Company. EIC 146 is applicable on a prospective basis for flow-through share transactions after March 2004. The Company adopted EIC 146 on a prospective basis.

2. Significant Accounting Policies (continued)

(m) Use of estimates:

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to impairment of mineral properties, determination of reclamation obligations, valuation allowances for future income tax assets, and assumptions used in determining the fair value of non-cash stock-based compensation. Actual results could differ from those estimates.

(n) Fair value of financial instruments:

The fair values of the Company's cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. The fair value of marketable securities is disclosed in Note 3. It is not practicable to determine the fair value of amounts due to or from related parties due to their related party nature and the absence of a market for such instruments.

(o) Variable interest entities:

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants Accounting Guideline 15, "*Consolidation of Variable Interest Entities*" ("AcG15") on a prospective basis. AcG15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. The adoption of this new standard had no effect on the consolidated financial statements as the Company does not have any VIE's.

(p) Comparative figures:

Certain of the prior years' comparative figures have been reclassified to conform to the presentation adopted in the current year.

3. Marketable Securities

	2005	2004
Investment in shares of companies, at cost	$ 893	$ 1,081
Unrealized exchange foreign gains (cumulative write-downs)	6	(214)
	$ 899	$ 867

The quoted market value of shares of companies is approximately $2,469,562 at December 31, 2005 (2004 - $2,077,782).

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

3. Marketable Securities (continued)

Investment in shares of companies includes shares of Endeavour Silver Corp. ("Endeavour"), a company which has certain directors in common with the Company. At December 31, 2005, these shares had a cost of $850,038 (2004 - $873,944), a carrying value of $850,038 (2004 - $810,335) and a quoted market value of approximately $2,373,526 (2004 - $1,977,290). In 2005, the Company exercised 250,000 warrants of Endeavour with an exercise price of CAD $0.35 and an expiry date of October 6, 2005, and also exercised 200,000 warrants with an exercise price of CAD $2.00 and an expiry date of October 22, 2005. Endeavour's shares closed at CAD$2.69 on December 30, 2005.

4. Mineral Properties

	2005			2004		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
British Columbia:						
New Polaris (Note 4(a)(i))	$ 3,605	$ 1,229	$ 4,834	$ 3,605	$ 749	$ 4,354
Eskay Creek (Note 4(a)(ii))	-	-	-	188	14	202
Costa Rica:						
Bellavista (Note 4(b))	-	-	-	89	-	89
Suriname:						
Sara Kreek (Note 4(c)(i))	100	-	100	100	-	100
Benzdorp (Note 4(c)(ii))	301	4,423	4,724	301	3,983	4,284
Mexico:						
Sonia II (Notes 4(d) and 6)	-	-	-	10	19	29
Other	-	-	-	-	8	8
	$ 4,006	$ 5,652	$ 9,658	$ 4,293	$ 4,773	$ 9,066

(a) British Columbia:

(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. During fiscal 2001, the Company wrote-down the property by $3,187,104 to reflect management's estimate of the property's recoverable value at that time, and continued depressed gold markets contributed to further write-downs of $5,486,286 early in fiscal 2002. Acquisition costs at December 31, 2005 and 2004 include a reclamation bond for CAD$249,000.

4. **Mineral Properties** (continued)

(a) British Columbia: (continued)

(ii) Eskay Creek:

The Company owns a one-third carried interest in the Eskay Creek property, Skeena Mining Division, British Columbia, pursuant to a joint venture with Barrick Gold Corporation ("Barrick"). The property is subject to a 2% net smelter return in favour of a related company. In 2005, no exploration work was conducted on the property by Barrick. The Company has elected to write-off the associated property costs in 2005.

(b) Bellavista, Costa Rica:

The Company holds a net profit interest in the Bellavista property, which is located near San Jose, Costa Rica. A property agreement giving Glencairn Gold Corporation ("Glencairn") the right to earn a 100% working interest in the property calls for pre-production payments to be made to the Company in the amount of $117,750 annually up to and including the year commercial production commences. The pre-production payments for the years ended December 31, 2003 and 2002 were made by the previous property holder, Wheaton River Minerals Inc. ("Wheaton"), for cash of $58,875 and the issuance of 529,000 common shares of Wheaton. Glencairn paid the Company $120,546 in fiscal 2005. In December 2005, Glencairn achieved commercial production in its Bellavista mine.

The Company has a net profit interest in Bellavista in which the Company is entitled to 5.67% of the net profits during the first payback period, as defined, then increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter, once commercial production commences. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Glencairn until $317,741 in advance royalty payments are repaid.

(c) Suriname:

(i) Sara Kreek:

The Company holds 80% of the shares of Sara Kreek Resource Corporation N.V., the company that holds the Sara Kreek concession. The Company may be required to issue an additional 200,000 shares to the vendor upon completing a feasibility study and commencing commercial production of the underground deposits. During fiscal 2002, the Company wrote down the property by $1,717,000 to reflect management's estimate of the property's recoverable value, and in fiscal 2004, the property was further written down by $3,184,000 to a nominal $100,000 in accordance with Canadian generally accepted accounting principles. However, a loan to the vendor that was included in acquisition costs, with a principal balance of $400,000 plus accrued interest remains outstanding and continues to be owed to the Company. The write-down of the property for accounting purposes does not affect the Company's legal claim and right to recover the outstanding loan plus accrued interest owed to it, and the Company continues with its collection and settlement efforts.

4. Mineral Properties (continued)

(c) Suriname: (continued)

(ii) Benzdorp:

In April 1996, the Company entered into an option agreement with Grasshopper Aluminum Company N.V. ("Grassalco") to earn up to an 80% interest in the Benzdorp property by making cumulative cash payments of $750,000 and property expenditures totalling $5 million over a four-year period. In August 2002, the Company and Grassalco amended the option agreement. Cash payments prior to commercial production were reduced to $300,000 with the balance of $450,000 to be paid on or before 30 days after the commencement of commercial production, and exploration expenditures of $5 million were to be incurred by April 2005. In April 2005 a further amendment to the option agreement was made which extended the date, by which the property expenditures had to be completed, to December 6, 2005, subject to a payment of $40,000 which was made by the Company in April 2005. By December 6, 2005, the Company incurred property expenditures in excess of $5 million, which included a management fee of 10%, subject to acceptance and verification by Grassalco.

Pursuant to the amended option agreement, the Company will owe Grassalco an additional $250,000 payable on or before 30 days after the commencement of commercial production if a feasibility study has not been completed by October 6, 2005. For the years 2006 to 2008, the Company will owe an additional $250,000 payable on or before 30 days after the commencement of commercial production. However, if a feasibility study has not been completed by October 6, 2008, then the annual additional cash payments of $250,000 will increase at that time to $500,000 payable on or before 30 days after the commencement of commercial production. These additional cash payments will be treated as advance payments against Grassalco's shareholder ownership interest and will be deductible from Grassalco's net profit share or net smelter profit from exploiting the deposits. As at December 31, 2005, the Company did not complete a feasibility study.

The Company has earned a 40% interest in the Benzdorp property, and expects to exercise its right to increase its interest by making additional option payments (Note 4(e)). During fiscal 2004, Grassalco transferred the Benzdorp concessions to an incorporated company in which the Company owns 40% and Grassalco owns 60%.

(d) Mexico:

Sonia II:

In July 2004, Aztec entered into an option agreement to earn up to a 100% interest in the Sonia II property by making cumulative cash payments of $250,000 over a four-year period subject to financing, of which $30,000 has been paid. In 2005 the Company's interest in Aztec was diluted from 63% to 27% and its investment in Aztec is accounted for using the equity method as at December 31, 2005 (Note 6).

4. **Mineral Properties** (continued)

(e) Expenditure options:

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

	Option/Advance Royalty Payments	Expenditure Commitments	Shares
Benzdorp (Note 4(c)(ii)):			
On commercial production [(i)]	$ 450	$ -	-
Sara Kreek (Note 4(c)(i)):			
On commercial production	-	-	200,000
New Polaris (Note 4(a)(i)):			
Net profit interest reduction or buydown	-	-	150,000
	$ 450	$ -	350,000

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

(f) Mineral properties contingencies:

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

5. **Equipment**

	2005			2004			
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Write-Off	Net Book Value
Mining equipment	$ -	$ -	$ -	$ 177	$ -	$ 177	$ -
Vehicles	-	-	-	15	-	15	-
Office equipment	140	130	10	160	126	20	14
	$ 140	$ 130	$ 10	$ 352	$ 126	$ 212	$ 14

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

6. Investment in Affiliated Company

In 2005, the Company agreed to settle debts of CAD$100,000 owed by Aztec by the issuance of 1,000,000 units of Aztec at a deemed price of CAD$0.10 per unit. Each unit is comprised of one common share and one-half of a share purchase warrant with each whole warrant exercisable to acquire one common share at an exercise price of CAD $0.12 until November 25, 2006. The remaining debt of $542,051 owed by Aztec was written off.

In 2005, the Company's interest in Aztec was diluted from 63% to 27% due to a private placement which Aztec closed in November 2005, and in which the Company did not participate, and at which time the Company recognized a dilution gain of $621,390. Prior to the dilution, the Company consolidated its financial statements with Aztec whereas subsequent to the dilution the Company's investment in Aztec is accounted for using the equity method.

7. Share Capital

(a) Authorized and issued:

In 2005, the Company increased its authorized share capital from 100,000,000 common shares without par value to unlimited common shares without par value.

The Company's issued share capital is as follows:

	Number of Shares	Amount
Balance at December 31, 2002	47,159,444	$ 45,125
Issued:		
Private placements (Note 7(a)(i))	4,697,500	2,639
Exercise of warrants (Note 7(d))	615,000	92
Exercise of options (Note 7(c))	60,000	9
Exercise of share appreciation rights	526,504	41
Balance at December 31, 2003	53,058,448	47,906
Issued:		
Private placements (Note 7(a)(ii))	810,000	372
Exercise of warrants (Note 7(d))	4,090,000	786
Exercise of options (Note 7(c))	360,000	170
Balance at December 31, 2004	58,318,448	49,234
Issued:		
Exercise of options (Note 7(c))	220,000	56
Exercise of share appreciation rights	6,667	3
Provision for flow-through shares (Note 7(a)(ii))	-	(143)
Balance at December 31, 2005	58,545,115	$ 49,150

Common shares issued for consideration other than cash are recorded at the quoted market value of the shares as of the agreement date, except in the case of common shares issued on exercise of stock options and share appreciation rights under the Company's stock option plan, which include the fair value of related options or rights previously allocated to contributed surplus.

7. Share Capital (continued)

(a) Authorized and issued: (continued)

(i) In March 2003, the Company closed a private placement for 1,250,000 units at CAD$0.52 per unit for gross proceeds of CAD$650,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at CAD $0.63 until February 4, 2005 (Note 7(d)).

In November 2003, the Company closed two private placements. One private placement was for 250,000 units at CAD$1.05 per unit for gross proceeds of CAD$262,500. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at CAD$1.25 until November 13, 2005 (Note 7(d)). A finder's fee of 17,500 units was issued, with each unit comprised of one non-flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at CAD$1.25 until November 13, 2005 (Note 7(d)). The finder's fee has been shown on a net basis in share capital. These funds were expended in 2003. The second private placement was for 3,080,000 units at CAD$0.90 per unit for gross proceeds of CAD$2,772,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at CAD$1.10 until November 13, 2005 (Note 7(d)).

In December 2003, the Company closed a private placement for 100,000 units at CAD$1.05 per unit for gross proceeds of CAD$105,000. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at CAD$1.25 until December 30, 2005 (Note 7(d)). These funds were expended in 2004.

(ii) In October 2004, the Company closed a private placement for 750,000 flow-through common shares at CAD$0.65 per share for total proceeds of CAD$487,500, which were expended in 2004. A finder's fee of 60,000 non-flow-through common shares was issued and has been shown on a net basis in share capital.

In February 2005, the Company renounced CAD$487,500 in exploration expenditures from the proceeds of this flow-through private placement, resulting in an income tax recovery of $143,321.

(iii) In March 2006, the Company closed brokered and non-brokered private placements. The brokered private placement with Dundee Securities Corporation (the "Agent") was for 3,850,000 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$3,157,000. Agent's fees of CAD$189,420 were comprised of CAD$123,123 in cash and CAD$66,297 in non-flow-through common shares, totalling 80,850 shares, at a deemed price of CAD$0.82 per share. The Agent also received a compensation warrant exercisable for 231,000 non-flow-through common shares at an exercise price of CAD$0.82 and with an expiry date of March 17, 2007.

The non-brokered private placement was for 449,511 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$368,599. Finders' fees totalling CAD$20,316 were paid.

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

7. Share Capital (continued)

(b) Contributed surplus:

Balance at December 31, 2003	$	524
Changes during the year:		
Exercise of options		(75)
Fair value of stock options recognized		639
Balance at December 31, 2004		1,088
Changes during the year:		
Exercise of options		(18)
Fair value of stock options recognized		432
Balance at December 31, 2005	$	1,502

(c) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, directors and consultants to acquire up to 18,374,095 common shares, of which options for 6,984,000 common shares are outstanding as at December 31, 2005. The exercise price of each option equals the high/low average price for the common shares on the Toronto Stock Exchange based on the last five trading days before the date of the grant. 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 options is made at the discretion of the Board at the time the options are granted. At the discretion of the Board, certain 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 options.

The continuity of stock options for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005		2004		2003	
	Number of Shares	Weighted average exercise price (CAD$)	Number of Shares	Weighted average exercise price (CAD$)	Number of Shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	5,649,000	$0.57	4,509,000	$0.47	3,629,000	$0.39
Granted	2,395,000	$0.36	1,500,000	$0.82	1,730,000	$0.54
Exercised	(220,000)	$0.19	(360,000)	$0.34	(60,000)	$0.20
Converted to stock appreciation rights on exercise	(20,000)	$0.34	-	-	(790,000)	$0.25
Expired	(820,000)	$0.70	-	-	-	-
Outstanding, end of year	6,984,000	$0.50	5,649,000	$0.57	4,509,000	$0.47
Exercise price range (CAD$)	$0.17 - $1.00		$0.17 - $1.05		$0.17 - $1.05	

7. Share Capital (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding and Exercisable		
Price Intervals (CAD$)	Number Outstanding and Exercisable at December 31, 2005	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD$)
$0.01 - $0.24	80,000	1.1	$0.17
$0.25 - $0.49	3,569,000	4.4	$0.33
$0.50 - $0.74	2,609,500	2.4	$0.60
$0.75 - $0.99	185,500	1.7	$0.87
$1.00 - $1.24	540,000	3.2	$1.00
	6,984,000	3.5	$0.50

At December 31, 2005, 6,984,000 options are exercisable and expire at various dates from January 16, 2007 to December 5, 2010, with a weighted average remaining life of 3.5 years. During the year ended December 31, 2005, the Company recognized stock-based compensation of $432,424 (2004 - $638,808 and 2003 - $502,000) based on the fair value of options granted on or after January 1, 2003 that were earned by the provision of services during the year.

In February 2006, the Company granted 50,000 options with an exercise price of CAD$0.67 and an expiry date of February 13, 2008.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The fair value of stock options granted and the assumptions used to calculate compensation expense are estimated using the Black-Scholes Option Pricing Model as follows:

	2005	2004	2003
Fair value of options granted during the year	$0.18	$0.43	$0.29
Risk-free interest rate	2.25%	2.90%	3.49%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	87%	94%	89%
Expected option life in years	4	4	4

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

7. **Share Capital** (continued)

(d) Warrants:

At December 31, 2005, the Company had no outstanding warrants as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2004	Issued	Exercised	Expired	Oustanding at December 31, 2005
$0.63	February 4, 2005	625,000	-	-	(625,000)	-
$1.25	November 13, 2005	133,750	-	-	(133,750)	-
$1.10	November 13, 2005	1,540,000	-	-	(1,540,000)	-
$1.25	December 30, 2005	50,000	-	-	(50,000)	-
		2,348,750	-	-	(2,348,750)	-

At December 31, 2004, the Company had outstanding warrants to purchase an aggregate 2,348,750 common shares as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2003	Issued	Exercised	Expired	Oustanding at December 31, 2004
$0.20	May 17, 2004	3,000,000	-	(3,000,000)	-	-
$0.21	April 8, 2004	465,000	-	(465,000)	-	-
$0.50	September 10, 2004	625,000	-	(625,000)	-	-
$0.63	February 4, 2005	625,000	-	-	-	625,000
$1.25	November 13, 2005	133,750	-	-	-	133,750
$1.10	November 13, 2005	1,540,000	-	-	-	1,540,000
$1.25	December 30, 2005	50,000	-	-	-	50,000
		6,438,750	-	(4,090,000)	-	2,348,750

7. **Share Capital** (continued)

(d) Warrants: (continued)

At December 31, 2003, the Company had outstanding warrants to purchase an aggregate 6,438,750 common shares as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2002	Issued	Exercised	Expired	Oustanding at December 31, 2003
$0.20	May 17, 2004	3,000,000	-	-	-	3,000,000
$0.21	April 8, 2004	1,080,000	-	(615,000)	-	465,000
$0.50	September 10, 2004	625,000	-	-	-	625,000
$0.63	February 4, 2005	-	625,000	-	-	625,000
$1.25	November 13, 2005	-	133,750	-	-	133,750
$1.10	November 13, 2005	-	1,540,000	-	-	1,540,000
$1.25	December 30, 2005	-	50,000	-	-	50,000
		4,705,000	2,348,750	(615,000)	-	6,438,750

(e) Shares reserved for issuance:

	Number of Shares
Outstanding, December 31, 2005	58,545,115
Property agreements (Note 4(e))	350,000
Stock options (Note 7(c))	6,984,000
Fully diluted, December 31, 2005	65,879,115

(f) Shareholder rights plan:

On May 31, 2005, the shareholders of the Company approved a shareholder rights plan (the "Plan"), that became effective on April 30, 2005. The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain "Acquiring Persons" (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire on April 30, 2015.

8. Related Party Transactions

At December 31, 2004, amounts due from a related party comprise of balances owed from a company with certain common directors. The amounts were for reimbursement of costs in the normal course of business and for out-of-pocket property expenditures. At December 31, 2004, the Company had a balance due to Endeavour of CAD $142,476.

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

General and administrative costs during 2005 include CAD$Nil (2004 – CAD$Nil and 2003 – CAD$60,000) of consulting fees charged by a company controlled by a director of the Company, and CAD$59,385 (2004 - CAD$86,438 and 2003 - CAD$90,000) of salaries paid to a director. In fiscal 2005, the Company paid a total of CAD$40,000 (2004 - CAD$34,500 and 2003 - CAD$Nil) to all directors in their capacity as Directors of the Company.

In April 2004, the Company participated in a private placement for 400,000 units of Endeavour at CAD$1.60 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at an exercise price of CAD$2.00 until October 22, 2005. The Company exercised these warrants in 2005 (Note 3).

In November 2003, the Company participated in a private placement for 500,000 units of Endeavour at CAD$0.30 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at CAD$0.35 until October 6, 2005. The Company exercised these warrants in 2005 (Note 3).

Details of transactions with Aztec are provided in Note 6.

9. Segment Disclosures

The Company has one operating segment, being mineral exploration, and substantially all assets of the Company are located in Canada except for certain mineral properties as disclosed in Note 4.

10. Income Taxes

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2005	2004	2003
Canadian statutory tax rates	34.12%	35.62%	37.62%
Income tax benefit computed at Canadian statutory rates	$ (108)	$ 1,421	$ 336
Foreign tax rates different from statutory rate	(143)	588	(2)
Temporary differences not recognized in year	(71)	(1,786)	(15)
Permanent differences	330	(209)	(109)
Unrecognized tax losses	(8)	(14)	(210)
	$ -	$ -	$ -

10. Income Taxes (continued)

The Company's effective tax rate is different from the statutory tax rate due to non-tax deductible stock-based compensation expense, and non taxable items such as income tax recovery and gain on dilution of affiliated company, and non-taxable portion of capital gains.

The significant components of the Company's future income tax assets as at December 31, 2005 and 2004 are as fol lows:

	2005	2004
Future income tax assets:		
Non-capital losses carried forward	$ 936	$ 1,318
Capital losses carried forward	27	28
Resource properties	2,356	2,564
Equipment	368	390
	3,687	4,300
Valuation allowance	(3,687)	(4,300)
Future income tax assets, net	$ -	$ -

At December 31, 2005, the Company has non-capital losses for Canadian tax purposes of approximately $2,744,000 which expire on various dates to 2012, and Canadian capital losses of approximately $158,000 which are without expiry.

11. Supplemental Disclosure with respect to Cash Flows

	2005	2004	2003
Non-cash financing and investing activities:			
Settlement of accounts payable with marketable securities	$ -	$ -	$ -
Fair value of stock options allocated to shares issued on exercise of:			
Share appreciation rights	3	-	41
Stock options	18	75	1
Supplemental cash flow information:			
Income taxes paid	$ -	$ -	$ -
Interest paid	-	-	-

Management's Discussion and Analysis

For the Year Ended December 31, 2005, (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, 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.

1.0 Preliminary Information

The following Management's Discussion and Analysis ("MD&A") of Canarc Resource Corp. (the "Company") should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, all of which are available at the SEDAR website at www.sedar.com.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles ("CAD GAAP"), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of March 22, 2006 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 in Canada, Costa Rica and Suriname. The Company owns or holds, directly or indirectly, interests in four precious metal properties, known as the New Polaris property in British Columbia, Canada, the Bellavista property in Costa Rica, and the Sara Kreek and Benzdorp properties in Suriname.

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

The Company holds a 5.7% to 20.2% net profit interest in the Bellavista property, located near Miramar, Costa Rica. Glencairn Gold Corporation ("Glencairn") owns a 100% working interest in the property, and recently completed construction of a 60,000 ounce gold per year, open pit, heap leach, gold mine which is now in commercial production. The Company has a net profit interest in Bellavista which entitles the Company to 5.67% of the net profits during the first payback period, increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Glencairn until $317,741 in advance royalty payments are repaid.

The Company holds 80% of the shares of Sara Kreek Resource Corporation N.V., the company that holds the Sara Kreek concession in the Republic of Suriname. The Company owns a 100% interest (subject to royalties) in the subsurface mineral rights and 80% interest (reverting to 50% after payback of the Company's investment) in the surface mineral rights. The Company may be required to issue an additional 200,000 shares to the vendor upon completing a feasibility study and commencing commercial production of the underground deposits.

In April 1996, the Company entered into an option agreement with Grasshopper Aluminum Company N.V. ("Grassalco") to earn up to an 80% interest in the Benzdorp property located in the Republic of Suriname by making cumulative cash payments of $750,000 and property expenditures totalling $5,000,000 over a four-year period. In August 2002, the Company amended its option agreement. Cash payments prior to commercial production were reduced to $300,000 and the period to incur exploration expenditures totalling $5,000,000 was extended to April 2005 which was then extended to December 2005 pursuant to amendments in April 2005, subject to a payment of $40,000 which was paid in April 2005. Also, the Company will owe Grassalco an additional $250,000 payable on or before 30 days after the commencement of commercial production if a feasibility study has not been completed by October 6, 2005. Each year thereafter, the Company will owe an additional $250,000 payable on or before 30 days after the commencement of commercial production. However, if a feasibility study has not been completed by October 6, 2008, then the annual additional cash payments of $250,000 will increase at that time to $500,000. These additional cash payments shall be treated as advance payments against the Grassalco's shareholder ownership interest and shall be deductible from Grassalco's net profit share or net smelter profit from exploiting the deposits. In fiscal 2004, the Company had earned a 40% interest in the Benzdorp property, and the Company expects to exercise its right to increase its interest to 80%. In February 2004, the Company and Grassalco incorporated a company in Suriname and transferred the Benzdorp concessions to it, on behalf of the Company (40%) and Grassalco (60%).

1.2 <u>Overall Performance</u>

As the Company is focused on its exploration activities, there is no production, sales or inventory in the conventional sense. The recoverability of costs capitalized to mineral properties and the Company's future financial success will be dependent upon the extent to which it can discover mineralization and determine the economic viability of developing such properties. Such development may 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. The sales value of any mineralization discovered and developed by the Company is largely dependent upon factors beyond the Company's control such as the market prices of the metals produced. As the carrying value and amortization of mineral properties 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 position and results of operations.

Gold prices continued to show strength as the cumulative average increased from $363 per ounce in fiscal 2003 to $410 in fiscal 2004, $445 in fiscal 2005 and $553 for the period from January 2006 to late March 2006, closing at $551 on March 22, 2006. Gold prices made new highs in each of the past several years. In early 2004 prices hit a high of $425, then reached a high of $454 in December 2004, then another new high of $537 in late 2005 and then highs ranging from $565 to $572 in the first quarter of 2006.

New Polaris property

In fiscal 2004, the Company completed the Phase 1 in-fill drilling program for the New Polaris property located in northwest British Columbia. The Phase 1 in-fill drilling resulted in multiple high grade gold intercepts and intersected economically significant gold grades and vein widths in two main, sub-parallel, en-echelon, shear-veins, the "Upper C" and "Lower C". In June 2005, the Company resumed work at New Polaris, including the mapping of a possible road route to Taku Inlet, in preparation for a Phase 2 in-fill drilling program to continue defining and extending the known C zones. The purpose of this drilling program was to outline at least a 550,000 ounce resource amenable to a feasibility study for a 65,000 ounces per year high grade, underground gold mine with a minimum 8-year mine-life.

additional high grade gold intercepts that established better continuity, thickness and grade of the C vein system. Eight holes totalling 7,733 feet (2,357 metres) of core were drilled on 100 feet (30 metre) spacings to test the C vein system, starting a further 100 feet (61 metre) down-dip and 100 feet along strike from Phase 1 infill drilling program in 2004. All eight drill holes intersected economically significant gold grades and vein widths.

The closing of a flow-through private placement for CAD$3.5 million in March 2006 has allowed the Company to proceed with the implementation of a Phase 3 drilling program for the New Polaris property in 2006. The drilling program will involve 65 holes totaling 20,000 metres of core, and should facilitate updating a portion of the historic resource estimates to a NI 43-101 compliant resource estimate. Moreover, the work program for 2006 would also include a conceptual mine plan, initial economic assessment, and additional environmental studies needed prior to entering into the provincial mine permitting process.

Benzdorp property

Most of the Company's exploration efforts in fiscal 2004 were focused on the Phase 2 exploration drilling program on the Benzdorp property. The JQA prospect was just one of twelve gold prospect areas along the easternmost 10% of the 138,000 hectare Benzdorp property.

In 2005, the Company continued to assess the metallurgical characteristics of saprolite and bedrock mineralization from the JQA prospect in order to determine the viability of gold recovery as well as a comprehensive compilation of previous work and exploration to develop new targets for a drilling program.

In June 2005, the Company resumed its exploration efforts on the Benzdorp property and implemented a six-month program of line-cutting, soil sampling, airborne geophysics, core re-logging and geological compilation. The goals of the exploration program were as follows:

1) Complete more detailed sampling of several gold prospect areas to better define them prior to the next drilling program;
2) Carry out geologic and petrographic studies on JQA drill core to clarify the porphyry rock types and alteration assemblages, then re-interpret all geologic information from the JQA porphyry gold discovery area to better define the higher grade mineralization and extensions for drilling; and
3) Use airborne magnetic and radiometric survey data to better understand the underlying geological and structural controls to gold mineralization at Benzdorp and generate new target areas.

The first gold prospects for follow-up sampling were in the Van Heemstra area which is several kilometres north of JQA. Two broadly anomalous gold prospect areas were found by reconnaissance soil sampling in 1997, but had not been followed up. By the end of 2005, the Company completed 33 kilometres of line-cutting and collected 1,189 soil samples in the Van Heemstra Kreek area, on the north part of the property. Two large new gold prospect areas were outlined, referred to as VHA and VHB. The VHA target is 650 metre long by up to 600 metre wide, and is possibly related to two separate quartz-sericite schist and quartz vein exposures, one of which assayed over 3 gpt gold in a grab sample. The VHB target is 400 metre long by 200 metre wide, with peak values up to 1.7 gpt gold.

In 2005, the Company also carried out selective re-logging and re-interpretation of the JQA drill core to better understand the controls on mineralization.

By the end of the 2005 exploration program, the Company had expended the US$5 million in exploration expenditures as required as part of its option to earn up to an 80% interest in the Benzdorp property; the expenditures included a 10% management fee and are subject to acceptance and verification by Grassalco. The Company currently holds a 40% interest and is required to make certain cash payments and complete a feasibility study in order to fully vest its 80% interest.

The Company has not completed a feasibility study for the Benzdorp property.

In early 2006, the Company commenced a 4,000 kilometre high-resolution airborne magnetic and radiometric survey over the entire greenstone belt and other prospective portions of the property in order to provide a previously unprecedented degree of geological detail and to assist in identifying the structures controlling gold mineralization. Once this next $500,000 phase of exploration is completed, the Company can prioritize the gold prospect areas for trenching and drilling.

In 2006, the Company plans to complete up to 300 kilometre of line cutting and to collect more than 7,000 soil samples over another 30% of the prospective greenstone belt, focusing on the meta-sedimentary rocks that host the Haut Antino and Rufin prospect areas.

Bellavista property

Glencairn, owner and operator of the Bellavista mine in Costa Rica, poured its first gold bars at the new Bellavista mine in June 2005. Based upon Glencairn's feasibility study, the Bellavista mine has proven and probable ore reserves of 11.2 million tonnes grading 1.54 grams per tonne gold, containing about 555,000 ounces of mineable gold. At a gold recovery rate of 78.6%, the Bellavista mine can produce an average rate of 60,000 ounces gold per year, with a mine life of 7.3 years and an estimated cash operating cost of $257 per ounce. The Company received its annual pre-production cash payment of $120,556 from Glencairn in January 2005. By the end of September 2005, a cumulative total of 510,000 tonnes of ore at an average grade of 1.64 grams per tonne containing an estimated 26,920 oz. gold had been placed on the leach pads. Glencairn expected to have a total of 775,000 tonnes of ore stacked on leach pads by the end of fiscal 2005 containing approximately 43,000 oz. of gold. Glencairn achieved commercial production in December 2005, producing 4,257 ounces gold during the month.

The Shareholder Update included in the Company's audited consolidated financial statements for the year ended December 31, 2005 provides further review of the Company's overall performance for fiscal 2005 and an outlook for fiscal 2006.

1.3 **Selected Annual Information**

All financial information is prepared in accordance with CAD GAAP, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

	For the Years Ended December 31,		
(in $000s except per share amounts)	2005	2004	2003
Total revenues	$ -	$ -	$ -
Income (loss) before discontinued operations and extraordinary items:			
(i) Total	$ 315	$ (4,013)	$ (876)
(ii) Basic per share	$ 0.01	$ (0.07)	$ (0.02)
(iii) Fully diluted per share	$ -	$ (0.07)	$ (0.02)
Net income (loss):			
(i) Total	$ 315	$ (4,013)	$ (876)
(ii) Basic per share	$ 0.01	$ (0.07)	$ (0.02)
(iii) Fully diluted per share	$ -	$ (0.07)	$ (0.02)
Total assets	$ 11,182	$ 10,777	$ 12,882
Total long-term liabilities	$ -	$ -	$ -
Dividends per share	$ -	$ -	$ -

In 2005, the Company relied upon its investment in shares of Endeavour Silver Corp. ("Endeavour"), a company which share certain common directors, to finance its operations. In 2005 a gain of $1.2 million was realized from the disposition of shares of Endeavour. In November 2005, the Company's interest in Aztec Metals Corp. (formerly, Minera Aztec Silver Corporation) ("Aztec") was diluted from 63% to 27% resulting in the recognition of a dilution gain of $621,390; Aztec closed on a private placement for 6,190,000 units at CAD$0.10 per unit with third parties; each unit was comprised of one common share and one-half of a share purchase warrant. Also, an income tax recovery of $143,321 was recognized from the renunciation in February 2005 of exploration expenditures which were incurred in fiscal 2004 in accordance with EIC 146 reflecting the future income taxes related to deductions forgone by the Company. These factors contributed to the realization of a consolidated net income of $315,447 for the year ended December 31, 2005.

1.4 Results of Operations

Fiscal Year 2005 – Year ended December 31, 2005 compared with December 31, 2004

The Company realized a net income of $315,447 for the year ended December 31, 2005 in contrast to a net loss of over $4 million for the year ended December 31, 2004. The net income in 2005 was attributable to the combined effects of lower operating costs, gain from disposition of marketable securities, gain from dilution of its long term investment, future income tax recovery from the renunciation of exploration expenditures, and lower write-off of mineral properties.

Overall operating expense were reduced, reflecting the commensurate fall in operating activities of the Company as management refocused efforts on exploration programs for the New Polaris and Benzdorp properties. Expenses for corporate development decreased slightly and reflected efforts in developing strategic partnerships and alliances for the Company's properties. Given that certain accounts of the Company are stated in Canadian dollars, the continued appreciation of the Canadian dollar relative to the U.S. dollar caused the recognition of foreign exchange gains, although the appreciation of the Canadian dollar was not as significant as in prior years. The Canadian dollar exchange rate relative to the US dollar is slowly strengthening to the levels in the early 1990s. Stock-based compensation results from the granting of stock options. In 2005, stock options for 2,395,000 common shares were granted whereas stock options for 1,500,000 common shares were granted in the prior year. Lower rates of returns and lower volatility of the Company's shares would yield reduced fair values of the stock options granted. General and administrative expenses and salaries continue to account for a significant portion of operating expenses, but operating losses fell relative to the prior year.

Significant gains of over $1.2 million were realized in 2005 from the disposition of marketable securities primarily from the Company's shareholdings in Endeavour. Disposition of Endeavour shares provided proceeds of about $1.98 million which financed the operations of the Company in 2005 as minimal financing was provided from equity sources during the year.

In 2005, Aztec, previously a subsidiary of the Company and now only an affiliated company, proceeded with a reorganization involving a change of name, a five-to-one share consolidation, shares-for-debt settlements, and a private placement. Aztec's private placement involved the issuance of 6,190,00 common shares and diluted the Company's interest from 63% to 27% resulting in the recognition of a dilution gain of $621,390. The Company also wrote-off a debt of $542,051 owed by Aztec.

The future income tax recovery in 2005 was for flow-through shares pursuant to the guidelines issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants under EIC 146. EIC 146 requires the recognition of a provision at the date of the actual renunciation being February 25, 2005, by a reduction in the amount included in share capital relating to the flow-through shares, for the future income taxes related to the deductions foregone by the Company. As a result of EIC 146, the Company realized an income tax recovery of $143,321 in February 2005 when it renounced exploration expenditures which were financed and incurred in fiscal 2004.

In 2005, there was no exploration work conducted on the Eskay Creek property, so the Company wrote-off its book value of $201,656. In 2004, the Company wrote-down the Sara Kreek property by $3,184,000 to a nominal value of $100,000 which substantially increased the net loss.

As at December 31, 2005, the Company has mineral properties which are comprised of the following:

	December 31, 2005		
(in $000s)	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris	$ 3,605	$ 1,229	$ 4,834
Suriname:			
Sara Kreek	100	-	100
Benzdorp	301	4,423	4,724
	$ 4,006	$ 5,652	$ 9,658

At December 31, 2005, to maintain its interest and to fully exercise the options under various property agreements covering the properties located in British Columbia (Canada) and Suriname, the Company must incur exploration expenditures on the properties and make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments (in $000s)		Expenditure Commitments (in $000s)		Shares
Benzdorp:					
On commercial production [1]	$	450	$	-	-
Sara Kreek:					
On commercial production		-		-	200,000
New Polaris:					
Net profit interest buyout		-		-	150,000
	$	450	$	-	350,000

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

1.5 Summary of Quarterly Results

All financial information is prepared in accordance with CAD GAAP, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, December 31, 2005:

(in $000s except per share amounts)	2005 Dec 31	2005 Sept 30	2005 June 30	2005 Mar 31	2004 Dec 31	2004 Sept 30	2004 June 30	2004 Mar 31
Total revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income (loss) before discontinued discontinued operations and extraordinary items:								
(i) Total	$ 598	$ 95	$ (483)	$ 105	$ (3,209)	$ (248)	$ (178)	$ (378)
(ii) Basic per share	$ 0.01	$ -	$ (0.01)	$ -	$ (0.06)	$ -	$ -	$ (0.01)
(iii) Fully diluted per share	$ -	$ -	$ (0.01)	$ -	$ (0.06)	$ -	$ -	$ (0.01)
Net income (loss):								
(i) Total	$ 598	$ 95	$ (483)	$ 105	$ (3,209)	$ (248)	$ (178)	$ (378)
(ii) Basic per share	$ 0.01	$ -	$ (0.01)	$ -	$ (0.06)	$ -	$ -	$ (0.01)
(iii) Fully diluted per share	$ -	$ -	$ (0.01)	$ -	$ (0.06)	$ -	$ -	$ (0.01)
Total assets	$ 11,182	$ 10,760	$ 10,315	$ 10,416	$ 10,777	$ 13,336	$ 13,089	$ 12,591
Total long-term liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dividends per share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Gains from the disposition of marketable securities and a dilution gain from the reduction in the Company's interest in an affiliated company and the renunciation of exploration expenditures for flow through shares contributed to the realization of a net income in 2005. The Company has no sources of operating revenues.

1.6 Liquidity and Capital Resources

The Company is in the development stage and has not yet determined whether its mineral properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for mineral properties is entirely dependent upon the existence of economically recoverable 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. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. Since its incorporation in 1987, the Company has endeavored to secure mineral properties 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 properties 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 mining companies and will continue unless positive cash flow is achieved.

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

(in $000s)	December 31, 2005	December 31, 2004
Cash and cash equivalents	$ 489	$ 715
Working capital	$ 1,201	$ 1,306

Ongoing operating expenses continue to reduce the Company's cash resources. The only source of equity financings in 2005 was from the exercise of stock options which provided proceeds of only CAD$41,000 whereas the exercise of warrants and stock options in 2004 provided proceeds of CAD$1,134,050. In the last quarter of 2004, the Company closed a flow-through private placement for 750,000 common shares at CAD$0.65 per share to provide proceeds of CAD$487,500 for exploration expenditures for the New Polaris property.

In March 2006, the Company closed brokered and non-brokered private placements. The brokered private placement with Dundee Securities Corporation (the "Agent") was for 3,850,000 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$3,157,000. Agent's fees of CAD$189,420 were comprised of CAD$123,123 in cash and CAD $66,297 in non-flow-through common shares, totalling 80,850 shares, at a deemed price of CAD$0.82 per share. The Agent also received a compensation warrant exercisable for 231,000 non-flow-through common shares at an exercise price of CAD $0.82 and with an expiry date of March 17, 2007. The non-brokered private placement was for 449,511 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$368,599. Finders' fees totalling CAD$20,316 were paid.

In 2005, the Company expended $480,000 for the Phase 2 in-fill drilling program at the New Polaris property. The Phase 3 drilling program in 2006 will be financed by the flow-through private placements totaling CAD$3.5 million which closed in March 2006.

In 2005, the Company expended $440,000 in exploration efforts for the Benzdorp property, which involved line-cutting, soil sampling, airborne geophysics, core re-logging and geological compilation. In 2006, the Company has commenced a

$500,000 exploration program involving high-resolution airborne magnetic and radiometric survey, line cutting and soil sampling.

In January 2005, the Company received $120,546 from Glencairn for the pre-production payments for the Bellavista property located in Costa Rica.

Proceeds from the disposition of marketable securities provided another source of cash flows for the Company in which it realized proceeds of $2,009,000 in 2005 and $1,245,000 in 2004. During 2005, its investment in Endeavour contributed to the increase in the overall quoted market value of the Company's marketable securities which increased from $2,077,782 at December 31, 2004 to $2,469,562 at December 31, 2005. At December 30, 2005, shares of Endeavour have a market price of CAD$2.69 and at December 31, 2004 the market price was CAD$1.67. As at March 22, 2006, the market price of Endeavour shares increased to CAD$4.39.

In November 2005, Aztec, an affiliated company, closed a private placement for 6,190,000 units at CAD$0.10 per unit with each unit comprised of one common share and one-half of a share purchase warrant. Then in early 2006 Aztec initiated another private placement for up to 3,675,000 units at CAD$0.30 per unit with each unit comprising of one common share and one-half of a share purchase warrant. The closing of this private placement would dilute the Company's interest in Aztec from 27% to about 19%.

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 the Item 1.4, further details of contractual obligations are provided as at December 31, 2005. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

On May 31, 2005, the shareholders of the Company approved a shareholder rights plan (the "Plan"), that became effective on April 30, 2005. The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain "Acquiring Persons" (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire on April 30, 2015.

At the discretion of the Board, certain 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 options.

1.9 Transactions with Related Parties

In November 2005, the Company agreed to settle debts of CAD$100,000 owed by Aztec by the issuance of 1,000,000 units of Aztec at a deemed price of CAD$0.10 per unit, with each unit comprised of one common share and one-half of a share purchase warrant; each whole warrant is exercisable to purchase one common share, and has an exercise price of CAD$0.12 and an expiry date of November 25, 2006. In 2005, Aztec's private placement which closed in November 2005 diluted the Company's interest from 63% to 27% resulting in the recognition of a dilution gain of $621,390. The Company also wrote-off debt of $542,051 owed by Aztec.

General and administrative costs during 2005 include CAD$59,385 in salaries paid to a director and a total of CAD$40,000 to all directors in their capacity as Directors of the Company.

In April 2004, the Company participated in a private placement for 400,000 units of Endeavour at CAD$1.60 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at an exercise price of CAD$2.00 and had an expiry date of October 22, 2005. The Company exercised these warrants in 2005.

In November 2003, the Company participated in a private placement for 500,000 units of Endeavour at CAD$0.30 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at CAD$0.35 until October 6, 2005. The Company exercised these warrants in 2005.

1.10 Fourth Quarter

Items 1.4, 1.5 and 1.6 provide further details for the fourth quarter.

1.11 Proposed Transactions

There are no proposed asset or business acquisitions or dispositions, other than those in the ordinary course, before the board of directors for consideration.

1.12 Critical Accounting Estimates

The preparation of financial statements requires the Company to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to mineral properties determination of reclamation obligations, valuation allowances for future income tax assets, and assumptions used in determining the fair value of non-cash stock-based compensation. Actual results could differ from those estimates.

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 properties represent costs incurred to date, less recoveries and write-downs, and do not reflect present or future values.

1.13 Changes in Accounting Policies Including Initial Adoption

Flow-through shares (EIC 146):

In March 2004, guidelines related to the accounting for flow-through shares were issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants under EIC 146. EIC 146 requires the recognition of a provision at the date of the actual renunciation, by a reduction in the amount included in share capital relating to the flow-through shares, for the future income taxes related to the deductions foregone by the Company. EIC 146 is applicable on a prospective basis for flow-through share transactions after March 2004. The Company adopted EIC 146 on a prospective basis.

Variable interest entities:

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants Accounting Guideline 15, "*Consolidation of Variable Interest Entities*" ("AcG15") on a prospective basis. AcG15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. The adoption of this new standard had no effect on the consolidated financial statements as the Company does not have any VIE's.

1.14 Financial Instruments and Other Instruments

There are no financial instruments or other instruments.

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 audited consolidated financial statements for the year ended December 31, 2005.

1.15.2 Additional Disclosure for Venture Issuers without Significant Revenue

(a) capitalized or expensed exploration and development costs;

The required disclosure is presented in the notes to the Company's consolidated financial statements.

(b) expensed research and development costs;

Not applicable.

(c) deferred development costs;

Not applicable.

(d) general and administrative expenses; and

The required disclosure is presented in the Company's consolidated financial statements.

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None.

1.15.3 Outstanding Share Data

Previously, the Company's authorized share capital comprised 100,000,000 common shares without par value. In May 2005, the Company received shareholder approval to increase the authorized share capital to unlimited common shares without par value.

Changes in the Company's share capital for the year ended December 31, 2005 are as follows:

	Number of Shares	Amount (in $000s)
Balance at December 31, 2004	58,318,448	$ 49,234
Issued:		
Exercise of share purchase options	220,000	56
Exercise of share appreciation rights	6,667	3
Provision for flow-through shares	-	(143)
Balance at December 31, 2005	58,545,115	$ 49,150

At March 22, 2006, there were 63,282,976 common shares issued and outstanding.

At December 31, 2005, the Company had outstanding options to purchase an aggregate 6,984,000 common shares as follows:

	December 31, 2005	
	Number of Shares	Weighted average exercise price (CAD$)
Outstanding, beginning of the year	5,649,000	$0.57
Granted	2,395,000	$0.36
Exercised	(220,000)	$0.19
Expired	(820,000)	$0.70
Converted to stock appreciation rights on exercise	(20,000)	$0.34
Outstanding, end of year	6,984,000	$0.50
Exercise price range (CAD$)	$0.17 - $1.00	

At March 22, 2006, options for 6,331,500 shares remain outstanding.

At December 31, 2005, the Company had no outstanding warrants as follows:

For the Year Ended December 31, 2005, (expressed in United States dollars)

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2004	Issued	Exercised	Expired	Oustanding at December 31, 2005
$0.63	February 4, 2005	625,000	-	-	(625,000)	-
$1.25	November 13, 2005	133,750	-	-	(133,750)	-
$1.10	November 13, 2005	1,540,000	-	-	(1,540,000)	-
$1.25	December 30, 2005	50,000	-	-	(50,000)	-
		2,348,750	-	-	(2,348,750)	-

At March 22, 2006, warrants for 231,000 shares remain outstanding, which were issued as compensation warrants for the flow-through private placement which closed in March 2006.

1.16 Outlook

Although it currently has sufficient capital to satisfy existing operating and administrative expenses in the short term, the Company will continue to depend upon equity capital to finance its existing projects. 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 properties 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

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 properties.

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 properties 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 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, 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 presence of clay in the mineralized material may adversely affect the economic recovery of gold from the mining operations planned at properties in Suriname. The refractory nature of gold mineralization at New Polaris 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 properties can be mined at a profit.

Title Matters

There is no assurance given by the Company that it owns legal title to its mineral properties.

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 properties, 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 properties. 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 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 properties, 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.

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.

Foreign Countries and Regulatory Requirements

Many of the Company's properties are 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 properties.

Currency Fluctuation and Foreign Exchange Controls

The Company maintains a portion of its funds in U.S. dollar denominated accounts. The majority of the Company's property and related contracts are 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 future contracts may not be denominated in U.S. dollars and may expose the Company 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 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 resource 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 suffer significant losses if the Company's shares are depressed or illiquid when an investor seeks liquidity and needs to sell the Company's shares.

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At December 31, 2005, the Company had 58,545,115 common shares and 6,984,000 share purchase options and no warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At December 31, 2005, dilutive securities represented approximately 12% of the Company's issued shares. Certain of these dilutive securities are exercisable at prices below the December 30, 2005 closing market price of CAD$0.58 for the Company's shares and, accordingly, will result in dilution to existing shareholders if exercised.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's audited consolidated financial statements for the year ended December 31, 2005 and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. 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.

Changes in Internal Controls over Financial Reporting

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 Chief Executive Officer completed his evaluation, nor were there any significant deficiencies of material weaknesses in the Company's internal controls requiring corrective actions.

Management Team

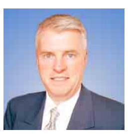
Bradford Cooke, M.Sc., P.Geo., President, CEO and Director, is a professional geologist with 30 years experience in the mining industry, focusing on the financing, acquisition, exploration and development of mining projects world-wide.

Jack McClintock, B.Sc., MBA, Appointed in January 2006 as President and COO, is a professional geologist with 33 years experience in the exploration and mining business, both hands-on and in senior management, most recently with BHP Biliton as global Exploration Manager.

Philip Yee, M.B.A., C.P.A., C.G.A., Chief Financial Officer, is a certified general accountant with an MBA degree and 17 years experience in corporate management, regulatory reporting, accounting, auditing and taxation.

James Moors, B.Sc., P.Geo., VP Exploration, is a professional geologist with 18 years experience in the minerals industry, specializing in exploration for and discovery of precious metal deposits in North America.

Bruce Bried, B.Sc., P.Eng., VP Mining, is a professional engineer with over 30 years experience in mine engineering, operations, and reclamation, especially for underground, high grade vein gold and silver mines in North America.



Gregg Wilson, M.SCI., Manager, Investor Relations, is a corporate communications professional with over 10 years experience in the natural resource sector as well as an extensive background in business administration and management.

Stewart Lockwood, L.L.B., M.B.A., Secretary and Legal Counsel, is a securities lawyer with an MBA degree and 21 years experience in corporate and securities law, business management and stock exchange listings.

Board of Directors

Derek Bullock, P.Eng., Director, is a mining engineer who brings over 40 years of mine operating, engineering, and consulting experience and resource company management to the Board of Directors.

Leonard Harris, Metallurgical Engineer, Director, is a professional engineer with a metallurgy diploma and over 50 years experience in all aspects of mineral processing and mining operations, including the construction of the Yanacocha gold mine in Peru

Chris Theodoropoulos, L.L.B., Director, is a securities lawyer with over 20 years experience in mining, corporate and securities law, specializing in the start-up and management of resource companies and the resolution of commercial disputes.

William Price, Director, brings to Canarc a wealth of experience and expertise in the financial world, formerly Chairman, CEO and CIO of RCM Capital Management LLC and Global Chief Investment Officer of Allianz Global Investors AG. where he was responsible for over US$ 500 billion under management.

Building an International Gold Producer

Corporate Information

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Solicitors: Stewart Lockwood
Vector Corporate Finance Lawyers

Auditors: KPMG LLP

Bankers: Royal Bank of Canada

Transfer Agent: Computershare Investor Services Inc.

Exchange Listings: Toronto Stock Exchange
Symbol: CCM

OTC Bulletin Board
Symbol: CRCUF

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RESOURCE CORP.