



Consolidated Financial Statements

(expressed in United States dollars)

Years ended December 31, 2014, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CANARC RESOURCE CORP.

We have audited the accompanying consolidated financial statements of Canarc Resource Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2014, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canarc Resource Corp. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014, 2013 and 2012 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern.

"SmytheRatcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 24, 2015

CANARC RESOURCE CORP.

Consolidated Statements of Financial Position

(expressed in thousands of United States dollars)

		December 31,	
	Notes	2014	2013
ASSETS			
CURRENT ASSETS			
Cash		\$ 675	\$ 50
Receivables and prepaids	13	83	105
Total Current Assets		758	155
NON-CURRENT ASSETS			
Mineral property interests	6	11,804	12,330
Equipment	7	2	3
Total Non-Current Assets		11,806	12,333
Total Assets		\$ 12,564	\$ 12,488
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	13	\$ 914	\$ 945
Notes payable	9	-	131
Total Liabilities		914	1,076
SHAREHOLDERS' EQUITY			
Share capital	11	62,912	60,178
Reserve for share-based payments		681	590
Accumulated other comprehensive loss		(1,624)	(702)
Deficit		(50,319)	(48,654)
Total Shareholders' Equity		11,650	11,412
Total Liabilities and Shareholders' Equity		\$ 12,564	\$ 12,488

Refer to the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

/s/ Bradford Cooke

Director

/s/ Martin Burian

Director

CANARC RESOURCE CORP.

Consolidated Statements of Comprehensive Loss

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

	Notes	Years ended December 31,		
		2014	2013	2012
Expenses:				
Amortization		\$ 1	\$ 1	\$ 2
Corporate development	12	345	19	26
Employee and director remuneration	13	514	452	521
General and administrative	12 and 13	290	223	289
Shareholder relations		227	111	227
Share-based payments	11(c) and 13	209	72	168
Loss before the undernoted		(1,586)	(878)	(1,233)
Interest and other income		20	-	-
Derecognition of accounts payable	10	-	99	-
Derecognition of flow-through obligations	10	-	213	-
Gain from disposition of available-for-sale securities		-	-	77
Interest and finance charges	9 and 10	(1)	(17)	(56)
Foreign exchange gain		11	4	33
Write-down of long term investments	8	-	(91)	-
Write-off of receivable and tax recoveries	13	-	(54)	-
Write-off of promissory notes receivable	15	(275)	-	-
Write-off of mineral property interests, net of recoveries	6	-	(653)	(27)
Net loss for the year		(1,831)	(1,377)	(1,206)
Other comprehensive (loss) income:				
Items that may be reclassified into profit or loss:				
Unrealized (loss) gain on available-for-sale securities		-	-	(4)
Realized gain from disposition of available-for-sale securities		-	-	(77)
Items that will not be reclassified into profit or loss:				
Foreign currency translation adjustment		(922)	(764)	197
Comprehensive loss for the year		\$ (2,753)	\$ (2,141)	\$ (1,090)
Basic and diluted loss per share		\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding		148,771,663	113,830,108	97,408,679

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Changes in Shareholders' Equity
(expressed in thousands of United States dollars)

	Share Capital		Reserve for Share-Based Payments	Accumulated Other Comprehensive		Deficit	Total
	Number of Shares	Amount		Income (Loss)			
Balance, December 31, 2011	94,096,171	\$ 58,258	\$ 1,081	\$ (54)	\$ (46,815)	\$ 12,470	
Private placement, net of share issue costs	15,800,000	1,460	-	-	-	1,460	
Exercise of stock options	346,000	61	(25)	-	-	36	
Share-based payments	-	-	168	-	-	168	
Expiry of stock options	-	-	(489)	-	489	-	
Finders fee warrants	-	(97)	97	-	-	-	
Other comprehensive income:							
Unrealized loss on available-for-sale securities	-	-	-	(4)	-	(4)	
Realized gain on available-for-sale securities	-	-	-	(77)	-	(77)	
Foreign currency translation adjustment	-	-	4	197	6	207	
Net loss for the year	-	-	-	-	(1,206)	(1,206)	
Balance, December 31, 2012	110,242,171	59,682	836	62	(47,526)	13,054	
Private placement, net of share issue costs	1,600,000	155	-	-	-	155	
Property acquisition	2,000,000	196	-	-	-	196	
Exercise of stock options	769,000	116	(40)	-	-	76	
Exercise of share appreciation rights	207,024	29	(34)	-	5	-	
Share-based payments	-	-	72	-	-	72	
Expiry of stock options	-	-	(236)	-	236	-	
Other comprehensive income:							
Foreign currency translation adjustment	-	-	(8)	(764)	8	(764)	
Net loss for the year	-	-	-	-	(1,377)	(1,377)	
Balance, December 31, 2013	114,818,195	60,178	590	(702)	(48,654)	11,412	
Private placement, net of share issue costs	42,618,110	2,780	-	-	-	2,780	
Share-based payments	-	-	209	-	-	209	
Expiry of stock options	-	-	(168)	-	168	-	
Finders fee warrants	-	(46)	46	-	-	-	
Other comprehensive income:							
Foreign currency translation adjustment	-	-	4	(922)	(2)	(920)	
Net loss for the year	-	-	-	-	(1,831)	(1,831)	
Balance, December 31, 2014	157,436,305	\$ 62,912	\$ 681	\$ (1,624)	\$ (50,319)	\$ 11,650	

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	Years ended December 31,		
	2014	2013	2012
Cash provided from (used by):			
Operations:			
Net loss for the year	\$ (1,831)	\$ (1,377)	\$ (1,206)
Items not involving cash:			
Accrued interest	(15)	17	10
Amortization	1	1	2
Share-based payments	209	72	168
Derecognition of accounts payable	-	(99)	-
Derecognition of flow-through obligations	-	(213)	-
Gain on disposition of available-for-sale securities	-	-	(77)
Unrealized currency translation gain	-	-	(53)
Write-down of long term investment	-	91	-
Write-off of promissory notes receivable	275	-	-
Write-off of mineral property interest	-	653	27
Write-off of receivable and tax recoveries	-	54	-
	(1,361)	(801)	(1,129)
Changes in non-cash working capital items:			
Receivables and prepaids	22	11	(78)
Accounts payable and accrued liabilities	(26)	322	196
Cash used by operating activities	(1,365)	(468)	(1,011)
Financing:			
Issuance of common shares, net of share issuance costs	2,780	231	1,496
Proceeds from demand loans	-	126	358
Repayment of demand loans	(128)	-	(450)
Cash provided from financing activities	2,652	357	1,404
Investing:			
Promissory notes receivables	(260)	-	-
Proceeds from disposition of available-for-sale securities	-	-	92
Mineral property interests, net of recoveries	(402)	(9)	(360)
Cash used by investing activities	(662)	(9)	(268)
Increase (decrease) in cash	625	(120)	125
Cash, beginning of year	50	170	45
Cash, end of year	\$ 675	\$ 50	\$ 170

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	Notes	Years ended December 31,		
		2014	2013	2012
Non-cash financing and investing activities:				
Issuance of shares for mineral property interests	6(a)(iii)	\$ -	\$ 196	\$ -
Fair value allocated to common shares issued on exercise of:				
Stock options		-	40	25
Share appreciation rights		-	29	-
Expiration of stock options		168	236	489
Fair value of finder's fee warrants		46	-	97
Income taxes paid		-	-	-
Interest received		5	-	-
Interest paid		7	-	51

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

1. Nature of Operations and Going Concern

Canarc Resource Corp. (the “Company”), a company incorporated under the laws of British Columbia on January 22, 1987, is in the mineral exploration business and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of reserves in its mineral property interests, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its mineral property interests, and upon future profitable production or proceeds from the disposition thereof. The address of the Company’s registered office is #1040 – 999 West Hastings Street, Vancouver, BC, Canada, V6C 2W2.

The Company has no operating revenues, has incurred significant net losses of \$1.8 million for the year ended December 31, 2014 (2013 - \$1.4 million and 2012 - \$1.2 million), and has a deficit of \$50.3 million as at December 31, 2014 (2013 - \$48.7 million and 2012 - \$47.5 million). Furthermore, the Company has a working capital deficiency of \$156,000 (2013 - \$921,000). These consolidated 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 ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management would need to raise the necessary capital to meet its planned business objectives and continues to seek financing opportunities. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

2. Basis of Presentation

(a) Statement of compliance:

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

(b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company’s Board of Directors on March 24, 2015.

(c) Basis of presentation:

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as disclosed in Note 5.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

2. Basis of Presentation (continued)

(d) Functional currency and presentation currency:

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

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

The Company's presentation currency is the United States dollar. For presentation purposes, all amounts are translated from the Canadian dollar functional currency to the United States dollar presentation currency for each period using the exchange rate at the end of each reporting period.

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

(e) Critical accounting estimates and judgements:

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

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

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

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements:

The Company has reviewed new and amended accounting pronouncements that have been issued by the IASB. All of the new and revised standards described below may be early adopted.

(i) IFRS 9 *Financial Instruments* (2014) (“IFRS 9”)

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is applicable to annual periods beginning on or after January 1, 2018.

(ii) Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

Amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The amendments to IAS 16 and IAS 38 are applicable to annual periods beginning on or after July 1, 2016.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

2. Basis of Presentation (continued)

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

(iii) Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- IFRS 2 — Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

The amendments are applicable to annual periods beginning on or after July 1, 2014.

(iv) Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRS can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These amendments are applicable to annual periods beginning on or after July 1, 2014.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

2. Basis of Presentation (continued)

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

(v) Annual Improvements 2012-2014 Cycle

Makes amendments to the following standards:

- IFRS 5 — Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
- IFRS 7 — Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.
- IAS 9 — Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
- IAS 34 — Clarify the meaning of “elsewhere in the interim report” and require a cross-reference.

The amendments are applicable to annual periods beginning on or after July 1, 2016.

3. Significant Accounting Policies

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

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries including New Polaris Gold Mines Ltd. (100%). All significant intercompany transactions and balances are eliminated on consolidation.

(b) Financial instruments:

(i) Financial assets:

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

Financial assets at FVTPL

Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash and cash equivalents, if any, are included in this category of financial assets.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(i) Financial assets: (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables comprise trade and other receivables and promissory notes receivable.

Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. HTM investments are initially recognized on their trade-date at fair value, and subsequently are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income (loss) and classified as a component of equity. AFS assets include investments in equities of other entities.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income (loss) are included in profit or loss.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(ii) Financial liabilities:

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

Financial liabilities at FVTPL

Financial liabilities at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss. The Company has no financial liabilities at FVTPL.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable, notes payable and other payables.

Derivatives

Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. Derivatives include warrants denominated in a currency other than the Company's functional currency.

(iii) Fair value hierarchy:

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(iv) Impairment of financial assets:

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is “significant” or “prolonged” based on indicators such as significant adverse changes in the market, economic or legal environment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(v) Derecognition of financial assets and liabilities:

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized within other income and finance costs.

(c) Mineral property interests:

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

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

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

3. Significant Accounting Policies (continued)

(d) Equipment:

Equipment is recorded at cost and, for equipment subject to amortization, the Company uses the declining balance method at a rate of 30% annually.

(e) Proceeds on unit offerings:

Proceeds received on the issuance of units, consisting of common shares and warrants, are first allocated to the fair value of the common shares with any residual value then allocated to warrants.

(f) Non-monetary transactions:

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

(g) Flow-through common shares:

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

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

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

3. Significant Accounting Policies (continued)

(h) Share-based payments:

The Company has a stock option plan that is described in Note 11(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from reserve for share-based payments to deficit.

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

(i) Environmental rehabilitation:

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

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

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

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

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

CANARC RESOURCE CORP.

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3. Significant Accounting Policies (continued)

(j) Earnings (loss) per share:

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

(k) Provisions:

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

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

(l) Income taxes:

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

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4. Management of Capital

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

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2014.

5. Management of Financial Risk

The Company has classified its cash as financial assets at FVTPL; long-term investments as AFS financial assets; receivables and prepaids and promissory note receivables as loans and receivables; and accounts payable and accrued liabilities and notes payable as other financial liabilities.

The Company's long-term investment in shares of Aztec Metals Corp. ("Aztec"), a company sharing two common directors, is classified as AFS but does not have a quoted market price in an active market and is therefore measured at cost, net of any write-downs.

The fair values of the Company's receivables, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the short terms to maturity. Cash is measured at fair values using Level 1 inputs.

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

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5. Management of Financial Risk (continued)

(a) Credit risk:

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

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

Management has reviewed the items comprising the accounts receivable balance which include amounts receivable from certain related parties, provincial tax credit for qualified mineral expenditures, and goods and services tax refunds due from the government, and determined that all accounts are collectible; accordingly, there has been no allowance for doubtful accounts recorded.

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. As at December 31, 2014, the Company has a working capital deficiency of \$156,000 (2013 - \$921,000). The Company will require significant additional funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2015.

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

(c) Market risk:

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

(i) Foreign currency risk:

The Company's mineral property interests and operations are in Canada. A certain portion of its operating expenses are incurred in Canadian dollars, and fluctuations in U.S. dollars would impact the cumulative translation adjustment of the Company's assets and liabilities as its consolidated financial statements are presented in U.S. dollars.

CANARC RESOURCE CORP.

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5. Management of Financial Risk (continued)

(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

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

	December 31,	
	2014	2013
	(Held in CAD\$)	
Cash	\$ 643	\$ 48
Accounts receivable	10	-
Accounts payable and accrued liabilities	(799)	(852)
Net assets (liabilities)	\$ (146)	\$ (804)

Based upon the above net exposure as at December 31, 2014 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$14,600 (2013 - \$80,400) in the cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

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

(iii) Other price risk:

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

The Company's other price risk includes equity price risk, whereby investments in marketable securities are subject to market price fluctuations. The Company held no marketable securities at December 31, 2014 and 2013.

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6. Mineral Property Interests

	British Columbia (Canada)		Yukon (Canada)	Total
	New Polaris (Note 6(a)(i))	Windfall Hills (Note 6(a)(ii))	Tay-LP (Note 6(a)(iii))	
Acquisition Costs:				
Balance, December 31, 2012	\$ 3,905	\$ 210	\$ 174	\$ 4,289
Additions	-	212	-	212
Foreign currency translation adjustment	(13)	(14)	(11)	(38)
Write-off	-	-	(163)	(163)
Balance, December 31, 2013	3,892	408	-	4,300
Additions	-	27	-	27
Foreign currency translation adjustment	(16)	(34)	-	(50)
Balance, December 31, 2014	\$ 3,876	\$ 401	\$ -	\$ 4,277
Deferred Exploration Expenditures:				
Balance, December 31, 2012	\$ 8,643	\$ 117	\$ 495	\$ 9,255
Additions	17	(18)	10	9
Foreign currency translation adjustment	(722)	(7)	(32)	(761)
Write-off	-	-	(473)	(473)
Balance, December 31, 2013	7,938	92	-	8,030
Additions, net of recoveries	23	352	-	375
Foreign currency translation adjustment	(871)	(7)	-	(878)
Balance, December 31, 2014	\$ 7,090	\$ 437	\$ -	\$ 7,527
Mineral property interests:				
Balance, December 31, 2013	\$ 11,830	\$ 500	\$ -	\$ 12,330
Balance, December 31, 2014	10,966	838	-	11,804

(a) Canada:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2014 include a reclamation bond for \$217,000 (2013 - \$237,000).

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6. Mineral Property Interests (continued)

(a) Canada: (continued)

(i) New Polaris: (continued)

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra Gold (British Columbia) Limited, a wholly-owned subsidiary of PanTerra Gold Limited, ("PanTerra"). PanTerra has a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment activities including metallurgical test work, drilling, detailed mine planning, tailings dam design, environmental permitting, and completion of a definitive feasibility study. In Stage One, PanTerra shall spend CAD\$500,000 for laboratory production of flotation concentrate followed by test work through the Glencore Technology Albion pilot plant, and for comprehensive technical and economic review and commencement of environmental baseline data collection required for permitting. In Stage Two, PanTerra can earn a 20% interest in the New Polaris project by spending CAD\$3.5 million in predevelopment expenditures which would include 10,000 metres drilling program and engineering and completion of field data required for environmental permitting. In Stage Three, PanTerra can earn an additional 30% interest in the project for a total interest of 50% by spending CAD\$6 million in predevelopment expenditures which would primarily focus on the completion of a definitive feasibility study and would include further 10,000 metres of infill drilling, additional metallurgical test work, and preliminary engineering. PanTerra can increase its interest in the New Polaris project to 51% by purchasing 1% from the Company within six months of completion of the definitive feasibility study at a cost of 1% of the net present value established by the definitive feasibility study using a 10% discount rate.

(ii) Windfall Hills:

In April 2011, the Company entered into two property option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia. In April 2011, the Company entered into a property option agreement with Atna Resources Ltd. ("Atna") whereby the Company can acquire a 100% interest in the Uduk Lake properties by making \$750,000 in cash payments over a four year period of which \$125,000 has been paid, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting the vendor a 2% NSR production royalty. In March 2012, the Company amended the property option agreement in which the option payment of \$100,000 due on April 21, 2012 was payable in 12 monthly installments of \$8,333 over a twelve month period beginning April 21, 2012. Property option payments of \$25,000 were paid in 2013 (2012 - \$75,000). In April 2013, the Company entered into a property purchase agreement with Atna whereby the Company acquired a 100% undivided interest in the Uduk Lake properties by the issuance of 1,500,000 common shares at a value of CAD\$0.10 per share, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting Atna a 3% NSR production royalty.

CANARC RESOURCE CORP.

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6. Mineral Property Interests (continued)

(a) Canada: (continued)

(ii) Windfall Hills: (continued)

In April 2011, the Company entered into a property option agreement with a vendor whereby the Company can acquire a 100% interest in the Dunn properties by making CAD\$250,000 in cash payments over a four year period, and a final bonus payment based on all gold resources estimated in an independent National Instrument 43-101 *Standards of Disclosure for Mineral Projects* technical report. The formula for the bonus payment is \$30 per oz for measured resources, \$20 per oz for indicated resources, and \$10 per oz for inferred resources. In March 2012, the Company amended the property option agreement in which the option payment of CAD\$25,000 due on April 20, 2012 was payable in three monthly installments of CAD\$8,333 over a three month period beginning April 21, 2012 which were paid. In April 2013, the Company entered into a property purchase agreement whereby the Company acquired a 100% undivided interest in the Dunn properties by the issuance of 500,000 common shares at a value of CAD\$0.10 per share and granting the vendor a 2% NSR royalty which can be reduced to 1% NSR royalty for \$500,000.

(iii) Tay-LP:

On August 24, 2009, the Company entered into a property option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. to acquire up to 100% interest in the Tay-LP gold property, located in Yukon, by paying CAD\$1 million in cash and/or shares and spending CAD\$1.5 million on exploration over a three-year period which can occur in two stages. In September 2011 and October 2012, the agreement was amended. The Company decided not to proceed with any further expenditure on the Tay LP property which was written off in 2013.

(b) Expenditure options:

As at December 31, 2014, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

	Number of Shares
New Polaris (Note 6(a)(i):	
Net profit interest reduction or buydown	150,000
	150,000

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

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6. Mineral Property Interests (continued)

(c) Title to mineral property interests:

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

(d) Realization of assets:

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

(e) Environmental:

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

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

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

7. Equipment

	Cost	Accumulated Amortization	Net Book Value
Balance, December 31, 2012	\$ 10	\$ (5)	\$ 5
Additions	-	(1)	(1)
Foreign currency translation adjustment	(1)	-	(1)
Balance, December 31, 2013	9	(6)	3
Additions	-	(1)	(1)
Foreign currency translation adjustment	-	-	-
Balance, December 31, 2014	\$ 9	\$ (7)	\$ 2

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8. Long-Term Investments

As at December 31, 2014, the Company had an interest of 7% in Aztec (2013 – 7%).

There is no separately quoted market value for the Aztec shares and the fair value cannot be reliably determined. Therefore they were recorded at cost, net of any write-downs, in 2014.

In 2013, the Company wrote-down its investment in Aztec to a nominal value of CAD\$100. In October 2014, the Company received 358,000 shares from Aztec in settlement of debt owed to the Company which the Company had written off in 2013.

9. Notes Payable

Balance, December 31, 2012	\$ -
Add:	
Proceeds from demand loans	126
Accrued interest during the period	6
Foreign currency translation adjustment	(1)
	<u>131</u>
Balance, December 31, 2013	131
Add:	
Interest during the period	<u>1</u>
Less:	
Repayment of:	
Principal	121
Interest	7
Foreign currency translation adjustment	4
	<u>132</u>
Balance, December 31, 2014	\$ -

In fiscal 2013, the Company received demand loans of \$126,000 from two directors of the Company, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In January 2014, the Company repaid all principal and interest in full settlement of outstanding demand loans.

CANARC RESOURCE CORP.

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10. Derecognition of Liabilities

Pursuant to an audit by the Canada Revenue Agency (the “CRA”) in 2010, CRA disallowed certain exploration expenditures incurred in 2007 as Canadian exploration expenditures (“CEE”) for flow-through purposes in which the Company recognized a provision for flow through indemnification. In 2011, the Company paid CAD\$37,900 including interest for indemnities relating to ineligible CEE for flow-through purposes. At December 31, 2012, the Company accrued liabilities of approximately CAD\$146,300 for estimated indemnities related to the disqualified CEE for flow-through purposes and CAD\$62,100 in accrued interest related to the indemnities. In 2013, the Company determined that it was improbable that any further cash outlays would be required, and therefore the Company derecognized the provision for flow through indemnification.

In 2013, the Company also derecognized a provision of \$99,000 by writing off certain liabilities related to an exploration project which was written off in 2008.

11. Share Capital

(a) Authorized:

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

(b) Issued:

- (i) On January 31, 2014, the Company closed a private placement for 18 million units at a price of CAD\$0.05 per unit for gross proceeds of CAD\$900,000. Each unit was comprised of one common share and one-half of one common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.10 per share until January 31, 2016. Finder’s fees of CAD\$22,500 were paid for the private placement.

In March and April 2014, the Company closed a private placement in two tranches totalling 19.6 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.96 million with each unit comprised of one common share and one-half of one common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.15 per share for a three year period. On March 18, 2014, the Company closed the first tranche for 10.6 million units for CAD\$1.06 million, and paid CAD\$66,170 in cash and issued 661,718 in warrants as finders’ fees. On April 3, 2014, the Company closed the second tranche for 9 million units for CAD\$900,000, and paid CAD\$6,070 in cash and issued 60,725 in warrants as finders’ fees. The finders’ fee warrants have the same terms as the underlying warrants in the unit private placement.

On July 9, 2014, the Company closed a private placement for 5 million units at CAD\$0.08 per unit for gross proceeds of CAD\$400,000. Each unit was comprised of one flow-through common share and one-half of one common share purchase warrant; each whole warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until July 9, 2016. Funds of CAD\$382,900 were expended for flow through purposes as at December 31, 2014.

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11. Share Capital (continued)

(b) Issued: (continued)

- (ii) In May 2013, the Company issued 2 million shares at a value of CAD\$0.10 per share for the acquisition of 100% interests in the Windfall Hills properties. Note 6(a)(iii) provides further details.

In 2013, stock options for 769,000 common shares were exercised, and stock options for 700,000 common shares were cancelled for the exercise of share appreciation rights for 207,024 common shares.

- (iii) On September 28, 2012, the Company closed a brokered private placement for 11.3 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.13 million, with each unit comprised of one common share and one transferrable common share purchase warrant. Each whole warrant is exercisable for a period of 36 months at a price of CAD\$0.15 per share during the initial period of 24 months until September 28, 2014, and at \$0.20 per share for the remaining 12 months until September 28, 2015. The warrants are subject to an accelerated expiry whereby if after January 29, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange (the "TSX") equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice. Agent's fees are comprised of a cash commission of CAD\$90,400 plus 904,000 agent's warrants with the identical terms as the underlying warrants in the unit private placement and a corporate finance fee of CAD\$37,500.

In December 2012 and January 2013, the Company closed a non-brokered private placement in three tranches totaling 6.1 million units at a price of CAD\$0.11 per unit for gross proceeds of CAD\$671,000 with each unit comprised of one common share and one common share purchase warrant. The first tranche closed on December 19, 2012 for 4.5 million units, and the second tranche on January 11, 2013 for 600,000 units, and the final tranche on January 18, 2013 for 1 million units. Each whole warrant is exercisable for a period of 36 months at a price of CAD\$0.15 per share during the initial period of 24 months until December 19, 2014 for 4.5 million warrants, until January 11, 2015 for 600,000 warrants and until January 18, 2015 for 1 million warrants, at \$0.20 per share for the remaining 12 months until December 19, 2015 for 4.5 million warrants and until January 11, 2016 for 600,000 warrants and until January 18, 2016 for 1 million warrants. The warrants are subject to an accelerated expiry whereby if after the four month plus one day hold period from the closing date of each tranche of the private placement, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

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11. Share Capital (continued)

(c) Stock option plan:

The Company has a stock option plan that allows it to grant stock options to its directors, officers, employees, and consultants to acquire up to 18,888,434 common shares, of which stock options for 10,130,000 common shares are outstanding as at December 31, 2014. The exercise price of each stock option cannot be lower than the last recorded sale of a board lot on the TSX during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the TSX based on the last five trading days before the date of the grant. Stock options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the board at the time the options are granted.

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

The continuity of outstanding stock options for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014		2013		2012	
	Number of Shares	Weighted average exercise price (CAD\$)	Number of Shares	Weighted average exercise price (CAD\$)	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of year	8,325,000	\$0.11	9,999,000	\$0.15	10,115,000	\$0.24
Granted	4,550,000	\$0.09	2,000,000	\$0.08	2,860,000	\$0.12
Exercised	-	-	(769,000)	\$0.10	(346,000)	\$0.10
Cancelled for share appreciation rights	-	-	(700,000)	\$0.10	-	-
Forfeited	(175,000)	\$0.10	(160,000)	\$0.12	(145,000)	\$0.13
Expired	(2,570,000)	\$0.11	(2,045,000)	\$0.25	(2,485,000)	\$0.49
Outstanding balance, end of year	10,130,000	\$0.10	8,325,000	\$0.11	9,999,000	\$0.15
Exercise price range (CAD\$)	\$0.05 - \$0.145		\$0.08 - \$0.145		\$0.10 - \$0.29	

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11. Share Capital (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at December 31, 2014:

Exercise Prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number Outstanding at Dec 31, 2014	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)	Number Exercisable at Dec 31, 2014	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.10	1,445,000	0.69	\$0.10	1,445,000	0.69	\$0.10
\$0.135	1,365,000	1.51	\$0.135	1,365,000	1.51	\$0.135
\$0.145	1,070,000	2.46	\$0.145	-	-	-
\$0.08	1,750,000	3.49	\$0.08	1,400,000	3.49	\$0.08
\$0.05	500,000	4.04	\$0.05	200,000	4.04	\$0.05
\$0.10	4,000,000	4.54	\$0.10	800,000	4.54	\$0.10
	<u>10,130,000</u>	<u>3.16</u>	<u>\$0.10</u>	<u>5,210,000</u>	<u>2.38</u>	<u>\$0.10</u>

During the year ended December 31, 2014, the Company recognized share-based payments of \$209,000 (2013 - \$72,000 and 2012 - \$168,000), net of forfeitures, based on the fair value of options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants, as applicable, as follows:

	December 31,		
	2014	2013	2012
Directors and officers	\$ 205	\$ 76	\$ 95
Employees	4	5	7
Consultants	-	(9)	66
	<u>\$ 209</u>	<u>\$ 72</u>	<u>\$ 168</u>

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

11. Share Capital (continued)

(c) Stock option plan: (continued)

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

	2014	2013	2012
Number of stock options granted	4,550,000	2,000,000	2,860,000
Fair value of stock options granted (CAD\$)	\$0.08	\$0.06	\$0.09
Market price of shares on grant date (CAD\$)	\$0.09	\$0.08	\$0.14
Pre-vest forfeiture rate	5.29%	3.54%	1.03%
Risk-free interest rate	1.38%	1.71%	1.17%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	118%	117%	113%
Expected option life in years	4.48	4.52	2.93

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

In March 2012, the Company granted 1,400,000 stock options to directors, officers, employees and consultants with an exercise price of CAD\$0.10 and an expiry date of March 23, 2013, and which were subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every three months thereafter.

In June 2012, the Company granted 1,460,000 stock options to directors, officers and employees with an exercise price of CAD\$0.145 and an expiry date of June 18, 2017. These stock options will only vest when the Company consummates a major transaction or at the discretion of its Board of Directors, and such stock options have not vested as at December 31, 2014.

In June 2013, the Company granted 2,000,000 stock options to directors, officers and employees with an exercise price of CAD\$0.08 and an expiry date of June 26, 2018, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In 2013, stock options for 769,000 common shares were exercised, and stock options for 700,000 common shares were cancelled for the exercise of share appreciation rights for 207,024 common shares.

In January 2014, the Company granted 500,000 stock options to an officer with an exercise price of CAD\$0.05 and an expiry date of January 14, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In July 2014, the Company granted 4,050,000 stock options to directors, officers and employees with an exercise price of CAD\$0.10 and an expiry date of July 17, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

11. Share Capital (continued)

(d) Warrants:

At December 31, 2014, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2013	Issued	Exercised	Expired	Outstanding at December 31, 2014
\$0.20	September 28, 2015 ⁽¹⁾	11,300,000	-	-	-	11,300,000
\$0.20	September 28, 2015 ^{(1),(2)}	904,000	-	-	-	904,000
\$0.20	December 19, 2015 ⁽¹⁾	4,500,000	-	-	-	4,500,000
\$0.15 / \$0.20	until January 11, 2015 expiry January 11, 2016 ⁽¹⁾	600,000	-	-	-	600,000
\$0.15 / \$0.20	until January 18, 2015 expiry January 18, 2016 ⁽¹⁾	1,000,000	-	-	-	1,000,000
\$0.10	January 31, 2016	-	9,000,000	-	-	9,000,000
\$0.15	March 18, 2017	-	5,309,055	-	-	5,309,055
\$0.15	March 18, 2017 ⁽³⁾	-	661,718	-	-	661,718
\$0.15	April 3, 2017	-	4,500,000	-	-	4,500,000
\$0.15	April 3, 2017 ⁽⁴⁾	-	60,725	-	-	60,725
\$0.15	July 9, 2016	-	2,500,000	-	-	2,500,000
		18,304,000	22,031,498	-	-	40,335,498

(1) The warrants are subject to an accelerated expiry whereby if after the four month plus one day hold period from the closing date of the private placement, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

(2) As these warrants are agent's warrants, a fair value of \$97,470 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 107%, risk-free rate 1.14%, expected life 3 years, and expected dividend yield 0%.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

11. Share Capital (continued)

(d) Warrants: (continued)

(3) As these warrants are agent's warrants, a fair value of \$43,120 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%.

(4) As these warrants are agent's warrants, a fair value of \$3,335 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%.

At December 31, 2013, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2012	Issued	Exercised	Expired	Outstanding at December 31, 2013
\$0.15 / \$0.20	until September 28, 2014 expiry September 28, 2015 ⁽¹⁾	11,300,000	-	-	-	11,300,000
\$0.15 / \$0.20	until September 28, 2014 expiry September 28, 2015 ^{(1),(2)}	904,000	-	-	-	904,000
\$0.15 / \$0.20	until December 19, 2014 expiry December 19, 2015 ⁽¹⁾	4,500,000	-	-	-	4,500,000
\$0.15 / \$0.20	until January 11, 2015 expiry January 11, 2016 ⁽¹⁾	-	600,000	-	-	600,000
\$0.15 / \$0.20	until January 18, 2015 expiry January 18, 2016 ⁽¹⁾	-	1,000,000	-	-	1,000,000
		16,704,000	1,600,000	-	-	18,304,000

(1) The warrants are subject to an accelerated expiry whereby if after the four month plus one day hold period from the closing date of the private placement, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

11. Share Capital (continued)

(d) Warrants: (continued)

- (2) As these warrants are agent's warrants, a fair value of \$97,470 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 107%, risk-free rate 1.14%, expected life 3 years, and expected dividend yield 0%.

At December 31, 2012, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Oustanding at December 31, 2011	Issued	Exercised	Expired	Oustanding at December 31, 2012
\$0.22	June 13, 2012	4,250,000	-	-	(4,250,000)	-
\$0.15 / \$0.20	until September 28, 2014 expiry September 28, 2015 ⁽¹⁾	-	11,300,000	-	-	11,300,000
\$0.15 / \$0.20	until September 28, 2014 expiry September 28, 2015 ^{(1),(2)}	-	904,000	-	-	904,000
\$0.15 / \$0.20	until December 19, 2014 expiry December 19, 2015 ⁽¹⁾	-	4,500,000	-	-	4,500,000
		4,250,000	16,704,000	-	(4,250,000)	16,704,000

- (1) The warrants are subject to an accelerated expiry whereby if after the four month plus one day hold period from the closing date of the private placement, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

- (2) As these warrants are agent's warrants, a fair value of \$97,470 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 107%, risk-free rate 1.14%, expected life 3 years, and expected dividend yield 0%.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

11. Share Capital (continued)

(e) Common shares reserved for issuance at December 31, 2014:

	Number of Shares
Stock options (Note 11(c))	10,130,000
Warrants (Note 11(d))	40,335,498
Balance, December 31, 2014	50,465,498

(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.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

12. Corporate Development and General and Administrative

	Years ended December 31,		
	2014	2013	2012
Corporate Development:			
Geology	\$ 3	\$ 18	\$ -
Legal	118	-	-
Metallurgy	25	-	-
Salaries and remuneration	106	-	-
Sundry	5	-	1
Travel and transportation	88	1	25
	<u>\$ 345</u>	<u>\$ 19</u>	<u>\$ 26</u>
General and Administrative:			
Accounting and audit	\$ 24	\$ 24	\$ 67
Legal	79	30	32
Office and sundry	77	54	51
Regulatory	70	58	73
Rent	40	57	66
	<u>\$ 290</u>	<u>\$ 223</u>	<u>\$ 289</u>

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

13. Related Party Transactions

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

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following general and administrative costs with related parties during the years ended December 31, 2014, 2013 and 2012:

	Years ended December 31,			Net balance receivable (payable) as at December 31,	
	2014	2013	2012	2014	2013
Key management compensation:					
Executive salaries and remuneration ⁽¹⁾	\$ 441	\$ 428	\$ 592	\$ (203)	\$ (222)
Severance	136	-	-	(4)	-
Directors fees	18	29	35	(198)	(201)
Share-based payments	205	76	89	-	-
	<u>\$ 800</u>	<u>\$ 533</u>	<u>\$ 716</u>	<u>\$ (405)</u>	<u>\$ (423)</u>
Legal fees incurred to a law firm in which a senior officer of the Company is a partner ⁽²⁾	\$ 102	\$ 67	\$ 82	\$ (172)	\$ (158)
Net office, sundry, rent and salary allocations recovered from (incurred to) company(ies) sharing certain common director(s) ⁽³⁾	(74)	59	36	(141)	(108)
Write-down of long-term investments ⁽⁴⁾	-	91	-	-	-
Write-off of receivables ⁽⁵⁾	-	54	-	-	-

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

⁽²⁾ Includes legal fees which are included in share issuance expenses.

⁽³⁾ The company(ies) include Aztec, BYG Ventures Ltd. ("BYG") and Endeavour Silver Corp. which share certain common director(s), and Caza Gold Corp. which shared a common director until December 17, 2013.

⁽⁴⁾ The Company wrote-down its investment in Aztec to a nominal value of CAD\$100 in 2013. Note 8 provides further details.

⁽⁵⁾ The Company wrote-off receivables from Aztec and BYG in 2013. Note 8 provides further details.

The above transactions are incurred in the normal course of business. Note 9 provides disclosures regarding demand loans with certain related parties.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

14. Segment Disclosures

The Company has one operating segment, being mineral exploration, with all assets located in Canada.

15. Other Corporate Transactions

- (a) In February 2014, the Company signed a Letter of Intent (the "LOI") with Pan American Goldfields Ltd. ("Pan American") with respect to a business combination whereby the Company may acquire all of the outstanding common shares of Pan American. Funds of \$40,000 were advanced to Pan American in April 2014 which bore an interest rate of 1% per month but was written off in September 2014 as collectability was doubtful. In May 2014, as a result of its due diligence, the Company terminated the LOI with Pan American.
- (b) On July 15, 2014, the Company and Santa Fe Gold Corporation ("Santa Fe") entered into a Share Exchange Agreement (the "Agreement") pursuant to which Santa Fe was to issue 66,000,000 shares of its common stock to the Company, and the Company was to issue 33,000,000 of its common shares to Santa Fe (the "Share Exchange"). Pursuant to the Agreement, in July 2014, the Company advanced a promissory note loan of \$200,000 to Santa Fe, which bore an interest rate of 12% per annum compounded monthly; both the principal and interest were due and payable on January 15, 2015, and any past due principal and interest shall bear an interest rate of 14%. In September 2014, further funds of \$20,000 were advanced to Santa Fe. On October 15, 2014, the conditions precedent set forth in the Agreement were not satisfied and the Agreement terminated on that date. The promissory note receivable from Santa Fe along with accrued interest was determined to be impaired as collectability was doubtful, and was written off at December 31, 2014. In 2015, demand notices for repayment have been submitted by the Company to Santa Fe, as the Company maintains its legal rights relative to the promissory note loan.

16. Deferred Income Taxes

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

	2014	2013
Net loss for the year	\$ (1,831)	\$ (1,377)
Canadian statutory tax rate	26.0%	26.0%
Income tax benefit computed at statutory rates	\$ (476)	\$ (358)
Temporary differences	220	11
Items non-deductible for income tax purposes	49	19
Unused tax losses and tax offsets not recognized in tax asset	207	437
Effect of change in tax rate	-	(109)
Deferred income tax recovery	\$ -	\$ -

Effective January 1, 2013, the Canadian federal corporate tax rate is 15% and the British Columbia provincial tax rate is 11% for a total Canadian statutory tax rate of 26%.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

16. Deferred Income Taxes (continued)

- (b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2014 and 2013 are presented below:

	December 31,	
	2014	2013
Deferred tax assets		
Non-capital losses carried forward	\$ 38	\$ -
Tax value over book value of equipment	-	-
Deferred tax assets	38	-
Deferred tax liabilities		
Book value over tax value of marketable securities	-	-
Book value over tax value of mineral properties	(38)	-
Deferred tax liabilities	(38)	-
Net deferred tax assets	\$ -	\$ -

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

	December 31,	
	2014	2013
Non-capital losses	\$ 8,748	\$ 8,754
Capital losses	8	10
Available for sale securities	50	55
Share issue costs	228	190
Tax value over book value of mineral properties	482	959
Tax value over book value of equipment	1,434	1,560
Unrecognized deductible temporary differences	\$ 10,950	\$ 11,528

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

For the Years ended December 31, 2014, 2013 and 2012

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

16. Deferred Income Taxes (continued)

(c) (continued)

As at December 31, 2014, the Company's unrecognized unused non-capital losses have the following expiry dates:

2015	\$	75
2026		672
2027		1,481
2028		679
2029		1,442
2030		817
2031		751
2032		978
2033		513
2034		1,341
	\$	8,749

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SHARES LISTED

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



Fourth Quarter Report

Management Discussion and Analysis

(expressed in United States dollars)

Years ended December 31, 2014 and 2013

CANARC RESOURCE CORP.
(the “Company”)

Fourth Quarter Report

Management’s Discussion and Analysis
For the Year ended December 31, 2014
(expressed in United States dollars)

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying audited consolidated statement of financial position as at December 31, 2014 and 2013 and the consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the years ended December 31, 2014, 2013 and 2012, and a summary of significant accounting policies and other explanatory information, all of which are available at the SEDAR website at www.sedar.com.

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

All information contained in the MD&A is as of March 24, 2015 unless otherwise indicated.

1.1 Background

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Year ended December 31, 2014

(expressed in United States dollars)

1.2 Overall Performance

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

New Polaris property (British Columbia, Canada)

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

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra Gold (British Columbia) Limited, a wholly-owned subsidiary of PanTerra Gold Limited, ("PanTerra"). PanTerra has a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment activities including metallurgical test work, drilling, detailed mine planning, tailings dam design, environmental permitting, and completion of a definitive feasibility study. In Stage One, PanTerra will spend CAD\$500,000 for laboratory production of flotation concentrate followed by test work through the Glencore Technology Albion pilot plant, and for comprehensive technical and economic review and commencement of environmental baseline data collection required for permitting. In Stage Two, PanTerra can earn a 20% interest in the New Polaris project by spending CAD\$3.5 million in predevelopment expenditures which would include 10,000 m drilling program and engineering and completion of field data required for environmental permitting. In Stage Three, PanTerra can earn an additional 30% interest in the project for a total interest of 50% by spending CAD\$6 million in predevelopment expenditures which would primarily focus on the completion of a definitive feasibility study and would include further 10,000 m of infill drilling, additional metallurgical test work, and preliminary engineering. PanTerra can increase its interest in the New Polaris project to 51% by purchasing 1% from the Company within six months of completion of the definitive feasibility study at a cost of 1% of the net present value established by the definitive feasibility study using a 10% discount rate.

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

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

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

MEASURED UNDILUTED RESOURCE

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Year ended December 31, 2014

(expressed in United States dollars)

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

INDICATED UNDILUTED RESOURCE

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

MEASURED PLUS INDICATED UNDILUTED RESOURCE

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

INFERRED UNDILUTED RESOURCE

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

* ton equals short dry ton

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

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

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

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

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

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

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

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

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

New Polaris AFTER TAX CASH FLOW SENSITIVITY ANALYSIS			
Description of Sensitivity	Cash Flow	NPV @ 5%	NPV @ 8%
	CAD\$ (000)s	CAD\$ (000)s	CAD\$ (000)s

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

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

The Qualified Person ("QP") pursuant to NI 43-101 for the updated preliminary economic assessment report is Jim Gray, P. Eng.

Windfall Hills property (British Columbia, Canada)

In April 2011, the Company entered into two property option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia. In April 2011, the Company entered into a property option agreement with Atna Resources Ltd. ("Atna") whereby the Company can acquire a 100% interest in the Uduk Lake properties by making \$750,000 in cash payments over a four year period of which \$125,000 has been paid, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting the vendor a 2% NSR production royalty. In March 2012, the

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Company amended the property option agreement in which the option payment of \$100,000 due on April 21, 2012 was payable in 12 monthly installments of \$8,333 over a twelve month period beginning April 21, 2012. Property option payments of \$25,000 were paid in 2013 (2012 - \$75,000). In April 2013, the Company entered into a property purchase agreement with Atna whereby the Company acquired a 100% undivided interest in the Uduk Lake properties by the issuance of 1,500,000 common shares at a value of CAD\$0.10 per share, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting Atna a 3% NSR production royalty.

In April 2011, the Company entered into a property option agreement with a vendor whereby the Company can acquire a 100% interest in the Dunn properties by making CAD\$250,000 in cash payments over a four year period, and a final bonus payment based on all gold resources estimated in an independent NI 43-101 technical report. The formula for the bonus payment is \$30 per oz for measured resources, \$20 per oz for indicated resources, and \$10 per oz for inferred resources. In March 2012, the Company amended the property option agreement in which the option payment of CAD\$25,000 due on April 20, 2012 was payable in three monthly installments of CAD\$8,333 over a three month period beginning April 21, 2012 which were paid. In April 2013, the Company entered into a property purchase agreement whereby the Company acquired a 100% undivided interest in the Dunn properties by the issuance of 500,000 common shares at a value of CAD\$0.10 per share and granting the vendor a 2% NSR royalty which can be reduced to 1% NSR royalty for \$500,000.

The Company completed a Phase 1 exploration program on its Windfall Hills project which included detailed soil and rock geochemical sampling over known target areas in 2011. A total of 340 geochemical soil samples were collected on a 100 meter by 25 meter grid over the main 2.8 sq. km. prospect area. Two anomalies were delineated on the basis of multi-element geochemistry.

In June 2014, the Company received government permit for the drilling program which was mobilized in July 2014 and was financed by a flow-through financing of CAD\$400,000 which closed in July 2014. Funds of CAD\$382,900 were expended for flow through purposes as at December 31, 2014. The Company completed 3 holes and 1,149 metres of drilling that intersected an alteration zone anomalous in gold-silver. The Company is evaluating the possibility of additional geochemical and geophysical surveys in 2015 in order to better target the mineralized zone, subject to financing.

Tay-LP property (Yukon, Canada)

On August 24, 2009, the Company entered into a property option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. (collectively, "Ross River") to acquire up to 100% interest in the Tay-LP gold property by paying CAD\$1 million in cash and/or shares and spending CAD\$1.5 million on exploration over a three-year period, which can occur in two stages. In the first stage, the Company can earn a 51% interest by paying CAD\$150,000 in cash and spending CAD\$900,000 on exploration over a two-year period. In the second stage, the Company can earn an additional 49%, thereby totalling 100% interest, by paying CAD\$850,000 in cash or shares at the Company's discretion and spending CAD\$600,000 on exploration by the third year. If the Company did not proceed with the second stage, then a joint venture would be formed. The Company was to pay to the optionors a gold bonus equal to CAD\$1 per ounce of gold for all proven and probable gold reserves and measured and indicated gold resources to a maximum of 1 million oz gold. The property option agreement was subject to net smelter returns ("NSR") totalling 3% which can be reduced to 1.5% by payments totalling US\$1.95 million. Commencing on or before October 31, 2009 and continuing on or before October 31 of each subsequent year until the property was put into commercial production, the Company was to pay to the NSR holders an annual advance NSR royalty payments totalling CAD\$25,000 or that number of common shares of the Company and which shall be deducted from NSR obligations. The NSR of 3% shall be subject to maximum total payments based on one million payable ounces of gold being mined by commercial production but will be reduced to 500,000 payable ounces of gold if the NSR is reduced to 1.5%.

On September 3, 2011, the Company and Ross River amended the property option agreement by increasing the cash payment of CAD\$50,000 to CAD\$75,000 due by October 31, 2011 (paid), deferring the exploration expenditures of CAD\$500,000 from October 31, 2011 to October 31, 2012 and exploration expenditures of CAD\$600,000 from October 31, 2012 to October 31, 2013, and including a cash payment of CAD\$25,000 due by October 31, 2012.

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In October 2012, the Company amended the property option agreement by extending the due date for the cash payment of CAD\$25,000 from October 31, 2012 to December 15, 2012 (paid); exploration expenditures of CAD\$500,000 for a 51% interest which were due on October 31, 2012 were increased to CAD\$700,000 and its due date extended to December 15, 2013; the due date of October 31, 2013 for both the payment of CAD\$850,000 in cash or that number in common shares and exploration expenditures of CAD\$600,000 for the remaining 49% interest was extended to December 15, 2014. Also the due date for annual advance NSR royalty payments of CAD\$25,000 or that number of common shares was extended from October 31, 2012 to December 15, 2012 and for each subsequent year thereafter.

Cash payments of CAD\$25,000 in property option obligation and CAD\$25,000 in advance NSR royalty were paid in December 2012.

The Company decided not to proceed with any further expenditure on the Tay-LP property which was written off in 2013.

Share Exchange Agreement with Santa Fe Gold Corporation

On July 15, 2014, the Company and Santa Fe Gold Corporation ("Santa Fe") entered into a Share Exchange Agreement (the "Agreement") pursuant to which Santa Fe was to issue 66,000,000 shares of its common stock to the Company, and the Company was to issue 33,000,000 of its common shares to Santa Fe (the "Share Exchange"). Upon consummation of the Share Exchange, Santa Fe would own approximately 17% of the Company's outstanding shares and the Company would own approximately 34% of Santa Fe's outstanding common shares. The Agreement did not close and terminated on its own terms on October 15, 2014.

The purpose of the Share Exchange was to facilitate a significant turnaround for Santa Fe and a material new opportunity for the Company driven by the appointment of the Company's nominees to the Santa Fe's management team and Board of Directors, the re-capitalization of Santa Fe, the re-structuring of Santa Fe's secured debt and re-development of its Summit gold-silver mine in New Mexico, USA. The Agreement contained representations, warranties, conditions and covenants of the parties customary for transactions of this type.

In connection with the strategic Share Exchange:

- Santa Fe's senior secured creditors, Waterton Global Value, L.P. ("Waterton"), Sandstorm Gold Ltd. and Sandstorm Gold (Barbados) Ltd. ("Sandstorm") have entered into respective agreements that demonstrated that they were supportive of the share exchange transaction and that they were amenable to restructuring collectively approximately \$20 million of Santa Fe indebtedness.
- Santa Fe had entered into a "best-efforts" Placement Agreement with an investment bank, pursuant to which it would place an estimated \$22 million of 8% Gold Bonds due in 2018 that were redeemable in cash or gold ETF.
- Mr. Bradford Cooke, Chairman and Founder of the Company had been appointed as Chairman of Santa Fe and Santa Fe's board shall consist of three current Santa Fe directors: Messrs. Jakes Jordan, Michael Heeley and Erich Hofer, and two nominees from the Company: Messrs. Bradford Cooke and Catalin Chiloflisch.
- the Company's CEO, Mr. Catalin Chiloflisch, had been appointed President and Chief Executive Officer and Director of Santa Fe, and the Company's Chief Operating Officer, Mr. Garry Biles, had been appointed Chief Operating Officer of Santa Fe.

Pursuant to the Agreement, in July 2014, the Company advanced a promissory note loan of \$200,000 to Santa Fe, which initially bore an interest rate of 12% per annum compounded monthly; both the principal and interest were due and payable on January 15, 2015, and any past due principal and interest shall bear an interest rate of 14%. In September 2014, further funds of \$20,000 were advanced to Santa Fe. The promissory note receivable from Santa Fe along with accrued interest was determined to be impaired as collectability was doubtful, and was written off at December 31, 2014. In 2015, demand

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notices for repayment have been submitted by Canarc to Santa Fe, as Canarc maintains its legal rights relative to the promissory note loan.

On October 15, 2014, the conditions precedent set forth in the Share Exchange Agreement were not satisfied and the agreement terminated on that date, and the Company's officers and directors who were appointed to the Santa Fe management and/or board, as specified in the Share Exchange Agreement, resigned from their respective roles as Santa Fe officers and/or directors.

Letter of Intent with Pan American Goldfields Ltd.

In February 2014, the Company signed a Letter of Intent (the "LOI") with Pan American Goldfields Ltd. ("Pan American") with respect to a business combination whereby the Company may acquire all of the outstanding common shares of Pan American (the "Transaction"). The LOI was however terminated in May 2014 as a result of the Company's due diligence.

The main asset of Pan American was its interest in the La Cieneguita mine properties located in Chihuahua State, Mexico. Pan American, together with its partner operator, Minera Rio Tinto SA de CV ("MRT"), was in pilot production at its gold-silver mine at La Cieneguita whereby Pan American received 35% of net cash flow from production. Subject to due diligence, the Company and Pan American were of the view that the mine can potentially be modernized and expanded in phases to become a core asset of the combined company.

The structure of the proposed Transaction was subject to review and consultation by the parties; however, the LOI anticipated that the Company would acquire all of the outstanding common shares of Pan American (the "Shares") and that the shareholders of Pan American would receive 0.82 (the "Exchange Ratio") of a common share of the Company and 0.25 of a warrant of the Company (each whole warrant being a "Warrant") for each Share held. The proposed Exchange Ratio implied a 25% premium to the volume weighted average price of the Shares over the last 20 trading days and accounted for the USD to CAD currency conversion. Each Warrant would be exercisable to purchase one common share of the Company at an exercise price equal to CAD\$0.15 for a period of 3 years.

Pan American had granted the Company a 130 day period of exclusivity (the "Exclusivity Period") to complete its due diligence and negotiate a definitive agreement with respect to the Transaction. The LOI would terminate on June 30, 2014 unless terminated earlier by either party as a result of its due diligence.

Pursuant to the terms of the LOI, the Company had agreed to pay \$100,000 (the "Funds") to Pan American, following TSX approval; funds of \$40,000 were advanced in April 2014 which bore an interest rate of 1% per month and was written off in September 2014 as collectability was doubtful. Pan American had agreed to repay the Funds to the Company in the event that (a) the Company terminated the LOI or determined not to proceed with the Transaction as a result of its due diligence; or (b) Pan American terminated the LOI or determined not to proceed with the Transaction for any reason.

The Company planned to use commercially reasonable efforts to raise up to \$1.8 million in working capital financing pursuant to a private placement, subject to regulatory approval. In the event that the private placement was completed, the parties had agreed to negotiate an interim loan facility (the "Loan"). Under the Loan, the Company would lend Pan American up to a total of \$250,000 prior to closing of the Transaction.

Following the completion of the Transaction, Pan American would have the right to nominate two persons to the board of directors of the combined company. The remainder of the board would be nominees of the Company.

The Transaction was subject to the parties negotiating and entering into a definitive agreement by June 30, 2014. Entering into a definitive agreement with respect to the Transaction was subject to, among other things: (a) each party being satisfied in its sole discretion as to the results of its due diligence review, and (b) approval of the board of directors of each party. The definitive agreement would include customary provisions and deal protections, including receipt of all necessary consents and approvals, including all required stock exchange and shareholder approvals.

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In May 2014, as a result of its due diligence, the Company terminated the LOI with Pan American.

Other Matters

In November 2013, the TSX had advised the Company that the TSX was reviewing the eligibility for continued listing on the TSX of the securities of the Company pursuant to Part VII of the Toronto Stock Exchange Company Manual. The Company was being reviewed under the Remedial Review Process and had been initially granted 120 days to comply with all requirements for continued listing with subsequent extensions to comply. Specifically the Company needed to comply with expenditures of CAD\$350,000 on exploration or development work on its mineral resource properties and with adequate working capital. For the nine months ended September 30, 2014, the Company closed private placements for gross proceeds totalling CAD\$3.26 million and completed its drilling program for the Windfall Hills property. In September 2014, the TSX confirmed that the Company satisfied the TSX's continued listing requirements.

In fiscal 2013, the Company received demand loans of \$126,000, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In January 2014, the Company repaid all principal and interest in full settlement of outstanding demand loans.

In January 2014, Mr. Catalin Chiloflisch replaced Mr. Bradford Cooke as Chief Executive Officer of the Company, but Mr. Cooke remained as Chairman and a Director of the Company. Also Mr. James Moors retired as Vice-President of Exploration. In April 2014, Mr. Gregg Wilson retired as Vice-President of Investor Relations.

On January 31, 2014, the Company closed a private placement for 18 million units at a price of CAD\$0.05 per unit for gross proceeds of CAD\$900,000. Each unit was comprised of one common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.10 per share until January 31, 2016. Finder's fees of CAD\$22,500 were paid for the private placement.

In January 2014, the Company granted 500,000 stock options to an officer with an exercise price of CAD\$0.05 and an expiry date of January 14, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In March and April 2014, the Company closed a private placement in two tranches totalling 19.6 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.96 million with each unit comprised of one common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.15 per share for a three year period. On March 18, 2014, the Company closed the first tranche for 10.6 million units for CAD\$1.06 million, and paid CAD\$66,170 in cash and issued 661,718 in warrants as finders' fees. On April 3, 2014, the Company closed the second tranche for 9 million units for CAD\$900,000, and paid CAD\$6,070 in cash and issued 60,725 in warrants as finders' fees. The finders' fee warrants have the same terms as the underlying warrants in the unit private placement.

On July 9, 2014, the Company closed a private placement for 5 million units at CAD\$0.08 per unit for gross proceeds of CAD\$400,000. Each unit was comprised of one flow-through common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until July 9, 2016. Funds of CAD\$382,900 were expended for flow-through purposes as at December 31, 2014.

In July 2014, the Company granted 4,050,000 stock options to directors, officers and employees with an exercise price of CAD\$0.10 and an expiry date of July 17, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In October 2014, the Company received 358,000 shares from Aztec Metals Corp., a company sharing certain common directors, ("Aztec") in settlement of debt owed to the Company which the Company had written off in 2013.

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1.3 Selected Annual Information

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

(in \$000s except per share amounts)	Years ended December 31,		
	2014	2013	2012
Total revenues	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items:			
(i) Total	\$ (1,831)	\$ (1,377)	\$ (1,206)
(ii) Basic per share	\$ (0.01)	\$ (0.01)	\$ (0.01)
(iii) Fully diluted per share	\$ (0.01)	\$ (0.01)	\$ (0.01)
Net loss:			
(i) Total	\$ (1,831)	\$ (1,377)	\$ (1,206)
(ii) Basic per share	\$ (0.01)	\$ (0.01)	\$ (0.01)
(iii) Fully diluted per share	\$ (0.01)	\$ (0.01)	\$ (0.01)
Total assets	\$ 12,564	\$ 12,488	\$ 13,983
Total long-term liabilities	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -

1.4 Results of Operations

Fourth Quarter of Fiscal 2014 – Year ended December 31, 2014 compared with December 31, 2013

The Company incurred a net loss of \$1.83 million for the year ended December 31, 2014 which is higher than the net loss of \$1.38 million for fiscal 2013, with commensurately higher operating losses in the current year. Net losses were impacted by different functional expense items.

The Company has no sources of operating revenues. Operating losses continue to be incurred for ongoing activities of the Company in seeking an appropriate joint venture partner to advance the New Polaris property and in pursuing mining projects of merit.

Corporate development expenses were lower in the first quarter of 2014 than the same quarter in 2013, but were higher in the remaining quarters of 2014. In the second quarter of fiscal 2014, the Company conducted due diligence work on the main asset of Pan American which is its interest in the La Cieneguita mine properties located in Chihuahua State, Mexico. This resulted in the signing of a letter of intent in February 2014 which anticipated that the Company would acquire all of the outstanding common shares of Pan American, but was terminated in May 2014 due to results from the Company's due diligence. In the second quarter, the Company focused its efforts on Santa Fe and its gold-silver mine and mill and the organic growth potential in the district which culminated in the execution of the Share Exchange Agreement in July 2014 whereby the Company would issue 33 million common shares to Santa Fe and Santa Fe would issue 66 million common shares to the Company; effectively the Company would have a 34% interest in Santa Fe and Santa Fe would have a 17% interest in the Company. In October 2014, the conditions precedent set forth in the Share Exchange Agreement was not satisfied and the agreement terminated on its own terms. Corporate development activities in the fourth quarter of fiscal 2014

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focused on evaluating an alternative metallurgical process which resulted in the Pre-Development and Earn-In Binding Agreement with PanTerra in February 2015 to advance the Company's New Polaris project. Major expenses incurred for corporate development include: legal fees for drafting and finalizing agreements, corporate and securities due diligence and property title opinions; geological and metallurgical assessments; salary allocations; and travel expenses for Mexico and the USA. In early 2013, the Company was involved in a strategic mine acquisition partnership which intensified the Company's efforts to identify acquisition opportunities which were to be debt financed but such arrangement ceased in March 2013. Corporate development expenses were negligible for the remaining quarters of 2013.

Remuneration for employees was higher in the current period relative to the prior period in 2013. The employment of a full time senior officer along with severance settlements for two other senior officers contributed to higher employee remuneration. Such employment contributed to the Company's ability to close three private placements totalling CAD\$3.26 million, letter of intent with Pan American which was subsequently terminated, share exchange agreement with Santa Fe which was subsequently terminated, and the pre-development and earn-in agreement in February 2015. Salary allocations during the term of the share exchange agreement prior to its termination resulted in lower salaries incurred for general administration in the third quarter of fiscal 2014 in comparison to prior comparative quarters of 2014 and 2013; these expenses have been accordingly allocated to corporate development efforts.

General and administrative expenses were higher in 2014 than in 2013. The principle factor was legal services rendered to the Company in relation to TSX delisting review, advisory services rendered to the Board on compensation matters, appointment of a new senior officer, severance settlements with two other senior officers, and corporate finance issues relating to its working capital. In 2013, legal services were mainly for the strategic mine acquisition partnership which was terminated in March 2013. Office and sundry and rent reflect the ongoing expenditures for ancillary office support facilities in which the former was higher in the current period due to increased level of corporate activity related to project due diligence, equity financings and exploration program for the Windfall Hills project. Regulatory fees were higher for the current fiscal year from the proposed shares-for-debt settlement for directors' fees payable which required shareholder approval at the Company's annual general meeting held in June 2014 which resolution did not pass. In 2013, the Company had reduced discretionary expenses due to limited cash resources.

Shareholder relations activities were heightened in 2014 than in 2013 for shareholder communications and marketing services principally in Europe to attract a greater breadth of investor base, to promote new interest in the Company's mineral properties, and to create greater awareness of its letter of intent with Pan American for the La Cieneguita mine project at that time. Such activities provided the catalyst for the Company to close equity financings of CAD\$3.26 million with a geographically diverse group of overseas shareholders. Shareholder activities continued from commitments from prior quarters with no new shareholder activities being implemented in the remaining quarters of fiscal 2014 as the primary focus was the Share Exchange Agreement with Santa Fe and arranging financing for Santa Fe, which agreement was terminated in October 2014.

Share-based payments were higher in the current period than in the prior comparable period. The Company granted 500,000 stock options in January 2014 which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter. Then in July 2014, the Company granted 4,050,000 stock options to directors, officers and employees with an exercise price of CAD\$0.10 and an expiry date of July 17, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter; this resulted in the increase in share based payments expenses in the third quarter of 2014. Two million stock options with vesting provisions were granted in the second quarter of 2013. The forfeiture of stock options in January 2014 and April 2014 due to the retirement of two senior officers reduced share-based payments. Also the 1,460,000 stock options which were granted in June 2012 with an exercise price of CAD\$0.145 and an expiry date of June 18, 2017 will only vest when the Company consummates a major transaction or at the discretion of its Board of Directors, and such stock options have not vested as at December 31, 2014. No probable likelihood of a material transaction was attributed to these June 2012 stock option grants, and therefore no share-based payments have been recognized.

Interest income is realized from the Company's premium investment savings account which is cashable at any time and for the accrued interest for the \$40,000 loan owed by Pan American and the \$200,000 promissory note and a further loan of \$20,000 owed by Santa Fe in which such demand loans were written off due to impairment issues as collectability was

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doubtful. In 2015, demand notices for repayment have been submitted by the Company to Santa Fe, as the Company maintains its legal rights relative to the promissory note loan.

Interest expense was higher in 2013 from the demand loans and for the estimated flow through indemnity obligation from ineligible Canadian exploration expenditures for flow-through purposes; the latter was derecognized at the end of fiscal 2013 as the Company determined that it was improbable that any further cash outlays would be required. Demand loans were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In January 2014, the Company repaid all principal and interest in full settlement of outstanding demand loans.

Foreign exchange gain or loss reflects the transactional impact in the foreign exchange fluctuations of the US\$ relative to the CAD\$, and not attributable to translation effects.

As at December 31, 2014, the Company has mineral property interests which are comprised of the following:

(\$000s)	British Columbia (Canada)		Yukon (Canada)	Total
	New Polaris	Windfall Hills	Tay-LP	
Acquisition Costs:				
Balance, December 31, 2012	\$ 3,905	\$ 210	\$ 174	\$ 4,289
Additions	-	212	-	212
Foreign currency translation adjustment	(13)	(14)	(11)	(38)
Write-off	-	-	(163)	(163)
Balance, December 31, 2013	3,892	408	-	4,300
Additions	-	27	-	27
Foreign currency translation adjustment	(16)	(34)	-	(50)
Balance, December 31, 2014	\$ 3,876	\$ 401	\$ -	\$ 4,277
Deferred Exploration Expenditures:				
Balance, December 31, 2012	\$ 8,643	\$ 117	\$ 495	\$ 9,255
Additions	17	(18)	10	9
Foreign currency translation adjustment	(722)	(7)	(32)	(761)
Write-off	-	-	(473)	(473)
Balance, December 31, 2013	7,938	92	-	8,030
Additions, net of recoveries	23	352	-	375
Foreign currency translation adjustment	(871)	(7)	-	(878)
Balance, December 31, 2014	\$ 7,090	\$ 437	\$ -	\$ 7,527
Mineral property interests:				
Balance, December 31, 2013	\$ 11,830	\$ 500	\$ -	\$ 12,330
Balance, December 31, 2014	10,966	838	-	11,804

1.5 Summary of Quarterly Results (Unaudited)

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, December 31, 2014. All dollar amounts are expressed in U.S. dollars unless otherwise indicated.

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(in \$000s except per share amounts)	2014				2013			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items:								
(i) Total	\$ (569)	\$ (412)	\$ (379)	\$ (471)	\$ (765)	\$ (250)	\$ (133)	\$ (229)
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ -	\$ -	\$ -
Net loss:								
(i) Total	\$ (569)	\$ (412)	\$ (379)	\$ (471)	\$ (765)	\$ (250)	\$ (133)	\$ (229)
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ (0.01)	\$ -	\$ -	\$ -
Total assets	\$ 12,564	\$ 13,471	\$ 14,072	\$ 13,529	\$ 12,488	\$ 13,686	\$ 13,459	\$ 13,689
Total long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The write-off of the Tay LP project in November 2013 contributed to the proportionately higher net loss in the fourth quarter of fiscal 2013. The write-off was partially offset by the derecognition of certain payables and the derecognition of the provision for flow-through obligations in the fourth quarter of fiscal 2013.

1.6 Liquidity

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

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

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(\$000s)	December 31,	
	2014	2013
Cash	\$ 675	\$ 50
Working capital (deficiency)	(156)	(921)

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

In fiscal 2013, the Company received demand loans of \$126,000 from certain directors of the Company, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In January 2014, the Company repaid all principal and interest in full settlement of outstanding demand loans.

On January 31, 2014, the Company closed a private placement for 18 million units at a price of CAD\$0.05 per unit for gross proceeds of CAD\$900,000. Items 1.2 and 1.15.2 provide further details.

In March and April 2014, the Company closed a private placement in two tranches totalling 19.6 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.96 million. Items 1.2 and 1.15.2 provide further details.

On July 9, 2014, the Company closed a private placement for 5 million units at CAD\$0.08 per unit for gross proceeds of CAD\$400,000. Items 1.2 and 1.15.2 provide further details.

In February 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra in which PanTerra can earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment. The Company received CAD\$250,000 in February 2015 to proceed with metallurgical test work, technical and economic review, and environmental baseline data collection.

In the past, the Company has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.7, further details of contractual obligations are provided as at December 31, 2014. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

At December 31, 2014, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Number of Shares
New Polaris:	
Net profit interest reduction or buydown	150,000
	<hr/>
	150,000

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

In February 2014, the Company signed a LOI with Pan American with respect to a business combination whereby the Company may acquire all of the outstanding common shares of Pan American, subject to, among other things, due diligence and regulatory and shareholder approvals. The LOI anticipated that the Company would acquire all of the outstanding common shares of Pan American and that the shareholders of Pan American would receive 0.82 of a common share of the Company and 0.25 of a warrant of the Company for each Pan American share held. In May 2014, as a result of its due diligence, the Company terminated the LOI with Pan American. Item 1.2 provides further details.

On July 15, 2014, the Company and Santa Fe entered into a Share Exchange Agreement pursuant to which Santa Fe would issue 66 million shares of its common stock to the Company, and the Company would issue 33 million of its common shares to Santa Fe whereby upon consummation of the share exchange, Santa Fe would own approximately 17% of the Company's outstanding shares and the Company would own approximately 34% of Santa Fe's outstanding common shares. On October 15, 2014, the conditions precedent set forth in the Share Exchange Agreement were not satisfied, and the agreement terminated on that date. Item 1.2 provides further details.

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra. PanTerra has a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment activities including metallurgical test work, drilling, detailed mine planning, tailings dam design, environmental permitting, and completion of a definitive feasibility study. PanTerra can increase its interest in the New Polaris project by 1% to 51% at a cost of 1% on the net present value from the definitive feasibility study using a 10% discount rate. Item 1.2 provides further details.

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

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

1.9 Transactions with Related Parties

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

Except as disclosed elsewhere in the MD&A, the Company had the following general and administrative costs with related parties during the years ended December 31, 2014, 2013 and 2012:

	Years ended December 31,			Net balance receivable (payable) as at December 31,	
	2014	2013	2012	2014	2013
Key management compensation:					
Executive salaries and remuneration ⁽¹⁾	\$ 441	\$ 428	\$ 592	\$ (203)	\$ (222)
Severance	136	-	-	(4)	-
Directors fees	18	29	35	(198)	(201)
Share-based payments	205	76	89	-	-
	<u>\$ 800</u>	<u>\$ 533</u>	<u>\$ 716</u>	<u>\$ (405)</u>	<u>\$ (423)</u>
Legal fees incurred to a law firm in which a senior officer of the Company is a partner ⁽²⁾	\$ 102	\$ 67	\$ 82	\$ (172)	\$ (158)
Net office, sundry, rent and salary allocations recovered from (incurred to) company(ies) sharing certain common director(s) ⁽³⁾	(74)	59	36	(141)	(108)
Write-down of long-term investments ⁽⁴⁾	-	91	-	-	-
Write-off of receivables ⁽⁵⁾	-	54	-	-	-

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

(2) Includes legal fees which are included in share issuance expenses.

(3) The company(ies) include Aztec, BYG Ventures Ltd. ("BYG") and Endeavour Silver Corp. which share certain common director(s), and Caza Gold Corp. which shared a common director until December 17, 2013.

(4) The Company wrote-down its investment in Aztec to a nominal value of CAD\$100 in 2013.

(5) The Company wrote-off receivables from Aztec and BYG in 2013.

Amounts which are incurred to related parties are in the normal course of business. The Company shares common office facilities, employee and administrative support, and office sundry amongst companies with certain common director(s), and such allocations to the Company are on a full cost recovery basis. Any balances due to related parties are payable on demand.

1.10 Fourth Quarter

Items 1.2, 1.4, 1.5, 1.6 and 1.7 provide further details for the fourth quarter of fiscal 2014.

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1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates and Judgements

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

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

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

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

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

In 2013, the Company determined that it was improbable that the provision for flow-through indemnification which was related to ineligible exploration expenditures for flow through purposes would result in cash outlays, and therefore the Company derecognized the obligation.

1.13 Changes in Accounting Policies including Initial Adoption

The Company did not early adopt any recent pronouncements as disclosed in Note 2(f) of the audited consolidated financial statements for the year ended December 31, 2014.

1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as financial assets at fair value through profit or loss ("FVTPL"),

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- marketable securities and long term investments as available-for-sale ("AFS") financial assets,
- receivables and promissory notes receivable as loans and receivables,
- accounts payable and accrued liabilities and notes payable as other financial liabilities, and
- derivative liability for warrants as derivative financial liabilities.

Management of Financial Risk

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

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

The fair values of the Company's receivables, promissory note receivable, accounts payable and accrued liabilities and notes payable approximate their carrying values due to the short terms to maturity. Cash is measured at fair values using Level 1 inputs. Disclosure is not made of the fair value of the long-term investments as the shares do not have a quoted market price in an active market. There is no separately quoted market value for the Company's investment in the shares of Aztec, and the fair value cannot be reliably determined. Therefore they were recorded at cost in 2012 and written down to a nominal value of CAD\$100 in 2013 due to the lack of liquidity in the stock. In October 2014, the Company received 358,000 shares from Aztec in settlement of debt owed to the Company which the Company had written off in 2013. All gains and losses are included in operations in the period in which they arise.

(a) Credit risk:

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

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

Management has reviewed the items comprising the accounts receivable balance which include amounts receivable from certain related parties, provincial tax credit for qualified mineral expenditures, and goods and services tax refunds due from the government, and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. As at December 31, 2014, the Company had a working capital deficiency of \$156,000 (2013 - \$921,000). The Company will require additional funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2015.

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

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(c) Market risk:

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

(i) Foreign currency risk:

The Company's mineral property interests and operations are in Canada. A certain portion of its operating expenses are incurred in Canadian dollars, and fluctuations in U.S. dollars would impact the cumulative translation adjustment of the Company and the values of its assets and liabilities as its audited consolidated financial statements are stated in U.S. dollars.

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

	December 31,	
	2014	2013
	(Held in CAD\$)	
Cash	\$ 643	\$ 48
Accounts receivable	10	-
Accounts payable and accrued liabilities	(799)	(852)
Net assets (liabilities)	\$ (146)	\$ (804)

Based upon the above net exposure as at December 31, 2014 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$14,600 (2013 - \$80,400) in cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

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

(iii) Other price risk:

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

The Company's other price risk includes equity price risk, whereby the Company's investment in marketable securities is subject to market price fluctuations. The Company held no marketable securities at December 31, 2014 and 2013.

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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 years ended December 31, 2014, 2013 and 2012.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the year ended December 31, 2014 are as follows:

	Number of Shares	Amount (in \$000s)
Balance at December 31, 2013	114,818,195	\$ 60,178
Issued:		
Private placement, net of share issue costs	42,618,110	2,734
Balance at December 31, 2014	157,436,305	\$ 62,912

On January 31, 2014, the Company closed a private placement for 18 million units at a price of CAD\$0.05 per unit for gross proceeds of CAD\$900,000. Each unit was comprised of one common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.10 per share until January 31, 2016. Finder's fees of CAD\$22,500 were paid for the private placement.

In March and April 2014, the Company closed a private placement in two tranches totalling 19.6 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.96 million with each unit comprised of one common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.15 per share for a three year period. On March 18, 2014, the Company closed the first tranche for 10.6 million units for CAD\$1.06 million, and paid CAD\$66,170 in cash and issued 661,718 in warrants as finders' fees. On April 3, 2014, the Company closed the second tranche for 9 million units for CAD\$900,000, and paid CAD\$6,070 in cash and issued 60,725 in warrants as finders' fees. The finders' fee warrants have the same terms as the underlying warrants in the unit private placement.

On July 9, 2014, the Company closed a private placement for 5 million units at CAD\$0.08 per unit for gross proceeds of CAD\$400,000. Each unit was comprised of one flow-through common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until July 9, 2016.

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On July 15, 2014, the Company and Santa Fe entered into a Share Exchange Agreement pursuant to which Santa Fe would issue 66 million shares of its common stock to the Company, and the Company would issue 33 million of its common shares to Santa Fe whereby upon consummation of the share exchange, Santa Fe would own approximately 17% of the Company's outstanding shares and the Company would own approximately 34% of Santa Fe's outstanding common shares. On October 15, 2014, the conditions precedent set forth in the Share Exchange Agreement were not satisfied, and the agreement terminated on that date. Item 1.2 provides further details.

At March 24, 2015, there were 157,436,305 common shares issued and outstanding.

At December 31, 2014, the Company had outstanding stock options to purchase an aggregate 10,130,000 common shares as follows:

	2014	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	8,325,000	\$0.11
Granted	4,550,000	\$0.09
Forfeited	(175,000)	\$0.10
Expired	<u>(2,570,000)</u>	\$0.11
Outstanding balance, end of period	10,130,000	\$0.10
<hr/>		
Exercise price range (CAD\$)	\$0.05 - \$0.145	

At December 31, 2014, 10,130,000 stock options are outstanding of which 5,210,000 stock options are exercisable.

In January 2014, the Company granted 500,000 stock options to an officer with an exercise price of CAD\$0.05 and an expiry date of January 14, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

In July 2014, the Company granted 4,050,000 stock options to directors, officers and employees with an exercise price of CAD\$0.10 and an expiry date of July 17, 2019, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

At March 24, 2015, stock options for 10,105,000 common shares remain outstanding of which 6,105,000 stock options are exercisable.

At December 31, 2014, the Company had outstanding warrants as follows:

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Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2013	Issued	Exercised	Expired	Outstanding at December 31, 2014
\$0.20	September 28, 2015 ⁽¹⁾	11,300,000	-	-	-	11,300,000
\$0.20	September 28, 2015 ^{(1),(2)}	904,000	-	-	-	904,000
\$0.20	December 19, 2015 ⁽³⁾	4,500,000	-	-	-	4,500,000
\$0.15 / \$0.20	until January 11, 2015 expiry January 11, 2016 ⁽⁴⁾	600,000	-	-	-	600,000
\$0.15 / \$0.20	until January 18, 2015 expiry January 18, 2016 ⁽⁵⁾	1,000,000	-	-	-	1,000,000
\$0.10	January 31, 2016	-	9,000,000	-	-	9,000,000
\$0.15	March 18, 2017	-	5,309,055	-	-	5,309,055
\$0.15	March 18, 2017 ⁽⁶⁾	-	661,718	-	-	661,718
\$0.15	April 3, 2017	-	4,500,000	-	-	4,500,000
\$0.15	April 3, 2017 ⁽⁷⁾	-	60,725	-	-	60,725
\$0.15	July 9, 2016	-	2,500,000	-	-	2,500,000
		18,304,000	22,031,498	-	-	40,335,498

(1) These warrants are subject to an accelerated expiry whereby if after January 29, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

(2) As these warrants are agent's warrants, a fair value of \$97,470 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 107%, risk-free rate 1.14%, expected life 3 years, and expected dividend yield 0%.

(3) These warrants are subject to an accelerated expiry whereby if after April 20, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

(4) These warrants are subject to an accelerated expiry whereby if after May 12, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to

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accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

- (5) These warrants are subject to an accelerated expiry whereby if after May 19, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.
- (6) As these warrants are agent's warrants, a fair value of \$43,120 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%.
- (7) As these warrants are agent's warrants, a fair value of \$3,335 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%.

At March 24, 2015 warrants for 40,335,498 common shares remain outstanding.

1.16 Outlook

The Company will continue to depend upon equity financings to continue exploration work on its mineral property interests and to meet its administrative overhead costs for the 2015 fiscal year. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

1.17 Risk Factors

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

Exploration and Development Risks

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

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of bodies of commercial ore. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grades and tonnages of ore mined, fluctuating mineral market prices, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Substantial expenditures are required to establish reserves through drilling and other work, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, mineral

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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 property interests.

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

Estimates of Mineral Deposits

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

Although all figures with respect to the size and grade of mineralized deposits, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are historic estimates only and are not compliant with NI 43-101, except for the Company's New Polaris project which was the subject of a NI 43-101 report dated March 14, 2007, and no assurance can be given that any identified mineralized deposit will ever qualify as a commercially viable mineable ore body that can be legally and economically exploited. Estimates regarding mineralized deposits can also be affected by many factors such as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grades and tonnages of ore ultimately mined may differ from that indicated by drilling results and other work. There can be no assurance that gold recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions. Material changes in mineralized tonnages, grades, dilution and stripping ratios or recovery rates may affect the economic viability of projects. The existence of mineralized deposits should not be interpreted as assurances of the future delineation of ore reserves or the profitability of future operations. The refractory nature of gold mineralization at New Polaris 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

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retaining their respective values. There is no assurance that the prices of gold and other precious and base metals will be such that the Company's mineral property interests can be mined at a profit.

Title Matters

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

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

Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

The current or future operations of the Company, including exploration and development activities and commencement of production on its mineral property interests, require permits from various foreign, federal, state and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and

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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.

Reclamation

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

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

Third Party Reliance

The Company's rights to acquire interests in certain mineral properties 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.

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Volatility of Shares Could Cause Investor Loss

The market price of a publicly traded stock, especially a junior issuer like the Company, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of the market for junior resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of the common shares on the TSX and NASD-OTC suggests that the Company's shares will continue to be volatile. Therefore, investors could 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, 2014, the Company had 157,436,305 common shares and 10,130,000 outstanding share purchase options and 40,335,498 share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At December 31, 2014, securities that could be dilutive represented approximately 32.1% of the Company's issued shares. None of these dilutive securities were exercisable at prices below the December 31, 2014 closing market price of CAD\$0.03 for the Company's shares, which accordingly would not result in dilution to existing shareholders.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013)*. Based on its evaluation, management has concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at December 31, 2014, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of the audited consolidated financial statements. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Controls over Financial Reporting

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

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

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

Management concluded that the audited consolidated financial statements for the year ended December 31, 2014 fairly present the Company's financial position and its financial performance for the period then ended.

Changes in Internal Controls over Financial Reporting

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