**Consolidated Financial Statements**

**(expressed in United States dollars)**

**Years ended December 31, 2011 and 2010**

# SHAREHOLDER UPDATE

## Review of Fiscal 2011 and Outlook for Fiscal 2012

**Bradford Cooke, Chairman and CEO of Canarc Resource Corp. (TSX: CCM, OTC-BB: CRCUF, DB-Frankfurt: CAN),** is pleased to provide the following review of Canarc's progress in 2011 and its plans for 2012.

**Highlights of 2011**

- Dropped the offer to purchase the Relief Canyon gold mine for due diligence reasons and sold the Relief Canyon assay laboratory near Lovelock, Nevada for US$600,000 plus expenses, which allowed Canarc to recover all of its sunk costs for the mine and lab acquisition.
- Completed an updated NI 43-101 Preliminary Economic Assessment Report for the New Polaris gold mine project in northwestern British Columbia, which significantly enhanced the robust project economics for Canarc to build and operate a 72,000 oz per year gold mine at New Polaris.
- Received several expressions of interest from mining companies interested in an option and joint venture to advance New Polaris through mine development and a feasibility study, and agreed on a non-binding letter of intent with one party, but they were unable to close the agreement.
- Amended the Tay LP property option agreement with Ross River Minerals Inc. to extend the option commitments by one year.
- Identified several new exploration targets on the Tay LP property in the light of the positive results from the 470 kilometer airborne geophysical survey that Cap-Ex completed in 2010.
- Acquired the Windfall Hills project (3,780 hectares) located in central British Columbia about 90 km northwest of New Gold's 7.8 million oz Blackwater gold deposit.
- Staked three additional gold properties called Devils Thumb, Devils Thumb East and Windfall Hills East (15,175 hectares) north and east of the Windfall Hills project.
- Defined initial drill targets on the Windfall Hills project by completing a Phase 1 exploration program including detailed soil and rock geochemical sampling over the main target area
- Evaluated several attractive merger and acquisition opportunities in order to take the Company to another level of growth in an accretive manner

As you know, last year was a challenging one for Canarc. After exiting 2010 on an upbeat note thanks to the proposed acquisition of the Relief canyon gold mine in Nevada, Canarc elected to drop its offer to purchase Relief Canyon for due diligence reasons and sold the Relief Canyon assay laboratory near Lovelock, Nevada for US$600,000 plus expenses, which allowed Canarc to recover all of its sunk costs for the mine and lab acquisition.

Even though management diligently pursued our business plan to create shareholder value by finding a partner to advance New Polaris through mine development and a feasibility study, and we did agree on a non-binding letter of intent with one party, they were unable to close the agreement and we had to restart the process of generating expressions of interest from mining companies interested in New Polaris.

As a result of not moving forward on Relief Canyon and not securing a partner for New Polaris, as well as the sharp sell-off in gold prices and gold stocks in the 4th Quarter of 2011, and notwithstanding the progress Canarc made on enhancing its property portfolio in 2011, Canarc's share price returned to the Cdn$0.10 range where it was early in 2010.

The good news is that the updated preliminary economic assessment of the New Polaris gold mine project returned substantially improved economics for the development of a 72,000 oz per year gold mine. Canarc has recently received several new expressions of interest from mining companies interested in New Polaris so management will continue to focus on trying to close an agreement with a new partner.

**New Polaris:** Moose Mountain Technical Services updated and optimized their preliminary economic assessment of New Polaris and the results were substantially improved economics for the New Polaris gold mine project. Using updated parameters in the base case economic model for the gold price (US$1200 per oz), $CA/$US exchange rate (1.00), cash costs (US$481 per oz) and cut-off grade (7 grams per tonne), the updated Moose Mountain PEA generates a discounted (5%) after-tax Net Present Value ("NPV") of CA$129.8 million with an after-tax Internal Rate of Return ("IRR") of 31.4% and a 2.5 year pay-back period. On a pre-tax basis, the undiscounted life-of-mine cash flow totals CA$280.8 million with a 38.1% IRR and a 2.4 year pay-back period. At a US$1400 per oz gold price, New Polaris has an after-tax NPV (5%) of US$195 million with an IRR = 42.8% and a 1.85 year payback period.

**Tay LP:** Canarc evaluated the data from a 470 km airborne geophysical survey flown in 2010 and identified a number of strong EM conductors and magnetic anomalies within prospective geological settings that have never been drilled. Management has prioritized these conductors and anomalies for drilling in 2012.

**Windfall Hills:** After acquiring options to purchase 100% interests in two adjacent gold properties in the Windfall Hills area, located 65 kilometers (km) south of Burns Lake and 90 km northwest of Richfield Ventures' Blackwater gold discovery in central BC, Canarc conducted a 340 sample soil geochemical program on a 100 meter by 25 meter grid over the main 2.8 sq. km. historic prospect area. The work defined two gold-silver geochemical soil anomalies flanking two geophysical resistivity anomalies that are ready for drilling in 2012. The Company also staked three additional gold properties called Devils Thumb, Devils Thumb East and Windfall Hills East totaling 15,175 hectares north and east of the Windfall Hills project and plans to carry out reconnaissance mapping and sampling this year.

**Outlook for 2012**

- Canarc recently received several new expressions of interest from mining companies interested in an option and joint venture to advance New Polaris through mine development and a feasibility study, so management will continue to focus on trying to close an agreement with a new partner.
- Since the Company is seeking a significant initial payment or investment from any new partner on New Polaris, the Board of Directors has provided temporary debt financing to Canarc in order to avoid issuing new equity at this time
- Canarc also plans to drill several attractive gold targets at the Windfall Hills and Tay LP gold properties, subject to securing either option and joint venture partners or appropriate financing
- The Company will continue to evaluate merger and acquisition opportunities to grow its gold exploration and mining portfolio in North America.

The near term outlook for gold and gold stocks in 2012 is a bumpy one given the long shadow cast by the European debt crisis over all markets. However, recent economic recovery in the USA and continued economic growth in Asia should all have a positive influence on gold in the longer term. Management is bullish that gold will seek new highs again later this year due to recent unrest in the Middle East, the continuing decline of fiat currencies and the inflation that inevitably arises from reflationary monetary policies.

Canarc plans to pursue the four strategic initiatives to create value for shareholders in 2012.

Firstly, Canarc will continue to seek a strategic financing or joint venture partner to advance the New Polaris high grade gold mine project through mine development and a bankable feasibility study. Given that gold prices continue to rise, and the company holding the Tulsequah Chief property adjacent to New Polaris has already received its government environmental permit, signed an MOU with the local native band and is expecting to receive shortly its revised feasibility study and financing commitments to build their 2,000 tonne per day poly-metallic mine, the time is right for Canarc to move forward with New Polaris.

Secondly, the Company will look for ways to optimize its interest in the Tay LP property. Gold mineralization at Tay-LP shares some geological similarities with other recent gold discoveries within the Tintina Gold Belt, such as the Rau property of Atac Resources (ATC: TSX-V) and the Ketza River gold deposit of Yukon-Nevada Gold (YNG: TSX). The recent airborne geophysical survey located several strong EM conductors and magnetic anomalies that represent high priority drill targets. Combine these with the prospective geological setting, and numerous other untouched geophysical and geochemical anomalies, and it is safe to say that there are many attractive exploration targets waiting to be explored at Tay LP.

Thirdly, the Windfall Hills properties represent a major landholding with excellent exploration potential in the same geological setting as BC's most exciting new gold discovery in two decades, the 7.8 million oz Blackwater gold deposit of New Gold in central BC.

Lastly, we will continue to pursue new opportunities for growth by evaluating attractive gold projects in the USA and Canada for acquisition where management's exploration and mining experience can add value.

We appreciate the continued support of our many shareholders, and we all look forward to a rewarding year of growth for the Company.

James Moors, B.Sc., P.Geo, Vice President, Exploration for Canarc, is the Qualified Person who reviewed the technical information herein and approved this news release.

**Canarc Resource Corp.** is a growth-oriented, gold exploration company listed on the TSX (CCM) and the OTC-BB (CRCUF). Canarc is currently focused on advancing its New Polaris gold mine project in north-western British Columbia to the feasibility stage, exploring the Tay LP, Windfall Hills and Devil's Thumb properties, and acquiring attractive gold exploration and mining projects in North America.

**CANARC RESOURCE CORP.**
Per:

*/s/ Bradford J. Cooke*

**Bradford J. Cooke** March 26, 2012
*Chairman and C.E.O.*

**CAUTIONARY DISCLAIMER – FORWARD LOOKING STATEMENTS**

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

## 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, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 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 indicates that the Company incurred a net loss of $1,209,000 during the year ended December 31, 2011 (2010 - $1,396,000) and, as of that date, the Company's current liabilities exceeded its current assets by $577,000 (2010 - $1,149,000). These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, Canada
March 23, 2012

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# CANARC RESOURCE CORP.

Consolidated Statements of Financial Position
(expressed in thousands of United States dollars)

| | Notes | 2011 December 31 | 2010 December 31 | 2010 January 1 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | | **$ 45** | $ 592 | $ 155 |
| Receivables and prepaids | 15 | **92** | 105 | 193 |
| Marketable securities | 6 | **93** | 25 | - |
| Royalty receivable - current portion | 7(b) | **-** | 50 | 50 |
| Total Current Assets | | **230** | 772 | 398 |
| **NON-CURRENT ASSETS** | | | | |
| Mineral properties | 7 | **12,948** | 12,724 | 12,626 |
| Deposit on asset acquisition | 7(c ) | **-** | 300 | - |
| Equipment | 8 | **7** | 10 | 2 |
| Royalty receivable - long-term portion | 7(b) | **-** | - | 46 |
| Long-term investments | 9 | **92** | 94 | 143 |
| Total Non-Current Assets | | **13,047** | 13,128 | 12,817 |
| Total Assets | | **$ 13,277** | $ 13,900 | $ 13,215 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | 15 | **$ 524** | $ 532 | $ 607 |
| Notes payable | 10 | **88** | 81 | 63 |
| Flow-through obligations | 11 | **195** | 226 | 377 |
| Derivative liability for warrants | 12 | **-** | 1,082 | 193 |
| Total Liabilities | | **807** | 1,921 | 1,240 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 13 | **58,258** | 57,685 | 56,436 |
| Reserve for share-based payments | | **1,081** | 1,259 | 1,316 |
| Accumulated other comprehensive income | | **(54)** | 10 | - |
| Deficit | | **(46,815)** | (46,975) | (45,777) |
| Total Shareholders' Equity | | **12,470** | 11,979 | 11,975 |
| Total Liabilities and Shareholders' Equity | | **$ 13,277** | $ 13,900 | $ 13,215 |

Refer to the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

*/s/ Bradford Cooke* — Director

*/s/ William Price* — 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, 2011 | 2010 |
|---|---|---|---|
| **Expenses:** | | | |
| Amortization | | **$ 3** | $ 1 |
| Corporate development | | **46** | 12 |
| Employee and director remuneration | 15 | **424** | 383 |
| Foreign exchange loss | | **15** | 43 |
| General and administrative | 14 and 15 | **296** | 308 |
| Shareholder relations | | **80** | 62 |
| Share-based payments | 13(c ) and 15 | **241** | 143 |
| **Loss before the undernoted** | | **(1,105)** | (952) |
| Gain on disposition of long-term investment | | **-** | 257 |
| Accretion of royalty receivable | 7(b) | **-** | 4 |
| Write-off of equipment | 8 | **-** | (1) |
| Write-off of GST recoveries | | **(25)** | - |
| Due diligence costs on asset acquisition | 7(c ) | **(60)** | (20) |
| Interest expense | 10 and 11 | **(20)** | (14) |
| Flow-through financing costs | 11 | **-** | 150 |
| Unrealized loss from derivative warrant liability | | **-** | (913) |
| **Loss before income tax** | | **(1,210)** | (1,489) |
| Deferred income tax recovery | 13(b) and 17 | **1** | 93 |
| **Net loss for the year** | | **(1,209)** | (1,396) |
| Other comprehensive (loss) income: | | | |
| Unrealized gain on available-for-sale securities | 6 | **71** | 10 |
| Foreign currency translation adjustment | | **(135)** | - |
| **Comprehensive loss for the year** | | **$ (1,273)** | $ (1,386) |
| **Basic and diluted loss per share** | | **$ (0.01)** | $ (0.02) |
| Weighted average number of common shares outstanding | | **93,162,401** | 82,446,825 |

Refer to the accompanying notes to the consolidated financial statements.

# CANARC RESOURCE CORP.

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

| | Share Capital | | Reserve for | Accumulated Other | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Share-Based Payments | Comprehensive Income (Loss) | Deficit | Total |
| Balance, January 1, 2010 | 81,969,655 | $ 56,436 | $ 1,316 | $ - | $ (45,777) | $ 11,975 |
| Private placement, net of share issuance costs | 8,500,000 | 1,244 | - | - | - | 1,244 |
| Property acquisition | 221,235 | 24 | - | - | - | 24 |
| Exercise of stock options | 20,000 | 4 | (2) | - | - | 2 |
| Exercise of warrants | 275,000 | 66 | - | - | - | 66 |
| Renunciation of flow-through expenditures | - | (89) | - | - | - | (89) |
| Share-based payments | - | - | 143 | - | - | 143 |
| Expiry of stock options | - | - | (198) | - | 198 | - |
| Other comprehensive income | - | - | - | 10 | - | 10 |
| Net loss for the year | - | - | - | - | (1,396) | (1,396) |
| Balance, December 31, 2010 | 90,985,890 | 57,685 | 1,259 | 10 | (46,975) | 11,979 |
| Conversion of convertible debenture | 1,282,051 | 291 | - | - | - | 291 |
| Property acquisition | 215,580 | 24 | - | - | - | 24 |
| Exercise of stock options | 299,000 | 54 | (22) | - | - | 32 |
| Exercise of warrants | 1,313,650 | 205 | - | - | - | 205 |
| Renunciation of flow-through expenditures | - | (1) | - | - | - | (1) |
| Share-based payments | - | - | 241 | - | - | 241 |
| Expiry of stock options | - | - | (397) | - | 397 | - |
| Effect from change in functional currency | - | - | - | - | (110) | (110) |
| Other comprehensive income: | | | | | | |
| Unrealized gain on available-for-sale securities | - | - | - | 71 | - | 71 |
| Foreign currency translation adjustment | - | - | - | (135) | - | (135) |
| Elimination of derivative liability (Note 12) | - | - | - | - | 1,082 | 1,082 |
| Net loss for the year | - | - | - | - | (1,209) | (1,209) |
| Balance, December 31, 2011 | 94,096,171 | $ 58,258 | $ 1,081 | $ (54) | $ (46,815) | $ 12,470 |

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, | |
|---|---|---|
| | **2011** | 2010 |
| **Cash provided from (used for):** | | |
| **Operations:** | | |
| Net loss for the year | **$ (1,209)** | $ (1,396) |
| Items not involving cash: | | |
| Accretion of royalty receivables | **-** | (4) |
| Accrued interest | **10** | 14 |
| Amortization | **3** | 1 |
| Share-based payments | **241** | 143 |
| Gain on disposition of long term investments | **-** | (257) |
| Flow through financing costs | **-** | (150) |
| Deferred income tax recovery | **(1)** | (93) |
| Unrealized gain on derivative liability for warrants | **-** | 913 |
| Unrealized currency translation gain | **-** | 8 |
| Write-off of GST recoveries | **25** | - |
| Write-off of equipment | **-** | 1 |
| | **(931)** | (820) |
| Changes in non-cash working capital items: | | |
| Receivables and prepaids | **(12)** | 25 |
| Accounts payable and accrued liabilities | **(8)** | (85) |
| Flow through obligations | **(39)** | - |
| Cash used by operating activities | **(990)** | (880) |
| **Financing:** | | |
| Issuance of common shares, net of share issuance costs | **528** | 1,287 |
| **Investing:** | | |
| Proceeds from royalty receivable | **50** | 50 |
| Proceeds from disposition of long term investments | **-** | 306 |
| Mineral properties, net of recoveries | **(435)** | (26) |
| Disposition of asset held for sale, net of acquisition | **300** | (300) |
| Cash (used by) provided from investing activities | **(85)** | 30 |
| **(Decrease) increase in cash** | **(547)** | 437 |
| Cash, beginning of year | **592** | 155 |
| **Cash, end of year** | **$ 45** | $ 592 |

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, 2011 | 2010 |
|---|---|---|---|
| **Non-cash financing and investing activities:** | | | |
| Accrual of acquisition of equipment | | **$ -** | $ 10 |
| Available-for-sale securities received from optioned mineral property interests | 7(a)(ii) | **-** | 15 |
| Issuance of shares for mineral property interests | 7(a)(ii) | **24** | 24 |
| Accounts receivable adjustment to mineral property interests | | **-** | (63) |
| Fair value of allocated to shares issued on exercise of: | | | |
| Stock options | | **22** | 2 |
| Warrants | | **-** | 24 |
| Expiration of stock options | | **397** | 198 |
| **Income taxes paid** | | **-** | - |
| **Interest paid** | | **9** | - |

Refer to the accompanying notes to the consolidated financial statements.

## 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 properties contain reserves. The recoverability of amounts capitalized for mineral properties is dependent upon the existence of reserves in its mineral properties, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its properties, and upon future profitable production or proceeds from the disposition thereof. The Company's registered and corporate office is in Vancouver, BC, Canada.

The Company has incurred significant net losses of $1,209,000 in 2011 (2010 – $1,396,000), and has a deficit of $46,815,000 as at December 31, 2011 (December 31, 2010 - $46,975,000; January 1, 2010 - $45,777,000). Furthermore, the Company has working capital deficiency of $577,000 as at December 31, 2011 (December 31, 2010 – $1,149,000; January 1, 2010 - $842,000). 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. There can be no assurance that management's plans will be successful. 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. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS, and IFRS 1 - *First-time Adoption of International Financial Reporting* ("IFRS 1") has been applied. Prior consolidated financial statements were prepared in accordance with Canadian generally accepted accounting policies ("Canadian GAAP").

Subject to certain IFRS 1 transition elections as disclosed in Note 17 the Company has consistently applied the same accounting policies to its opening IFRS consolidated statement of financial position as at January 1, 2010, and for all years as presented. The nature and effects of significant changes in accounting policies on the Company's financial position and comprehensive loss from the transition from Canadian GAAP to IFRS are disclosed in Note 18.

(b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company's Board of Directors on March 23, 2012.

## 2. Basis of Presentation (continued)

(c) Basis of presentation:

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

(d) Functional currency and presentation currency:

Effective January 1, 2011, the Company determined that its functional currency has changed from the United States dollar to the Canadian dollar but continues to maintain its presentation currency in the United States dollar. The change in functional currency was a result of the increased influence of the Canadian dollar on the economic environment in which the Company operates.

Prior to January 1, 2011 when the functional currency was in the United States dollar, accounts denominated in currencies other than the United States dollar have been translated as follows:

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

Exchange gains and losses are recorded in the consolidated statements of comprehensive loss in the period in which they occur.

Effective January 1, 2011, the functional currency changed to the Canadian dollar, and accounts denominated in currencies other than the Canadian dollar have been translated as follows:

- Revenue and expense items at the rate of exchange in effect on the transaction date;
- Monetary assets and liabilities at the exchange rate at the 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; and
- Shareholders' equity items at historical exchange rates.

For presentation purposes, all amounts are then 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 the presentation change are recorded as cumulative translation adjustment, which is included in accumulated other comprehensive income (loss).

**2. Basis of Presentation** (continued)

(e) Critical accounting estimates:

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 underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; flow-through obligations and deferred income tax liability; the variables used in the determination of the fair value of stock options granted, warrants issued and derivative liability for warrants; 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.

(f) New accounting standards and recent pronouncements:

All of the new and revised standards described below may be early adopted.

(i) IAS 27 *Separate Financial Statements* (2011)

This amended version of IAS 27 that now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

(ii) IAS 28 *Investments in Associates and Joint Ventures* (2011)

This standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

**2. Basis of Presentation** (continued)

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

(iii) IFRS 9 *Financial Instruments* (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is applicable to annual reporting periods beginning on or after January 1, 2013.

(iv) IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The standard applies to annual periods beginning on or after January 1, 2015. This standard supersedes IFRS 9 (2009).

**2. Basis of Presentation** (continued)

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

(v) IFRS 10 *Consolidated Financial Statements*

The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in "special purpose entities"). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

(vi) IFRS 11 *Joint Arrangements*

This standard replaces IAS 31 *Interests in Joint Ventures*, and requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).
- A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

**2. Basis of Presentation** (continued)

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

(vii) IFRS 12 *Disclosure of Interests in Other Entities*

The standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgments and assumptions** - such as how control, joint control, significant influence has been determined.
- **Interests in subsidiaries** - including details of the structure of the group, risks associated with structured entities, changes in control, and so on.
- **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information).
- **Interests in unconsolidated structured entities** - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, it must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

(viii) IFRS 13 *Fair Value Measurement*

The standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

**2. Basis of Presentation** (continued)

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

(viii) IFRS 13 *Fair Value Measurement* (continued)

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

- **Level 1** - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2** - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** - unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

The standard is applicable to annual reporting periods beginning on or after January 1, 2013.

(ix) Amendments to IFRS 7 *Financial Instruments: Disclosures*

The amendments to IFRS 7 *Financial Instruments: Disclosures* result from the IASB's comprehensive review of off balance sheet activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The amendments apply to annual periods beginning on or after July 1, 2011.

**2. Basis of Presentation** (continued)

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

(x) Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

The amendments applies to IAS 12 *Income Taxes* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale.

As a result of the amendments, SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

The amendments are applicable to annual periods beginning on or after January 1, 2012.

(xi) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)

The amendments apply to IFRS 1 *First-time Adoption of International Financial Reporting Standards (IFRSs)* to:

- Replace references to a fixed date of “January 1, 2004” with “the date of transition to IFRSs”, thus eliminating the need for companies adopting IFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to IFRSs
- Provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

The amendments are applicable to annual periods beginning on or after July 1, 2011.

## 2. Basis of Presentation (continued)

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

(xii) Presentation of Items of Other Comprehensive Income ("OCI") (Amendments to IAS 1)

The amendments apply to IAS 1 *Presentation of Financial Statements* to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss' and a 'statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e., those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The amendments are applicable to annual reporting periods beginning on or after July 1, 2012.

(xiii) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

IFRIC 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognized as a non-current "stripping activity asset" when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

IFRIC 20 applies to annual periods beginning on or after January 1, 2013.

The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 for purposes of the transition to IFRS. IFRS 1 exemptions for first time adopters are disclosed in Note 18.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its significant 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 are included in this category of financial assets.

*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.

*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 the statement of comprehensive loss. The Company does not have any assets classified as HTM investments.

**3. Significant Accounting Policies** (continued)

(b) Financial instruments: (continued)

(i) Financial assets: (continued)

*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 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 are included in profit and loss.

(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, note payables, other payables, advances from non-controlling interest, deferred credits, and loans.

*Derivative financial liabilities*

Derivative financial liabilities 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 and loss. Derivative financial liabilities include warrants issued by the Company denominated in a currency other than the Company's functional currency.

**3. Significant Accounting Policies** (continued)

(b) Financial instruments: (continued)

(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.

(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 respectively.

(c) Mineral properties:

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

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. Proceeds received on the sale or 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.

**3. Significant Accounting Policies** (continued)

(c) Mineral properties: (continued)

The amounts shown for mineral properties 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.

(d) Equipment:

Equipment is recorded at cost and, for equipment subject to amortization, the Company uses the declining balance method at rates varying from 10% to 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:

Flow-through common shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. The proceeds from common shares issued under flow-through common share financing agreements are credited to share capital. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in share capital and the recognition of a deferred tax liability.

A portion of the deferred income tax assets that were not previously recognized are recognized as a recovery of deferred income taxes in the consolidated statements of operations up to the amount of the deferred income tax liability or renouncement.

(h) Share-based payments:

The Company has a stock option plan that is described in Note 13(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.

**3. Significant Accounting Policies** (continued)

(h) Share-based payments: (continued)

The Company has a share appreciation rights plan, which provides option holders the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the options. The fair value of the underlying stock option, which is cancelled on the exercise of the share appreciation rights, is transferred from the related reserve for share-based payments to share capital. The difference between the quoted market price, on the date the share appreciation right is exercised, of the shares issued and the fair value of the stock option is recorded as share capital and charged to profit or loss.

(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 and 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 and 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 and loss as incurred.

(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 common share presented is the same as basic loss per common share as the effect of outstanding options and warrants in the loss per common share calculation would be anti-dilutive.

## 3. Significant Accounting Policies (continued)

(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.

## 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 properties 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 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.

## 4. Management of Capital (continued)

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.

As at December 31, 2011, the Company was not subject to any externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year ended December 31, 2011.

## 5. Management of Financial Risk

The Company has classified its cash as financial assets at fair value through profit or loss; marketable securities and long-term investments as available-for-sale financial assets; receivables and prepaids and royalty receivable as loans and receivables; and accounts payable and accrued liabilities, notes payable and flow through obligation as other financial liabilities.

The Company has classified its derivative liability for warrants as derivative financial liabilities and are measured at fair value. All gains and losses are included in profit or loss in the period in which they arise.

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

The fair values of the Company's receivables, accounts payable and accrued liabilities, notes payable, and flow-through obligation approximate their carrying values due to the short terms to maturity. Cash and marketable securities are 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. The fair value of the royalty receivable approximates its carrying value as it was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The royalty receivable is level 3 in the fair value hierarchy as it is based on unobservable inputs. Derivative liability for warrants is level 2 in the fair value hierarchy as the Company uses the Black-Scholes option pricing model to determine the fair value of the warrants.

**5. Management of Financial Risk** (continued)

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

(a) Credit risk:

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

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. The royalty receivable is due from an unrelated entity, and the Company has not taken any steps to mitigate the credit risk associated with this receivable (Note 7(b)).

(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. The Company will require significant additional funding to meet its short-term liabilities, demand loans, flow through obligations and administrative overhead costs, and to maintain its mineral property interests in 2012.

Accounts payable and accrued liabilities are due in less than 90 days, and the notes payables 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 properties 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 financial statements are stated in U.S. dollars for presentation purposes.

**5. Management of Financial Risk** (continued)

(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

At December 31, 2011, 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:

| | Held in Canadian dollars |
|---|---|
| Cash | $ 32 |
| Accounts payable and accrued liabilities | (74) |
| Net assets (liabilities) | $ (42) |

Based upon the above net exposure as at December 31, 2011 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 $4,200 in the cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

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

(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.

## 6. Marketable Securities

| | 2011 | 2010 | |
|---|---|---|---|
| | December 31 | December 31 | January 1 |
| Balance, begin of period | $ 25 | $ - | $ - |
| Available-for-sale securities received from property option agreement | - | 14 | - |
| Unrealized gain on available-for-sale securities | 71 | 10 | - |
| Foreign currency translation adjustment | (3) | 1 | - |
| Balance, end of period | $ 93 | $ 25 | $ - |

The quoted market value of shares of a company was $93,000 at December 31, 2011 (December 31, 2010 - $25,000; January 1, 2010 - $Nil). These shares were disposed in January and February 2012 for total proceeds of CAD$92,400.

## 7. Mineral Properties

| | British Columbia (Canada) | | | Yukon (Canada) | |
|---|---|---|---|---|---|
| | New Polaris (Note 7(a)(i)) | Windfall Hills (Note 7(a)(iii)) | Devil's Thumb (Note 7(a)(iv)) | Tay-LP (Note 7(a)(ii)) | Total |
| **Acquisition Costs:** | | | | | |
| Balance, January 1, 2010 | $ 3,605 | $ - | $ - | $ 25 | $ 3,630 |
| Additions | - | - | - | 49 | 49 |
| Balance, December 31, 2010 | 3,605 | - | - | 74 | 3,679 |
| Additions | - | 67 | 6 | 72 | 145 |
| Adjustments from change in functional currency | 295 | - | - | - | 295 |
| Balance, December 31, 2011 | $ 3,900 | $ 67 | $ 6 | $ 146 | $ 4,119 |
| **Deferred Exploration Expenditures:** | | | | | |
| Balance, January 1, 2010 | $ 8,556 | $ - | $ - | $ 440 | $ 8,996 |
| Additions, net of recoveries | 104 | - | - | (55) | 49 |
| Balance, December 31, 2010 | 8,660 | - | - | 385 | 9,045 |
| Additions | 166 | 106 | 15 | 48 | 335 |
| Adjustments from change in functional currency | (541) | - | - | (10) | (551) |
| Balance, December 31, 2011 | $ 8,285 | $ 106 | $ 15 | $ 423 | $ 8,829 |
| **Mineral property interests:** | | | | | |
| Balance, January 1, 2010 | $ 12,161 | $ - | $ - | $ 465 | $ 12,626 |
| Balance, December 31, 2010 | 12,265 | - | - | 459 | 12,724 |
| Balance, December 31, 2011 | 12,185 | 173 | 21 | 569 | 12,948 |

**7. Mineral Properties** (continued)

(a) Canada:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2011 include a reclamation bond for CAD$250,000 (December 31, 2010 – CAD$250,000; January 1, 2010 – CAD$250,000).

(ii) Tay-LP:

On August 24, 2009, the Company entered into an option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. (collectively, “Ross River”) to acquire a 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 the first stage, the Company can earn a 51% interest by paying CAD$150,000 in cash and spending CAD$900,000 on exploration on or before October 31, 2011. In the second stage, the Company can earn an additional 49%, thereby totalling a 100% interest, by paying CAD$850,000 in cash or common shares at the Company’s discretion and spending CAD$600,000 on exploration on or before October 31, 2012. If the Company does not proceed with the second stage, then a joint venture would be formed. The Company shall pay to the optionors a gold bonus equal to CAD$1 per ounce (“oz”) of gold for all proven and probable gold reserves and measured and indicated gold resources to a maximum of 1 million oz gold. The option agreement is subject to a 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 is put into commercial production, the Company shall 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 was reduced to 1.5%.

On September 3, 2011, the Company and Ross River amended the 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.

Cash payments of CAD$75,000 were paid in 2011 (2010 – CAD$80,000) for option payments. The Company issued 215,580 (2010 - 221,235) common shares at a value of CAD$0.116 (2010 - CAD$0.113) per common share as the annual advance NSR royalty for CAD$25,000 for the Tay-LP property.

**7. Mineral Properties** (continued)

(a) Canada: (continued)

(ii) Tay-LP: (continued)

In late March 2010, the Company entered into an option agreement with Cap-Ex Ventures Ltd. ("Cap-Ex") whereby Cap-Ex can acquire 50% of the Company's interest in the Tay-LP gold property by paying CAD$100,000 of which CAD$25,000 have been received, issuing 200,000 common shares of which 100,000 shares have been issued, incurring exploration expenditures of CAD$675,000 by October 31, 2011, and maintaining the Company's underlying option agreement in good standing until October 2011. Cap-Ex terminated the option agreement in March 2011.

(iii) Windfall Hills:

In April 2011, the Company entered into two option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia. The Company can acquire a 100% interest in the Atna properties by making $750,000 in cash payments over a four year period ($50,000 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.

The Company can acquire a 100% interest in the Dunn properties by making CAD$250,000 in cash payments over a four year period (CAD$15,000 paid), 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.

(iv) Devil's Thumb:

In May 2011, the Company staked three gold properties northeast of its Windfall Hills properties in central British Columbia.

(b) Sara Kreek, Suriname:

As at December 31, 2005, the Company held 80% of the shares of Sara Kreek Resource Corporation N.V., the company that holds the Sara Kreek concession. On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Suriname Wylap Development N.V. ("Wylap Development") to transfer its interest in Sara Kreek Resource to Wylap Development. The Company received a cash payment of $400,000 in 2006 and shall receive the greater of $50,000 per year, payable semi-annually, or 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011, in settlement of all claims, loans and advances owed to the Company. The Company has received $50,000 in annual royalties with final royalties of $50,000 received in 2011.

**7. Mineral Properties** (continued)

(b) Sara Kreek, Suriname: (continued)

The royalty receivable has been determined using the effective interest rate method. The expected future cash flows have been discounted using the effective interest rate to determine the present value as at December 31, 2011:

| | | |
|---|---|---|
| Present value of expected cash flows from royalties as at January 1, 2010 | $ | 96 |
| Add: Accretion for the year | | 4 |
| Less: Royalty received during the year | | (50) |
| Present value of expected cash flows from royalties as at December 31, 2010 | | 50 |
| Less: Royalty received during the year | | (50) |
| Royalty receivable as at December 31, 2011 | $ | - |

(c) Relief Canyon, United States:

In December 2010, the Company was the accepted bidder to acquire an open pit, heap leach gold mine through a bankruptcy court auction held in Reno, Nevada. The Company agreed to purchase the Relief Canyon gold mine assets from Firstgold Corporation ("Firstgold") for $11 million, subject to a due diligence period which expired on February 4, 2011. As a condition of its winning bid, the Company paid a non-refundable deposit of $300,000 in December 2010 to Firstgold in trust pending the Company's due diligence, and was also obligated to pay $20,000 bi-weekly to Firstgold for its operating expenses during the due diligence period. If the Company elected not to proceed with the purchase of the Relief Canyon gold mine assets, the Company was obligated to pay an additional $300,000 to Firstgold but in return, Firstgold would transfer ownership of its fully built, permitted and operating commercial assay laboratory located near the Relief Canyon mine-site to the Company.

To finance the acquisition, the Company arranged a CAD$12 million bridge loan with Effisolar Energy Corporation ("Effisolar"), subject to Effisolar's due diligence, execution of definitive loan documents and regulatory and exchange approvals. The bridge loan was to close on or before February 3, 2011, matured in one year, bore simple annual interest rate of 12%, and was to be secured by a first charge on the Relief Canyon gold mine assets. If the Company elected not to proceed with the purchase of the Relief Canyon gold mine assets whereby the acquisition of the commercial assay laboratory would then need to be financed, the Company arranged a separate CAD$300,000 convertible loan with Effisolar, subject to Effisolar's due diligence, execution of definitive loan documents and regulatory and exchange approvals. At the Company's election, the convertible loan was to close on or before February 3, 2011, mature in one month, bear no interest and automatically convert into common shares of the Company based on the 10-day average closing price on the Toronto Stock Exchange ("TSX").

**7. Mineral Properties** (continued)

(c) Relief Canyon, United States: (continued)

In January 2011, after conducting due diligence, both the Company and Effisolar decided not to proceed with the Relief Canyon project. In early February 2011, the Company paid an additional $300,000 to Firstgold whereby ownership of the commercial assay laboratory was transferred to the Company. The Company issued a convertible debenture for CAD$300,000 to Effisolar for the interest-free loan from Effisolar, which was then converted into 1,282,051 common shares of the Company on March 2, 2011.

In May 2011, the Company disposed of the assay laboratory for $600,000 plus recovery of out-of-pocket expenses incurred by the Company.

(d) Expenditure options:

As at December 31, 2011, 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:

| | Option Payments (CAD$000s) | Option Payments (US$000s) | Exploration Commitments (1) (CAD$000s) | Advance Royalty Payments (CAD$000s) | Net Smelter Reduction (US$000s) | Number of Shares |
|---|---|---|---|---|---|---|
| New Polaris (Note 7(a)(i)): | | | | | | |
| Net profit interest reduction or buydown | | | | | | 150,000 |
| Tay-LP (Note 7(a)(ii)): | | | | | | |
| October 31, 2012 | $ 25 | | $ 215 | | | |
| October 31, 2013 | 850 | | 600 | | | |
| Annual advance royalty payments until commercial production | | | | $ 25 | | |
| Net smelter reduction from 3% to 1.5% | | | | | $ 1,950 | |
| Windfall Hills (Note 7(a)(iii)): | | | | | | |
| Atna properties: | | | | | | |
| April 12, 2012 | | $ 100 | | | | |
| April 12, 2013 | | 150 | | | | |
| April 12, 2014 | | 200 | | | | |
| April 12, 2015 | | 250 | | | | |
| Dunn properties: | | | | | | |
| April 20, 2012 | 25 | | | | | |
| April 20, 2013 | 35 | | | | | |
| April 20, 2014 | 50 | | | | | |
| April 20, 2015 | 125 | | | | | |
| | $ 1,110 | $ 700 | $ 815 | $ 25 | $ 1,950 | 150,000 |

(1) Exploration commitments for the Tay-LP property are adjusted for management fees of 5% and 10% and exploration expenditures incurred by Cap-Ex.

**7. Mineral Properties** (continued)

(d) Expenditure options: (continued)

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

(e) Title to mineral property interests:

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

(f) Realization of assets:

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

(g) Environmental:

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

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

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and 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 properties that may result in material liability to the Company.

## 8. Equipment

| | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Balance, January 1, 2010 | $ 140 | $ 138 | $ 2 |
| Additions | 10 | - | 10 |
| Dispositions | (140) | (138) | (2) |
| Balance, December 31, 2010 | 10 | - | 10 |
| Additions | - | 3 | (3) |
| Balance, December 31, 2011 | $ 10 | $ 3 | $ 7 |

## 9. Long-Term Investments

As at December 31, 2011, the Company had an interest of 9% in Aztec (December 31, 2010 and January 1, 2010 – 9%) and Nil% in Caza Gold Corp. ("Caza") (December 31, 2010 – Nil% and January 1, 2010 – 7%).

There is no separately quoted market value for the Aztec shares and the fair value cannot be reliably determined. Therefore they are recorded at cost.

## 10. Notes Payable

| | |
|---|---|
| Balance, January 1, 2010 | $ 63 |
| Add: | |
| Accrued interest during the year | 7 |
| Loan bonus | 7 |
| Currency translation adjustment | 4 |
| Balance, December 31, 2010 | 81 |
| Add: Accrued interest during the year | 9 |
| Less: Currency translation adjustment | (2) |
| Balance, December 31, 2011 | $ 88 |

In May 2009, the Company received CAD$62,030 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bore an interest rate of 9% per annum which was increased to 12% effective September 1, 2010, and were previously secured by the Company's shareholdings in Caza Gold Corp., a company with one common director ("Caza"), at CAD$0.25 per share of Caza which has been replaced by a loan bonus of 12% payable upon repayment effective September 1, 2010. As at December 31, 2011, notes payable includes interest accrual of CAD$19,800 (December 31, 2010 - CAD$10,600; January 1, 2010 - CAD$3,700) and loan bonus accrual of CAD$7,400 (December 31, 2010 – CAD$7,400; January 1, 2010 - $Nil).

In March 2012, the Company arranged demand loans of up to CAD$200,000 from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 12% compounded monthly with interest payable semi-annually. Demand loans of CAD$150,000 have been received by the Company.

## 11. Flow-through Obligation

Pursuant to an audit by the Canada Revenue Agency (the "CRA") which was completed in June 2010, CRA disallowed approximately CAD$1.01 million in exploration expenditures incurred in 2007 as Canadian exploration expenditures ("CEE") of which approximately CAD$795,000 as being disqualified as CEE for flow-through purposes. The Company accrued liabilities of approximately CAD$146,300 (December 31, 2010 - CAD$175,000; January 1, 2010 - $377,000) for estimated indemnities related to the disqualified CEE for flow-through purposes and CAD$51,700 (December 31, 2010 - CAD$50,000; January 1, 2010 - $Nil) in accrued interests related to the indemnities. Should the estimate change in the future, it may affect future results of operations and cash flows. In 2011, the Company did pay CAD$37,900 (2010 - $Nil) including interest for indemnities relating to ineligible CEE for flow-through purposes.

## 12. Derivative Liability for Warrants

| | | |
|---|---|---|
| Balance, January 1, 2010 | $ | 193 |
| Add: Unrealized gain from derivative warrants | | 913 |
| Less: Fair value from the exercise of derivative warrants | | (24) |
| Balance, December 31, 2010 | | 1,082 |
| Less: Elimination of derivative liability for warrants due to change in functional currency | | (1,082) |
| Balance, December 31, 2011 | $ | - |

All of the Company's outstanding share purchase warrants have exercise prices which are denominated in Canadian dollars.

Prior to January 1, 2011, the Company's functional currency was the U.S. dollar, which resulted in the warrants being considered a derivative. Accordingly, the Company's share purchase warrants were classified and accounted for as a derivative liability at fair value through profit and loss.

Effective January 1, 2011, the Company's functional currency changed from the U.S. dollar to the Canadian dollar. Accordingly, the outstanding warrants are no longer treated as a derivative liability, and the corresponding recovery of $1,082,000 has been recognized in deficit.

## 13. Share Capital

(a) Authorized:

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

(b) Issued:

(i) In February 2011, the Company issued a convertible debenture for CAD$300,000 to Effisolar for the interest-free loan from Effisolar, which was then converted into 1,282,051 common shares of the Company on March 2, 2011. Note 7(c) provides further details.

In February 2011, the Company renounced CAD$4,760 in exploration expenditures from the proceeds of the flow-through private placements in 2009, resulting in the recognition of a deferred income tax recovery of approximately $1,200.

On November 1, 2011, the Company issued 215,580 common shares at a price of CAD$0.116 per share as the annual advance NSR royalty for CAD$25,000 for the Tay-LP property. Note 7(a)(ii) provides further details.

(ii) In February 2010, the Company renounced CAD$475,200 in exploration expenditures from the proceeds of the flow-through private placements in 2009, resulting in the recognition of a deferred income tax recovery of approximately $113,000.

Pursuant to an audit by the CRA in 2009, the Company initially estimated $661,700 in exploration expenditures which do not qualify as CEE for flow-through purposes. In June 2010, it was determined that CAD$795,000 as being disqualified for CEE for flow-through purposes, resulting in a deferred income tax expense of $24,000. Note 11 provides further details.

On October 19, 2010, the Company issued 221,235 common shares at a price of CAD$0.113 per share as the annual advance NSR royalty for CAD$25,000 for the Tay-LP property. Note 7(a)(ii) provides further details.

On December 13, 2010, the Company closed a private placement for 8.5 million units at CAD$0.15 per unit for gross proceeds of CAD$1,275,000. Each unit was comprised of one common share and one-half of one share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at CAD$0.22 until June 13, 2012.

**13. Share Capital** (continued)

(c) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, directors and consultants to acquire up to 16,335,000 common shares, of which options for 10,115,000 common shares are outstanding as at December 31, 2011. The exercise price of each 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. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the board at the time the options are granted.

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

The continuity of outstanding stock options for the years ended December 31, 2011 and 2010 is as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of Shares | Weighted average exercise price (CAD$) | Number of Shares | Weighted average exercise price (CAD$) |
| Outstanding balance, beginning of year | 9,410,000 | $0.31 | 8,665,000 | $0.38 |
| Granted | 2,220,000 | $0.14 | 2,740,000 | $0.10 |
| Exercised | (299,000) | $0.11 | (20,000) | $0.11 |
| Forfeited | (16,000) | $0.10 | (115,000) | $0.23 |
| Expired | (1,200,000) | $0.69 | (1,860,000) | $0.32 |
| Outstanding balance, end of year | 10,115,000 | $0.24 | 9,410,000 | $0.31 |
| Exercise price range (CAD$) | $0.10 - $0.74 | | $0.10 - $0.74 | |

**13. Share Capital** (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at December 31, 2011:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Exercise Prices (CAD$) | Number Outstanding at Dec 31, 2011 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD$) | Number Exercisable at Dec 31, 2011 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD$) |
| $0.74 | 325,000 | 0.07 | $0.74 | 325,000 | 0.07 | $0.74 |
| $0.54 | 1,065,000 | 0.46 | $0.54 | 1,065,000 | 0.46 | $0.54 |
| $0.46 | 750,000 | 0.74 | $0.46 | 750,000 | 0.74 | $0.46 |
| $0.29 | 1,730,000 | 1.37 | $0.29 | 1,730,000 | 1.37 | $0.29 |
| $0.11 | 1,540,000 | 2.54 | $0.11 | 1,540,000 | 2.54 | $0.11 |
| $0.10 | 2,520,000 | 3.69 | $0.10 | 1,448,000 | 3.69 | $0.10 |
| $0.135 | 2,185,000 | 4.51 | $0.135 | 409,000 | 4.51 | $0.135 |
| | 10,115,000 | 2.62 | $0.24 | 7,267,000 | 2.00 | $0.28 |

During the year ended December 31, 2011, the Company recognized share-based payments of $241,000 (2010 - $143,000), 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 follows:

| | 2011 | 2010 |
|---|---|---|
| Directors and officers | $ 225 | $ 133 |
| Employees | 16 | 10 |
| | $ 241 | $ 143 |

**13. 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:

| | 2011 | 2010 |
|---|---|---|
| Number of stock options granted | 2,220,000 | 2,740,000 |
| Fair value of stock options granted (CAD$) | $0.11 | $0.08 |
| Market price of shares on grant date (CAD$) | $0.14 | $0.10 |
| Pre-vest forfeiture rate | 1.43% | 0.73% |
| Risk-free interest rate | 2.22% | 2.16% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 108% | 105% |
| Expected option life in years | 4.86 | 4.87 |

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

Stock options granted in 2011 and 2010 are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

Stock options for 325,000 common shares expired unexercised in January 2012 and stock options for 220,000 common shares were exercised in March 2012.

In March 2012, the Company granted 1,400,000 stock options with an exercise price of CAD$0.10 and which are exercisable for a period of up to one year and are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every three months thereafter.

(d) Warrants:

At December 31, 2011, the Company had outstanding warrants as follows:

| Exercise Prices (CAD$) | Expiry Dates | Oustanding at December 31, 2010 | Issued | Exercised | Expired | Oustanding at December 31, 2011 |
|---|---|---|---|---|---|---|
| $0.15 | April 22, 2011 | 39,410 | - | (31,675) | (7,735) | - |
| $0.15 | October 22, 2011 | 202,160 | - | - | (202,160) | - |
| $0.15 | April 22, 2011 | 2,319,140 | - | (1,185,975) | (1,133,165) | - |
| $0.165 | May 9, 2011 | 128,410 | - | (96,000) | (32,410) | - |
| $0.22 | June 13, 2012 | 4,250,000 | - | - | - | 4,250,000 |
| | | 6,939,120 | - | (1,313,650) | (1,375,470) | 4,250,000 |

**13. Share Capital** (continued)

(d) Warrants: (continued)

At December 31, 2010, the Company had outstanding warrants as follows:

| Exercise Prices (CAD$) | Expiry Dates | Oustanding at December 31, 2009 | Issued | Exercised | Expired | Oustanding at December 31, 2010 |
|---|---|---|---|---|---|---|
| $0.15 | June 1, 2010 | 500,000 | - | - | (500,000) | - |
| $0.15 | April 22, 2011 | 39,410 | - | - | - | 39,410 |
| $0.15 | October 22, 2011 | 202,160 | - | - | - | 202,160 |
| $0.15 | April 22, 2011 | 2,568,140 | - | (249,000) | - | 2,319,140 |
| $0.165 | May 9, 2011 | 154,410 | - | (26,000) | - | 128,410 |
| $0.220 | June 13, 2012 | - | 4,250,000 | - | - | 4,250,000 |
| | | 3,464,120 | 4,250,000 | (275,000) | (500,000) | 6,939,120 |

(e) Common shares reserved for issuance at December 31, 2011:

| | Number of Shares |
|---|---|
| Stock options (Note 13(c)) | 10,115,000 |
| Warrants (Note 13(d)) | 4,250,000 |
| Balance, December 31, 2011 | 14,365,000 |

(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.

## 14. General and Administrative

| | Years ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| General and Administrative: | | |
| Accounting and audit | $ 71 | $ 69 |
| Legal | 80 | 62 |
| Office and sundry | 93 | 121 |
| Regulatory | 52 | 56 |
| | $ 296 | $ 308 |

## 15. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services 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 2011 and 2010:

| | Years ended December 31, | | Net balance receivable (payable) as at December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Key management compensation: | | | | |
| Executive salaries and remuneration | $ 473 | $ 291 | $ (14) | $ - |
| Directors fees | 40 | 39 | (146) | (109) |
| Share-based payments | 212 | 116 | - | - |
| | $ 725 | $ 446 | $ (160) | $ (109) |
| Legal fees incurred to a law firm in which a senior officer of the Company is a partner | $ 72 | $ 71 | $ 83 | $ 62 |
| Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s) | $ 55 | $ 88 | $ 16 | $ (4) |

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

## 16. Segment Disclosures

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Canada | U.S.A. | Total | Canada | U.S.A. | Total |
| Mineral property interests | $ 12,910 | $ - | $ 12,910 | $ 12,724 | $ - | $ 12,724 |
| Deposit on asset acquisition | - | - | - | - | 300 | 300 |
| Equipment | 7 | - | 7 | 10 | - | 10 |
| Total assets | 13,239 | - | 13,239 | 13,600 | 300 | 13,900 |

## 17. Deferred Income Taxes

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

| | **2011** | **2010** |
|---|---|---|
| Loss for the year | $ (1,210) | $ (1,489) |
| Canadian statutory tax rate | 26.5% | 28.5% |
| Income tax benefit computed at statutory rates | $ (321) | $ (424) |
| Temporary differences | 17 | (74) |
| Items non-deductible for income tax purposes | 70 | 238 |
| Benefits of tax attributes and other items | 14 | 398 |
| Unused tax losses and tax offsets not recognized in tax asset | 206 | 26 |
| Effect of change in tax rate | 13 | 37 |
| Effect of foreign exchange | - | (294) |
| Deferred income tax recovery | $ (1) | $ (93) |

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18.0% to 16.5% and the British Columbia provincial tax rate decreased from 10.5% to 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company’s statutory tax rate from 28.5% to 26.5%.

**17. 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, 2011, December 31, 2010 and January 1, 2010 are presented below:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Deferred tax assets | | | |
| Capital losses carried forward | $ 7 | $ - | $ - |
| Tax value over book value of equipment | 101 | 102 | - |
| Deferred tax assets | 108 | 102 | - |
| Deferred tax liabilities | | | |
| Book value over tax value of marketable securities | (7) | - | - |
| Book value over tax value of mineral properties | (101) | (102) | - |
| Deferred tax liabilities | (108) | (102) | |
| 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, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Non-capital losses | $ 7,455 | $ 6,746 | $ 6,512 |
| Capital losses | 20 | 49 | 46 |
| Share issue costs | 70 | 99 | 213 |
| Tax value over book value of mineral properties | 716 | 732 | 480 |
| Tax value over book value of equipment | 1,226 | 1,256 | 1,526 |
| Unrecognized deductible temporary differences | $ 9,487 | $ 8,882 | $ 8,777 |

**17. Deferred Income Taxes** (continued)

As at December 31, 2011, the Company's unrecognized unused non-capital losses have the following expiry dates:

| | | |
|---|---|---|
| 2014 | $ | 705 |
| 2015 | | 86 |
| 2026 | | 766 |
| 2027 | | 1,690 |
| 2028 | | 774 |
| 2029 | | 1,645 |
| 2030 | | 932 |
| 2031 | | 857 |
| | $ | 7,455 |

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures as defined pursuant to Canadian income tax legislation. In 2011, the Company expended funds of CAD$Nil (2010 – CAD $4,761) in mineral exploration expenditures from the private placement of flow-through shares in 2009.

## 18. Transition to IFRS

The accounting policies as disclosed in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

(a) IFRS 1:

In preparing the consolidated financial statements, the Company has applied IFRS 1 which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The following are the optional exemptions available under IFRS 1 that the Company has elected to apply:

(i) Business combinations:

The Company has elected to apply IFRS 3 *Business Combinations*, prospectively to business combinations that occur after the date of transition. The Company has elected this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

(ii) Share-based payments:

The Company elected to not apply IFRS 2 *Share-based Payments*, to equity instruments granted before November 7, 2002 and those granted but fully vested before the date of transition to IFRS. As a result, the Company has applied IFRS 2 for stock options granted after November 7, 2002 that are not fully vested at January 1, 2010.

**18. Transition to IFRS** (continued)

(b) Adjustments on transition to IFRS:

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. Although adoption of IFRS did not change the Company's actual cash flows, it did result in changes to the Company's statements of financial position, statements of comprehensive loss and statements of shareholders' equity as set out below:

(i) Warrants:

Under Canadian GAAP, the Company classified warrants which were exercisable in Canadian dollars to purchase common shares (a currency other than the Company's functional currency) as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares at an exercise price which is stated in a currency other than the Company's functional currency are considered derivative financial liabilities. The exercise price is fixed in Canadian dollars but the Company's functional currency prior to January 1, 2011 was the U.S. dollar, resulting in a variable amount of cash when the warrants are exercised. Such warrants are required to be measured and recognized at fair value with changes to initial recognition charged to operations. The Company has determined fair value using the Black-Scholes option pricing model. Effective January 1, 2011, the Company's functional currency changed from U.S. dollars to Canadian dollar, and therefore no further derivative liability was recognized for its warrants.

(ii) Share-based payments:

Under Canadian GAAP, the Company accounts for forfeitures of stock option as they occur. For IFRS, estimates of forfeitures are initially recognized when stock options are granted and subsequently adjusted for actual forfeitures as they occur. The Company has recognized vesting of stock options on an accelerated grading basis which is similar to IFRS.

Under Canadian GAAP, expired unexercised stock options remained in contributed surplus. On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts included in the reserve for share-based payments for expired unexercised stock options are transferred from the reserve for share-based payments to deficit.

(iii) Income tax:

Under Canadian GAAP, deferred tax balances are calculated in the currency in which the taxes are paid and then converted to the accounting presentation currency at the current exchange rate, whereas IFRS requires that deferred taxes be determined in an entity's functional accounting currency by comparing the historic non-monetary accounting basis to the tax basis converted at the current exchange rate. Adjustments arise from this different treatment when an entity's functional currency differs from that in which the entity calculates and pays tax. The Company's adjustments for this difference primarily relate to its mineral properties which were maintained in Canadian dollars while the Company's functional currency prior to January 1, 2011 was the United States dollar.

**18. Transition to IFRS** (continued)

(c) Reconciliation from Canadian GAAP to IFRS:

A reconciliation of the above noted changes is included in these following consolidated statements of financial position and consolidated statements of comprehensive loss for the dates noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

Transitional Consolidated Statement of Financial Position – January 1, 2010

Consolidated Statement of Financial Position Reconciliation – December 31, 2010
Consolidated Statement of Comprehensive Loss Reconciliation – December 31, 2010

**18. Transition to IFRS** (continued)

(c) Reconciliation from Canadian GAAP to IFRS: (continued)

(i) The January 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

| | Notes | January 1, 2010 Canadian GAAP | Effect of Transition to IFRS | IFRS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | | $ 155 | $ - | $ 155 |
| Receivables and prepaids | | 193 | | 193 |
| Royalty receivable - current portion | | 50 | | 50 |
| Total Current Assets | | 398 | - | 398 |
| **NON-CURRENT ASSETS** | | | | |
| Mineral properties | | 12,626 | | 12,626 |
| Equipment | | 2 | | 2 |
| Royalty receivable - long-term portion | | 46 | | 46 |
| Long-term investments | | 143 | | 143 |
| Total Non-Current Assets | | 12,817 | - | 12,817 |
| Total Assets | | $ 13,215 | $ - | $ 13,215 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | $ 607 | $ - | $ 607 |
| Notes payable | | 63 | | 63 |
| Flow-through obligation | | 377 | | 377 |
| Derivative liability for warrants | 18(b)(i) | - | 193 | 193 |
| Total Current Liabilities | | 1,047 | 193 | 1,240 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | | 56,436 | | 56,436 |
| Contributed surplus | 18(b)(ii) | 2,354 | (2,354) | - |
| Reserve for share-based payments | 18(b)(ii) | - | 1,316 | 1,316 |
| Deficit | 18(b)(i) and (ii) | (46,622) | 845 | (45,777) |
| Total Shareholders' Equity | | 12,168 | (193) | 11,975 |
| Total Liabilities and Shareholders' Equity | | $ 13,215 | $ - | $ 13,215 |

**18. Transition to IFRS** (continued)

(c) Reconciliation from Canadian GAAP to IFRS: (continued)

(ii) The December 31, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

| | | December 31, 2010 | | |
|---|---|---|---|---|
| | Notes | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | | $ 592 | $ - | $ 592 |
| Receivables and prepaids | | 105 | | 105 |
| Marketable securities | | 25 | | 25 |
| Royalty receivable - current portion | | 50 | | 50 |
| Total Current Assets | | 772 | - | 772 |
| **NON-CURRENT ASSETS** | | | | |
| Mineral properties | | 12,724 | | 12,724 |
| Deposit on asset acquisition | | 300 | | 300 |
| Equipment | | 10 | | 10 |
| Royalty receivable - long-term portion | | - | | - |
| Long-term investments | | 94 | | 94 |
| Total Non-Current Assets | | 13,128 | - | 13,128 |
| Total Assets | | $ 13,900 | $ - | $ 13,900 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | $ 532 | $ - | $ 532 |
| Notes payable | | 81 | | 81 |
| Flow-through obligation | | 226 | | 226 |
| Derivative liability for warrants | 18(b)(i) | - | 1,082 | 1,082 |
| Total Current Liabilities | | 839 | 1,082 | 1,921 |
| Future income tax liability | 18(b)(iii) | 120 | (120) | - |
| Total Liabilities | | 959 | 962 | 1,921 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 18(b) | 57,660 | 25 | 57,685 |
| Contributed surplus | 18(b)(ii) | 2,483 | (2,483) | - |
| Accumulated other comprehensive income | | 10 | | 10 |
| Reserve for share-based payments | 18(b)(ii) | - | 1,259 | 1,259 |
| Deficit | 18(b) | (47,212) | 237 | (46,975) |
| Total Shareholders' Equity | | 12,941 | (962) | 11,979 |
| Total Liabilities and Shareholders' Equity | | $ 13,900 | $ - | $ 13,900 |

## 18. Transition to IFRS (continued)

(c) Reconciliation from Canadian GAAP to IFRS: (continued)

(iii) The Canadian GAAP consolidated statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

| | | December 31, 2010 | | |
|---|---|---|---|---|
| | Notes | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| **Expenses:** | | | | |
| Amortization | | $ 1 | $ - | $ 1 |
| Corporate development | | 12 | | 12 |
| Employee and director remuneration | | 383 | | 383 |
| Foreign exchange loss | | 43 | | 43 |
| General and administrative | | 308 | | 308 |
| Shareholder relations | | 62 | | 62 |
| Share-based payments | 18(b)(ii) | 130 | 13 | 143 |
| **Loss before the undernoted** | | (939) | (13) | (952) |
| Gain on disposition of long-term investment | | 257 | | 257 |
| Accretion of royalty receivable | | 4 | | 4 |
| Write-off of equipment | | (1) | | (1) |
| Unrealized loss from derivative liability for warrants | 18(b)(i) | - | (913) | (913) |
| Due diligence costs on asset acquisition | | (20) | | (20) |
| Interest expense | | (14) | | (14) |
| Flow-through financing costs | | 150 | | 150 |
| **Loss before income tax** | | (563) | (926) | (1,489) |
| Future income tax expense | 18(b)(iii) | (27) | 120 | 93 |
| **Net loss for the year** | | (590) | (806) | (1,396) |
| Other comprehensive (loss) income: | | | | |
| Unrealized gain on available-for-sale securities | | 10 | | 10 |
| **Comprehensive loss for the year** | | $ (580) | $ (806) | $ (1,386) |
| **Basic and diluted loss per share** | | $ (0.01) | | $ (0.02) |
| Weighted average number of common shares outstanding | | 82,446,825 | | 82,446,825 |

| | |
|---|---|
| **HEAD OFFICE** | #301 – 700 West Pender Street<br>Vancouver, BC, Canada, V6C 1G8<br><br>Telephone: (604) 685-9700<br>Facsimile: (604) 685-9744<br><br>Website: www.canarc.net |
| **DIRECTORS** | Bradford Cooke<br>Bruce Bried<br>Derek Bullock<br>Leonard Harris<br>William Price |
| **OFFICERS** | Bradford Cooke ~ Chairman and Chief Executive Officer<br>Garry Biles ~ President and Chief Operating Officer<br>James Moors ~ Vice-President, Exploration<br>Gregg Wilson ~ Vice-President, Investor Relations<br>Philip Yee ~ Chief Financial Officer<br>Stewart Lockwood ~ Secretary |
| **REGISTRAR AND TRANSFER AGENT** | Computershare Investor Services Inc.<br>3rd Floor, 510 Burrard Street<br>Vancouver, BC, Canada, V6C 3B9 |
| **AUDITORS** | Smythe Ratcliffe LLP<br>7th Floor, 355 Burrard Street<br>Vancouver, BC, Canada, V6C 2G8 |
| **SOLICITORS AND REGISTERED OFFICE** | Vector Corporate Finance Lawyers<br>#1040 – 999 West Hastings Street<br>Vancouver, BC, Canada, V6C 2W2 |
| **SHARES LISTED** | Trading Symbols<br>TSX: CCM<br>OTC-BB: CRCUF<br>DBFrankfurt: CAN |

**Management Discussion and Analysis**

**(expressed in United States dollars)**

**Years ended December 31, 2011 and 2010**

# CANARC RESOURCE CORP.

(the "**Company**")

**Fourth Quarter Report**

**Management's Discussion and Analysis**
**For the Year ended December 31, 2011**
(expressed in United States dollars)

## CAUTION – FORWARD LOOKING STATEMENTS

Certain statements contained herein regarding the Company and its operations constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. All statements that are not historical facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations of future performance, are "forward-looking statements". We caution you that such "forward looking statements" involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Such risks and uncertainties include fluctuations in precious metal prices, unpredictable results of exploration activities, uncertainties inherent in the estimation of mineral reserves and resources, fluctuations in the costs of goods and services, problems associated with exploration and mining operations, changes in legal, social or political conditions in the jurisdictions where the Company operates, lack of appropriate funding and other risk factors, as discussed in the Company's filings with Canadian and American Securities regulatory agencies. The Company expressly disclaims any obligation to update any forward-looking statements, 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 financial statements for the years ended December 31, 2011 and 2010, 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"). International Financial Reporting Standards 1 – *First-time Adoption of International Financial Reporting* ("IFRS 1") has been applied with an adoption date of January 1, 2011 and a transition date of January 1, 2010, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of March 23, 2012 unless otherwise indicated.

## 1.1 Background

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

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 properties is dependent upon the existence of reserves in its mineral properties, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its properties, 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 properties and capital assets are, in part, related to the Company's mineral reserves and resources, if any, the estimation of such reserves and resources is significant to the Company's financial position and results of operations.

## 1.2 Overall Performance

The Company currently only owns a direct interest in the precious metal property, known as the New Polaris property (British Columbia), and has option agreements to earn interests in the Tay-LP property (Yukon) and the Windfall Hills properties (British Columbia), and staked the Devil's Thumb property (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.

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

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

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

**MEASURED UNDILUTED RESOURCE**

| Cutoff Grade | | Mineralized Tonnage | | Average Grade | | Contained Gold |
|---|---|---|---|---|---|---|
| (g/tonne) | (oz/ton)* | (tonnes) | (tons) | (g/tonne) | (oz/ton) | Au (oz) |
| 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 |
|---|---|---|---|---|---|---|
| (g/tonne) | (oz/ton)* | (tonnes) | (tons) | (g/tonne) | (oz/ton) | Au (oz) |
| 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 |
|---|---|---|---|---|---|---|
| (g/tonne) | (oz/ton)* | (tonnes) | (tons) | (g/tonne) | (oz/ton) | Au (oz) |
| 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 |
|---|---|---|---|---|---|---|
| (g/tonne) | (oz/ton)* | (tonnes) | (tons) | (g/tonne) | (oz/ton) | Au (oz) |
| 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.

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) | |
| | Pre-Tax | After-Tax |
| 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 |
| | Pre-Tax | After Tax |
| 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 CAD$ (000)s | NPV @ 5% CAD$ (000)s | NPV @ 8% CAD$ (000)s |
| | | | |
| Gold US$1,000/oz -17% | $104,287 | $63,920 | $45,788 |
| Gold US$1,100/oz -8% | $146,197 | $96,981 | $74,907 |
| Base Case US$1,200/oz | $188,107 | $129,819 | $103,707 |
| Gold US$1,300/oz +8% | $230,017 | $162,657 | $132,507 |
| Gold US$1,400/oz +17% | $271,927 | $195,347 | $161,090 |
| | | | |
| Grade -10% | $137,815 | $90,403 | $69,132 |
| Grade -5% | $162,961 | $110,116 | $86,427 |
| Base Case Grade 11.25 gpt | $188,107 | $129,819 | $103,707 |
| Grade +5% | $213,253 | $149,522 | $120,987 |
| Grade +10% | $238,399 | $169,225 | $138,267 |
| | | | |
| Capital Cost -10% | $193,775 | $135,816 | $109,850 |
| Capital Cost -5% | $190,941 | $132,817 | $106,778 |

| | | | |
|---|---|---|---|
| Base Case $101M Capital | $188,107 | $129,819 | $103,707 |
| Capital Cost +5% | $185,273 | $126,821 | $100,635 |
| Capital Cost +10% | $182,440 | $123,822 | $97,564 |
| | | | |
| Operating Cost -10% | $208,383 | $145,818 | $117,799 |
| Operating Cost -5% | $198,245 | $137,819 | $110,753 |
| Base Case | $188,107 | $129,819 | $103,707 |
| Operating Cost +5% | $177,969 | $121,819 | $96,661 |
| Operating Cost +10% | $167,831 | $113,820 | $89,614 |
| | | | |
| Exchange rate $0.90 -10% | $238,750 | $169,523 | $138,540 |
| Exchange rate $0.95 -5% | $212,104 | $148,633 | $120,213 |
| Base Case $1.00 | $188,107 | $129,819 | $103,707 |
| Exchange rate $1.05 +5% | $166,384 | $112,788 | $88,765 |
| Exchange rate $1.10 +10% | $146,625 | $97,297 | $75,174 |

This 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.

The Company has initiated its efforts on the application for an underground development and exploration program at the New Polaris project is 2011 and shall continue with such efforts in 2012 subject to securing a partner for the project and financing.

***Tay-LP property (Yukon, Canada)***

On August 24, 2009, the Company entered into an option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. (collectively, "Ross River") to acquire a 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 does not proceed with the second stage, then a joint venture would be formed. The Company shall 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 option agreement is 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 is put into commercial production, the Company shall 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 was reduced to 1.5%.

On September 3, 2011, the Company and Ross River amended the 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.

In late March 2010, the Company entered into an option agreement with Cap-Ex Ventures Ltd. ("Cap-Ex") whereby Cap-Ex can acquire 50% of the Company's interest in the Tay-LP gold property, by paying CAD$100,000 of which CAD$25,000 have been paid, issuing 200,000 common shares of which 100,000 common shares have been received, incurring exploration expenditures of CAD$675,000, and maintaining the Company's underlying option agreement in good standing until October 2011. Cap-Ex terminated the option agreement in March 2011.

Cash payments of CAD$75,000 were paid in 2011 for option payments. The Company issued 215,580 common shares at a value of CAD$0.116 per common share as the annual advance NSR royalty for CAD$25,000 for the Tay-LP property for 2011.

The Company completed a Phase 1 exploration program for 10 holes including 2,000 m of diamond drilling in 2009. The objective of the program was to extend known mineralization along strike and down-dip of existing gold intercepts in three principle target areas.

In 2010, Cap-Ex completed a 470 kilometer airborne geophysical survey at Tay LP which identified several new EM conductors and magnetic anomalies within prospective geological settings. In March 2011, Cap-Ex terminated its option agreement with the Company.

The new anomalies will require ground follow up and test new targets in 2012 prior to drilling, subject to financing.

***Relief Canyon project (Nevada, USA)***

In December 2010, the Company was the accepted bidder to acquire an open pit, heap leach gold mine through a bankruptcy court auction held in Reno, Nevada. The Company agreed to purchase the Relief Canyon gold mine assets from Firstgold Corporation ("Firstgold") for $11 million, subject to a due diligence period which expired on February 4, 2011. As a condition of its winning bid, the Company paid a non-refundable deposit of $300,000 in December 2010 to Firstgold in trust pending the Company's due diligence, and was also obligated to pay $20,000 bi-weekly to Firstgold for its operating expenses during the due diligence period. If the Company elected not to proceed with the purchase of the Relief Canyon gold mine assets, the Company was obligated to pay an additional $300,000 to Firstgold but in return, Firstgold would transfer ownership of its fully built, permitted and operating commercial assay laboratory located near the Relief Canyon mine-site to the Company.

To finance the acquisition, the Company arranged a CAD$12 million bridge loan with Effisolar Energy Corporation ("Effisolar"), subject to Effisolar's due diligence, execution of definitive loan documents and regulatory and exchange approvals. The bridge loan was to close on or before February 3, 2011, mature in one year, bear simple annual interest rate of 12%, and secured by a first charge on the Relief Canyon gold mine assets. If the Company elected not to proceed with the purchase of the Relief Canyon gold mine assets whereby the acquisition of the commercial assay laboratory would then need to be financed, the Company arranged a separate CAD$300,000 convertible loan with Effisolar, subject to Effisolar's due diligence, execution of definitive loan documents and regulatory and exchange approvals. At the Company's election, the convertible loan was to close on or before February 3, 2011, mature in one month, bear no interest and automatically convert into common shares of the Company based on the 10 day average closing price on the Toronto Stock Exchange ("TSX").

In January 2011, after conducting due diligence, both the Company and Effisolar decided not to proceed with the Relief Canyon project. In early February 2011, the Company paid an additional $300,000 to Firstgold whereby ownership of the commercial assay laboratory was transferred to the Company. The Company issued a convertible debenture for CAD$300,000 to Effisolar for the interest-free loan from Effisolar, which was then converted into 1,282,051 common shares of the Company on March 2, 2011.

In May 2011, the Company entered into an agreement for sale of the assay laboratory for $600,000 plus recovery of out-of-pocket expenses incurred by the Company.

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

In April 2011, the Company entered into two option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia. The Company can acquire a 100% interest in the Atna properties by making $750,000 in cash payments over a four year period ($50,000 paid), honouring a pre-existing 1.5% net smelter return ("NSR") production royalty that can be purchased for CAD$1 million, and granting the vendor a 2% NSR production royalty.

The Company can acquire a 100% interest in the Dunn properties by making CAD$250,000 in cash payments over a four year period (CAD$15,000 paid), 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.

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. 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. Results of this work along with preliminary exploration work over the remainder of the claims will help define targets for drilling in 2012, subject to financing.

***Devil's Thumb property (British Columbia, Canada)***

In May 2011, the Company staked three gold properties totalling 17,175 hectares northeast of its Windfall Hills properties in central British Columbia.

***Sara Kreek project (Suriname)***

Prior to 2006, the Company held 80% of the shares of Sara Kreek Resource Corporation N.V. ("Sara Kreek Resource"), the company that holds the Sara Kreek concession in the Republic of Suriname. On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Suriname Wylap Development N.V. ("Wylap Development") to transfer the Company's interest in Sara Kreek Resource. In settlement for all claims, loans and advances owed to the Company, the Company received a cash payment of $400,000 in 2006, and shall receive the greater of $50,000 per year, payable semi-annually, or a 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011. The Company has received $50,000 in annual royalties from 2006 to 2011.

***Other Matters***

In July 2011, Mr. Gregg Wilson was appointed Vice-President of Investor Relations.

On July 6, 2011, the Company granted 2,220,000 stock options with an exercise price of CAD$0.135 and an expiry date of July 6, 2016 which are subject to vesting provisions whereby 20% vest immediately and 20% vest every 6 months thereafter.

In March 2012, the Company arranged demand loans of up to CAD$200,000 from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 12% compounded monthly with interest payable semi-annually. Demand loans of CAD$150,000 have been received by the Company.

In March 2012, the Company granted 1,400,000 stock options with an exercise price of CAD$0.10 and which are exercisable for a period of up to one year and are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every three months thereafter.

The Shareholders Update included in the Company's audited consolidated financial statements for the year ended December 31, 2011 provides further review of the Company's overall performance for fiscal 2011 and outlook for fiscal 2012.

## 1.3 Selected Annual Information

Financial information for the years ended December 31, 2011 and 2010 are prepared in accordance with IFRS and for the year ended December 31, 2009 in accordance with Canadian generally accepted accounting principles, as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| (in $000s except per share amounts) | 2011 | 2010 | 2009 (1) |
| Total revenues | $ - | $ - | $ - |
| Loss before discontinued operations and extraordinary items: | | | |
| (i) Total | $ (1,209) | $ (1,396) | $ (1,579) |
| (ii) Basic per share | $ (0.01) | $ (0.02) | $ (0.02) |
| (iii) Fully diluted per share | $ (0.01) | $ (0.02) | $ (0.02) |
| Net loss: | | | |
| (i) Total | $ (1,209) | $ (1,396) | $ (1,579) |
| (ii) Basic per share | $ (0.01) | $ (0.02) | $ (0.02) |
| (iii) Fully diluted per share | $ (0.01) | $ (0.02) | $ (0.02) |
| Total assets | $ 13,277 | $ 13,900 | $ 13,215 |
| Total long-term liabilities | $ - | $ - | $ - |
| Dividends per share | $ - | $ - | $ - |

(1) Financial information for the year ended December 31, 2009 has been prepared in accordance with Canadian generally accepted accounting principles.

## 1.4 Results of Operations

***Fourth Quarter of Fiscal 2011 – Year ended December 31, 2011 compared with December 31, 2010***

The Company incurred a net loss of $1.2 million for the year ended December 31, 2011 which is lower than the net loss of $1.4 million in fiscal 2010. Operating losses for each fiscal year were comparable, reflecting the continued activities of the Company in seeking an appropriate joint venture partner for the New Polaris property and in pursuing new projects of merit, as gold prices reached new highs in 2011. Such efforts culminated in the accepted bid for the Relief Canyon project in early December 2010 which resulted in the Company's acquisition of an assay laboratory and was then subsequently sold for full recovery of all out-of-pocket expenses. Corporate development activities were also successful in the acquisition of option interests in the Windfall Hills properties and the staking of additional properties nearby, as the Company expanded its portfolio of strategic exploration projects in Canada in 2011.

Corporate development expenses in 2011 were higher primarily in relation to the accepted bid for the Relief Canyon project.

Remuneration for employees was higher in 2011 as the Company continued to evaluate gold projects for acquisition purposes and to seek possible partners for the New Polaris project. Efforts in the first quarter of fiscal 2011 were also focused on an updated NI 43-101 technical report for the New Polaris gold project, which supported the project's robust economics in the preliminary economic assessment. Higher employee expenses were also attributed to staffing activities for conversion in accounting standards from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS, the Relief Canyon bid, and the acquisition and subsequent disposition of the commercial assay laboratory.

Effective January 1, 2011, the Company determined that its functional currency has changed from the United States dollar to the Canadian dollar but continues to maintain its presentation currency in the United States dollar. The Company recognizes foreign gains and losses on translation to the presentation currency as an equity item which is included in accumulated other comprehensive loss. In 2010, such translation gains and losses were recognized in operations.

General and administrative expenses were comparable for both fiscals 2011 and 2010. In 2011 legal fees were incurred in the Company's bid for the Relief Canyon project, its acquisition of the assay laboratory in February 2011 including all title and permitting issues and to its subsequent sale in May 2011, and due to the convertible debenture with Effisolar in February 2011 which was converted into common shares in March 2011.

Shareholder relations activities increased in 2011 so as to promote greater awareness of the profile of the Company and its portfolio of projects, especially the accepted bid for the Relief Canyon project, the New Polaris project with its revised preliminary economic assessment which indicated conceptually the project's stronger financial viability due to heightened gold prices, and property option agreements and staking of additional mineral property interests in British Columbia.

Share-based payments were higher in 2011 due to the net effects of the input parameters for the stock option pricing model including the vesting provisions, stock volatility, forfeiture rates, risk free interest rates, and expected life. Although more stock options were granted in 2010 than in 2011, the fair values of the stock options granted in 2011 were higher than those granted in 2010.

In April and August 2010, the Company disposed all of its shareholdings in Caza Gold Corp., a company sharing one common director, ("Caza") which are available-for-sale financial assets and were recorded at cost because such shares did not have a quoted market price at that time.

In 2011, the Company wrote down good and services tax recoveries by $25,000 as collectability of the recoveries was uncertain.

Due diligence costs of $60,000 in 2011 were incurred for the Company's $20,000 bi-weekly obligation to Firstgold during the due diligence period for the Relief Canyon project.

The Company continues to accrue interests on its demand loans which bore interest rates that increased from 9% per annum to 12% per annum effective September 1, 2010, and interests on its estimated flow through indemnity obligation from ineligible Canadian exploration expenditures for flow though purposes.

The flow through financing item in 2010 is for the reduction in the estimated indemnity obligation for ineligible exploration expenditures. In August 2011, the Company paid indemnifications of CAD$37,883 including interests.

In 2010, derivative liabilities were recognized for warrants which have exercise prices stated in Canadian dollars whereas the Company's functional currency was in U.S. dollars, resulting in a variable amount of cash in terms of its functional currency. Any reduction of the fair values of its derivative liability attributable to unexpired warrants would be recognized as unrealized gains. Effective January 1, 2011, the Company's functional currency changed from the U.S. dollar to the Canadian dollar whereby there were no longer currency differences between the Company's exercise prices of its warrants and its functional currency, and thus would not recognize any derivatives for its warrants.

The deferred income tax recovery is a provision for the difference between the accounting basis and tax basis of assets and tax pools, and for the recognition at the date of actual renunciation, by a reduction in the amount included in share capital for the flow-through shares for the deferred income taxes related to the deductions foregone by the Company. In 2009, the Company raised flow-through equity financing from a private placement for approximately CAD$480,000 of which CAD$475,239 were renounced on February 24, 2010. On February 22, 2011, the Company renounced CAD$4,761 in exploration expenditures for flow-through purposes, resulting in a deferred income tax expense of $1,200.

The Company also recognized an unrealized gain of $71,000 in fiscal 2011 for its available-for-sale financial assets which were received for its optioned mineral property interest in Tay-LP with Cap-Ex.

The Company has no sources of operating revenues.

As at December 31, 2011, the Company has mineral property interests which are comprised of the following:

| | British Columbia (Canada) | | | Yukon (Canada) | |
|---|---|---|---|---|---|
| (in $000s) | New Polaris | Windfall Hills | Devil's Thumb | Tay-LP | Total |
| **Acquisition Costs:** | | | | | |
| Balance, January 1, 2010 | $ 3,605 | $ - | $ - | $ 25 | $ 3,630 |
| Additions | - | - | - | 49 | 49 |
| Balance, December 31, 2010 | 3,605 | - | - | 74 | 3,679 |
| Additions | - | 67 | 6 | 72 | 145 |
| Adjustments from change in functional currency | 295 | - | - | - | 295 |
| Balance, December 31, 2011 | 3,900 | 67 | 6 | 146 | 4,119 |
| **Deferred Exploration Expenditures:** | | | | | |
| Balance, January 1, 2010 | 8,556 | - | - | 440 | 8,996 |
| Additions, net of recoveries | 104 | - | - | (55) | 49 |
| Balance, December 31, 2010 | 8,660 | - | - | 385 | 9,045 |
| Additions | 166 | 106 | 15 | 48 | 335 |
| Adjustments from change in functional currency | (541) | - | - | (10) | (551) |
| Balance, December 31, 2011 | 8,285 | 106 | 15 | 423 | 8,829 |
| Mineral property interests, December 31, 2011 | $ 12,185 | $ 173 | $ 21 | $ 569 | $ 12,948 |

At December 31, 2011, 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:

| | Option Payments (CAD$000s) | Option Payments (US$000s) | Exploration Commitments (1) (CAD$000s) | Advance Royalty Payments (CAD$000s) | Net Smelter Reduction (US$000s) | Number of Shares |
|---|---|---|---|---|---|---|
| New Polaris: | | | | | | |
| Net profit interest reduction or buydown | | | | | | 150,000 |
| Tay-LP: | | | | | | |
| October 31, 2012 | $ 25 | | $ 215 | | | |
| October 31, 2013 | 850 | | 600 | | | |
| Annual advance royalty payments until commercial production | | | | $ 25 | | |
| Net smelter reduction from 3% to 1.5% | | | | | $ 1,950 | |
| Windfall Hills: | | | | | | |
| Atna properties: | | | | | | |
| April 12, 2012 | | $ 100 | | | | |
| April 12, 2013 | | 150 | | | | |
| April 12, 2014 | | 200 | | | | |
| April 12, 2015 | | 250 | | | | |
| Dunn properties: | | | | | | |
| April 20, 2012 | 25 | | | | | |
| April 20, 2013 | 35 | | | | | |
| April 20, 2014 | 50 | | | | | |
| April 20, 2015 | 125 | | | | | |
| | $ 1,110 | $ 700 | $ 815 | $ 25 | $ 1,950 | 150,000 |

(1) Exploration commitments for the Tay-LP property are adjusted for management fees of 5% and 10% and exploration expenditures incurred by Cap-Ex.

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

## 1.5 Summary of Quarterly Results (Unaudited)

Quarterly financial information for fiscals 2011 and 2010 is prepared in accordance with IFRS, and all dollar amounts are expressed in U.S. dollars unless otherwise indicated.

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, December 31, 2011:

| (in $000s except per share amounts) | 2011 Dec 31 | 2011 Sept 30 | 2011 June 30 | 2011 Mar 31 | 2010 Dec 31 | 2010 Sept 30 | 2010 June 30 | 2010 Mar 31 |
|---|---|---|---|---|---|---|---|---|
| Total revenues | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| (Loss) income before discontinued operations and extraordinary items: | | | | | | | | |
| (i) Total | $ (323) | $ (283) | $ (280) | $ (323) | $ (1,473) | $ 29 | $ 84 | $ (36) |
| (ii) Basic per share | $ - | $ - | $ (0.01) | $ - | $ (0.02) | $ - | $ - | $ - |
| (iii) Fully diluted per share | $ - | $ - | $ (0.01) | $ - | $ (0.02) | $ - | $ - | $ - |
| Net (loss) income: | | | | | | | | |
| (i) Total | $ (323) | $ (283) | $ (280) | $ (323) | $ (1,473) | $ 29 | $ 84 | $ (36) |
| (ii) Basic per share | $ - | $ - | $ (0.01) | $ - | $ (0.02) | $ - | $ - | $ - |
| (iii) Fully diluted per share | $ - | $ - | $ (0.01) | $ - | $ (0.02) | $ - | $ - | $ - |
| Total assets | $ 13,277 | $ 13,019 | $ 14,203 | $ 14,349 | $ 13,900 | $ 13,016 | $ 13,008 | $ 12,989 |
| Total long-term liabilities | $ - | $ 113 | $ 123 | $ 123 | $ - | $ - | $ - | $ - |
| Dividends per share | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

## 1.6 Liquidity and Capital Resources

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:

| (in $000s) | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Cash | $ 45 | $ 592 |
| Working capital (deficiency) | $ (577) | $ (1,149) |

Ongoing operating expenses continue to reduce the Company's cash resources and working capital.

In February 2011, the Company issued a convertible debenture for CAD$300,000 to Effisolar for the interest free loan from Effisolar, which was then converted into 1,282,051 common shares of the Company on March 2, 2011. The funds were then used to acquire the assay laboratory for a total of $600,000 of which $300,000 were previously advanced in December 2010.

In May 2011, the Company entered into an agreement for the sale of assay laboratory for $600,000 plus recovery of out-of-pocket expenses incurred by the Company and such funds were received in June 2011.

During fiscal 2011, stock options for 299,000 common shares were exercised for proceeds of CAD$32,125 and warrants for 1,313,650 common shares for CAD$198,488, all of which contributed to the Company's working capital needs during the year.

The Company received $50,000 in royalties from the Sara Kreek project in fiscal 2011, which is the final year of such royalties from the project.

In fiscal 2011, the Company recognized an unrealized gain of $71,000 from its available-for-sale financial assets which were all disposed in January and February 2012 for proceeds of approximately CAD$92,400.

In May 2009, the Company received CAD$62,030 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 9% per annum which was increased to 12% effective September 1, 2010, and were previously secured by the Company's shareholdings in Caza at CAD$0.25 per share of Caza which has been replaced by a loan bonus of 12% payable upon repayment effective September 1, 2010. As at December 31, 2011, the Company accrued CAD$19,800 in interests and CAD$7,400 in loan bonuses.

At December 31, 2010, a derivative liability of $1,082,000 for warrants which have exercise prices denominated in Canadian dollars was recognized whereas no derivative liability was recognized due to the change in the Company's functional currency from U.S. dollars to Canadian dollars effective January 1, 2011. This was a primary factor in the decrease in the Company's working capital deficiency in 2011.

The working capital deficiency of $577,000 at December 31, 2011 includes the notes payable with accrued interests and accrued loan bonus totalling $88,000 due to certain directors and an officer of the Company and flow-through indemnities of $195,000. In August 2011, the Company did pay indemnifications of CAD$37,883 including interests for ineligible exploration expenditures for flow through purposes which reduced such obligations in 2011 in comparison to 2010.

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 1.4, further details of contractual obligations are provided as at December 31, 2011. The Company will continue to rely upon equity financing as its principal source of financing its projects.

In March 2012, the Company arranged demand loans of up to CAD$200,000 from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 12% compounded monthly with interest payable semi-annually. Demand loans of CAD$150,000 have been received by the Company.

In March 2012, the Company received proceeds of CAD$23,000 from the exercise of stock options for 220,000 common shares.

## 1.7 Capital Resources

Item 1.6 provides further details.

## 1.8 Off-Balance Sheet Arrangements

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

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

## 1.9 Transactions with Related Parties

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

Except as disclosed elsewhere in the MD&A, general and administrative costs during 2011and 2010 include:

| ($000s) | Year ended December 31, | | Net balance receivable (payable) as at December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Key management compensation: | | | | |
| Executive salaries and remuneration | $ 473 | $ 291 | $ (14) | $ - |
| Directors fees | 40 | 39 | (146) | (109) |
| Share-based payments | 212 | 116 | - | - |
| | $ 725 | $ 446 | $ (160) | $ (109) |
| Legal fees incurred to a law firm in which a senior officer of the Company is a partner | $ 72 | $ 71 | $ 83 | $ 62 |
| Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s) | $ 55 | $ 88 | $ 16 | $ (4) |

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.

Details of demand loans from related parties are provided in Item 1.6.

## 1.10 Fourth Quarter

Items 1.2, 1.4, 1.5 and 1.6 provide further details for the fourth quarter of fiscal 2011.

## 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

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 underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; flow-through obligations and deferred income tax liability; the variables used in the determination of the fair value of stock options granted, warrants issued and derivative liability for warrants; 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.

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

Pursuant to an audit by the Canada Revenue Agency (the "CRA") which was completed in June 2010, CRA disallowed approximately CAD$1.01 million in exploration expenditures incurred in 2007 as Canadian exploration expenditures ("CEE") of which approximately CAD$795,000 as being disqualified for CEE for flow-through purposes. The Company accrued liabilities of approximately CAD$146,300 for estimated indemnities related to the disqualified CEE for flow-through purposes and CAD$51,700 in accrued interests related to the indemnities. Should the estimate change in the future, it may affect future results of operations and cash flows.

## 1.13 Changes in Accounting Policies including Initial Adoption

### International Financial Reporting Standards ("IFRS")

The Company's Fourth Quarter Report for fiscal 2011 includes the Company's first annual consolidated financial statements presented in accordance with IFRS for the year ended December 31, 2011.

IFRS and IFRS 1 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative financial information presented in these consolidated financial statements for the year ended December 31, 2010, and the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian GAAP to IFRS and at December 31, 2010.

(a) IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1):

In preparing these consolidated financial statements, the Company has applied IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The following are the optional exemptions available under IFRS 1 that the Company has elected to apply:

*Business combinations*

The Company has elected to apply IFRS 3 *Business Combinations* prospectively to business combinations that occur after the date of transition. The Company has elected this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

*Share-based payments*

The Company elected to not apply IFRS 2 *Share-based Payments* to equity instruments granted before November 7, 2002 and those granted but fully vested before the date of transition to IFRS. As a result, the Company has applied IFRS 2 for stock options granted after November 7, 2002 that are not fully vested at January 1, 2010.

(b) Adjustments on transition to IFRS:

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However there are important differences with regard to recognition, measurement and disclosure. Although adoption of IFRS did not change the Company's actual cash flows, it did result in changes to the Company's statements of financial position, statements of comprehensive loss, and statements of changes in shareholders' equity as set out below:

(i) Warrants:

Under Canadian GAAP, the Company classified warrants which were exercisable in Canadian dollars to purchase common shares (a currency other than the Company's functional currency) as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares at an exercise price which is stated in a currency other than the Company's functional currency are considered derivative financial liabilities. The exercise price is fixed in Canadian dollars but the Company's functional currency prior to January 1, 2011 was the U.S. dollar, resulting in a variable amount of cash when the warrants are exercised. Such warrants are required to be measured and recognized at fair value with changes to initial recognition charged to operations. The Company has determined fair value using the Black-Scholes option pricing model. Effective January 1, 2011, the Company's functional currency changed from U.S. dollars to Canadian dollar, and therefore no further derivative liability was recognized for its warrants.

(ii) Share-based payments:

Under Canadian GAAP, the Company accounts for forfeitures of stock option as they occur. For IFRS, estimates of forfeitures are initially recognized when stock options are granted and subsequently adjusted

for actual forfeitures as they occur. The Company has recognized vesting of stock options on an accelerated grading basis which is similar to IFRS.

Under Canadian GAAP, expired unexercised stock options remained in contributed surplus. On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts included in the reserve for share-based payments for expired unexercised stock options are transferred from the reserve for share-based payments to deficit.

(iii) Income tax:

Under Canadian GAAP, deferred tax balances are calculated in the currency in which the taxes are paid and then converted to the accounting presentation currency at the current exchange rate, whereas IFRS requires that deferred taxes be determined in an entity's functional accounting currency by comparing the historic non-monetary accounting basis to the tax basis converted at the current exchange rate. Adjustments arise from this different treatment when an entity's functional currency differs from that in which the entity calculates and pays tax. The Company's adjustments for this difference primarily relate to its mineral properties which were maintained in Canadian dollars while the Company's functional currency prior to January 1, 2011 was the United States dollar.

(d) Reconciliation from Canadian GAAP to IFRS:

A reconciliation of the above noted changes is included in these following consolidated statements of financial position and consolidated statements of comprehensive loss for the dates noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

Transitional Consolidated Statement of Financial Position – January 1, 2010

Consolidated Statement of Financial Position Reconciliation – December 31, 2010
Consolidated Statement of Comprehensive Loss Reconciliation – Year ended December 31, 2010

(i) The January 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

| | January 1, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash | $ 155 | $ - | $ 155 |
| Receivables and prepaids | 193 | | 193 |
| Royalty receivable - current portion | 50 | | 50 |
| Total Current Assets | 398 | - | 398 |
| **NON-CURRENT ASSETS** | | | |
| Mineral properties | 12,626 | | 12,626 |
| Equipment | 2 | | 2 |
| Royalty receivable - long-term portion | 46 | | 46 |
| Long-term investments | 143 | | 143 |
| Total Non-Current Assets | 12,817 | - | 12,817 |
| Total Assets | $ 13,215 | $ - | $ 13,215 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued liabilities | $ 607 | $ - | $ 607 |
| Notes payable | 63 | | 63 |
| Flow-through obligation | 377 | | 377 |
| Derivative liability for warrants | - | 193 | 193 |
| Total Current Liabilities | 1,047 | 193 | 1,240 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 56,436 | | 56,436 |
| Contributed surplus | 2,354 | (2,354) | - |
| Reserve for share-based payments | - | 1,316 | 1,316 |
| Deficit | (46,622) | 845 | (45,777) |
| Total Shareholders' Equity | 12,168 | (193) | 11,975 |
| Total Liabilities and Shareholders' Equity | $ 13,215 | $ - | $ 13,215 |

(ii) The December 31, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

| | December 31, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash | $ 592 | $ - | $ 592 |
| Receivables and prepaids | 105 | | 105 |
| Marketable securities | 25 | | 25 |
| Royalty receivable - current portion | 50 | | 50 |
| Total Current Assets | 772 | - | 772 |
| **NON-CURRENT ASSETS** | | | |
| Mineral properties | 12,724 | | 12,724 |
| Deposit on asset acquisition | 300 | | 300 |
| Equipment | 10 | | 10 |
| Royalty receivable - long-term portion | - | | - |
| Long-term investments | 94 | | 94 |
| Total Non-Current Assets | 13,128 | - | 13,128 |
| Total Assets | $ 13,900 | $ - | $ 13,900 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued liabilities | $ 532 | $ - | $ 532 |
| Notes payable | 81 | | 81 |
| Flow-through obligation | 226 | | 226 |
| Derivative liability for warrants | - | 1,082 | 1,082 |
| Total Current Liabilities | 839 | 1,082 | 1,921 |
| Future income tax liability | 120 | (120) | - |
| Total Liabilities | 959 | 962 | 1,921 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 57,660 | 25 | 57,685 |
| Contributed surplus | 2,483 | (2,483) | - |
| Accumulated other comprehensive income | 10 | | 10 |
| Reserve for share-based payments | - | 1,259 | 1,259 |
| Deficit | (47,212) | 237 | (46,975) |
| Total Shareholders' Equity | 12,941 | (962) | 11,979 |
| Total Liabilities and Shareholders' Equity | $ 13,900 | $ - | $ 13,900 |

(iii) The Canadian GAAP consolidated statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

| | December 31, 2010 | | |
|---|---|---|---|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| **Expenses:** | | | |
| Amortization | $ 1 | $ - | $ 1 |
| Corporate development | 12 | | 12 |
| Employee and director remuneration | 383 | | 383 |
| Foreign exchange loss | 43 | | 43 |
| General and administrative | 308 | | 308 |
| Shareholder relations | 62 | | 62 |
| Share-based payments | 130 | 13 | 143 |
| **Loss before the undernoted** | (939) | (13) | (952) |
| Gain on disposition of long-term investment | 257 | | 257 |
| Accretion of royalty receivable | 4 | | 4 |
| Write-off of equipment | (1) | | (1) |
| Unrealized loss from derivative warrant liability | - | (913) | (913) |
| Due diligence costs on asset acquisition | (20) | | (20) |
| Interest expense | (14) | | (14) |
| Flow-through financing costs | 150 | | 150 |
| **Loss before income tax** | (563) | (926) | (1,489) |
| Future income tax expense | (27) | 120 | 93 |
| **Net loss for the year** | (590) | (806) | (1,396) |
| Other comprehensive (loss) income: | | | |
| Unrealized gain on available-for-sale securities | 10 | | 10 |
| **Comprehensive loss for the year** | $ (580) | $ (806) | $ (1,386) |
| **Basic and diluted loss per share** | $ (0.01) | | $ (0.02) |
| Weighted average number of common shares outstanding | 82,446,825 | | 82,446,825 |

## 1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as financial assets at fair value through profit or loss ("FVTPL"),
- marketable securities and long term investments as available-for-sale ("AFS") financial assets,
- receivables as loans and receivables,
- royalties receivable as loans and receivables,
- accounts payable and accrued liabilities, notes payables and flow-through obligations 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, accounts payable and accrued liabilities, notes payable and flow-through obligations approximate their carrying values due to the short terms to maturity. Cash and marketable securities are 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 Aztec shares and the fair value cannot be reliably determined. Therefore they are recorded at cost. The fair value of the royalty receivable approximates its carrying value as it was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The royalty receivable is level 3 in the fair value hierarchy as it is based on unobservable inputs. The Company has classified its derivative liability for warrants as derivative financial liabilities and are measured at fair value. All gains and losses are included in operations in the period in which they arise. Derivative liability for warrants is level 2 in the fair value hierarchy as the Company uses the Black-Scholes option pricing model to determine the fair value of the warrants.

(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. Any receivables from government usually bear no risk. The royalty receivable is due from an unrelated company, and the Company has not taken any steps to mitigate the credit risk associated with this receivable.

(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. The Company will require significant additional funding to meet its short-term liabilities, flow-through obligations and administrative overhead costs, and to maintain its mineral property interests in 2012.

Accounts payable and accrued liabilities are due in less than 90 days, and the notes payables 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 properties 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 financial statements are stated in U.S. dollars.

At December 31, 2011, 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:

| | Held in Canadian dollars |
|---|---|
| Cash | $ 32 |
| Accounts payable and accrued liabilities | (74) |
| Net assets (liabilities) | $ (42) |

Based upon the above net exposure as at December 31, 2011 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 $4,200 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 notes payable are stated at a fixed interest rate.

(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.

## 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 consolidated financial statements for the year ended December 31, 2011.

### 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, 2011 are as follows:

| | Number of Shares | Amount (in $000s) |
|---|---|---|
| Balance at December 31, 2010 | 90,985,890 | $ 57,685 |
| Issued: | | |
| Conversion of convertible debenture | 1,282,051 | 291 |
| Exercise of stock options | 299,000 | 54 |
| Exercise of warrants | 1,313,650 | 205 |
| Property acquisition | 215,580 | 24 |
| Renunciation of flow-through expenditures | - | (1) |
| Balance at December 31, 2011 | 94,096,171 | $ 58,258 |

At March 23, 2012, there were 94,316,171 common shares issued and outstanding.

At December 31, 2011, the Company had outstanding stock options to purchase an aggregate 10,115,000 common shares as follows:

| | December 31, 2011 | |
|---|---|---|
| | Number of Shares | Weighted average exercise price (CAD$) |
| Outstanding balance, beginning of year | 9,410,000 | $0.31 |
| Granted | 2,220,000 | $0.14 |
| Exercised | (299,000) | $0.11 |
| Forfeited | (16,000) | $0.10 |
| Expired | (1,200,000) | $0.69 |
| Outstanding balance, end of year | 10,115,000 | $0.24 |

At December 31, 2011, 10,115,000 stock options are outstanding of which 7,267,000 stock options are exercisable.

In March 2012, the Company granted 1,400,000 stock options with an exercise price of CAD$0.10 and which are exercisable for a period of up to one year and are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every three months thereafter.

At March 23, 2012, stock options for 10,970,000 common shares remain outstanding of which 7,516,000 stock options are exercisable.

At December 31, 2011, the Company had outstanding warrants as follows:

| Exercise Prices (CAD$) | Expiry Dates | Oustanding at December 31, 2010 | Issued | Exercised | Expired | Oustanding at December 31, 2011 |
|---|---|---|---|---|---|---|
| $0.15 | April 22, 2011 | 39,410 | - | (31,675) | (7,735) | - |
| $0.15 | October 22, 2011 | 202,160 | - | - | (202,160) | - |
| $0.15 | April 22, 2011 | 2,319,140 | - | (1,185,975) | (1,133,165) | - |
| $0.165 | May 9, 2011 | 128,410 | - | (96,000) | (32,410) | - |
| $0.22 | June 13, 2012 | 4,250,000 | - | - | - | 4,250,000 |
| | | 6,939,120 | - | (1,313,650) | (1,375,470) | 4,250,000 |

At March 23, 2012, warrants for 4,250,000 common shares are 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 2012 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 properties will result in the discovery, development or production of a commercially viable ore body.

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

***Financing Risks***

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

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

***Estimates of Mineral Deposits***

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

Although all figures with respect to the size and grade of mineralized deposits, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are historic estimates only and are not compliant with NI 43-101, 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 retaining their respective values. There is no assurance that the prices of gold and other precious and base metals will be such that the Company's properties can be mined at a profit.

***Title Matters***

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

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

***Conflicts of Interest***

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

The Company's directors and officers may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The interests of these companies may differ from time to time. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In

accordance with the laws of the Province of British Columbia, Canada, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in any particular exploration or mining project at any given time, the directors will primarily consider the upside potential for the project to be accretive to shareholders, the degree of risk to which the Company may be exposed and its financial position at that time.

***Uninsured Risks***

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

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

***Environmental and Other Regulatory Requirements***

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

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

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

***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 properties.

***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.

***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, 2011, the Company had 94,096,171 common shares and 10,115,000 outstanding share purchase options and 4,250,000 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, 2011, securities that could be dilutive represented approximately 15.3% of the Company's issued shares. None of these dilutive securities were exercisable at prices below the December 30, 2011 closing market price of CAD$0.09 for the Company's shares, which would not accordingly result in dilution to existing shareholders if exercised.

## 1.18 Controls and Procedures

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

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's audited consolidated financial statements for the year ended December 31, 2011 and this MD&A, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that the design and operation of the Company's internal disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the Company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the

Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

***Internal Controls over Financial Reporting***

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

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

The Company shall engage the services of an external accounting firm to assist in applying complex areas of accounting as needed. In December 2007, the Company has hired a consultant to design and implement internal controls over financial reporting.

Management concluded that the audited consolidated annual financial statements for the year ended December 31, 2011 fairly present the Company's financial position and the results of its operations for the period then ended.

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

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