



CANARC RESOURCE CORP.

Second Quarter Report

Condensed Consolidated Interim Financial Statements

(expressed in United States dollars)

Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

**Notice of No Auditor Review of
Unaudited Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2019**

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

The accompanying unaudited condensed consolidated interim financial statements of Canarc Resource Corp. (the “Company”) for the three and six months ended June 30, 2019 (the “Financial Statements”) have been prepared by and are the responsibility of the Company’s management, and have not been reviewed by the Company’s auditors. The Financial Statements are stated in terms of United States dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 (“IAS 34”) and International Financial Reporting Standards (“IFRS”).

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Notes	June 30, 2019	December 31, 2018
ASSETS			
CURRENT ASSETS			
Cash		\$ 1,895	\$ 2,329
Marketable securities	7	203	719
Receivables and prepaids	14	153	87
Promissory note receivable	6	-	59
Total Current Assets		2,251	3,194
NON-CURRENT ASSETS			
Mineral property interests	8	15,160	14,237
Equipment	9	148	80
Total Non-Current Assets		15,308	14,317
Total Assets		\$ 17,559	\$ 17,511
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	10(a)	\$ 77	\$ 262
Deferred royalty liability, current	11(a)	-	35
Lease liability, current	11(b)	30	-
Total Current Liabilities		107	297
LONG TERM LIABILITIES			
Deferred royalty liability, long term	11(a)	145	130
Lease liability, long term	11(b)	55	-
Total Long Term Liabilities		200	130
Total Liabilities		307	427
SHAREHOLDERS' EQUITY			
Share capital	12(b)	66,305	66,305
Reserve for share-based payments		773	734
Accumulated other comprehensive loss		(2,618)	(3,253)
Deficit		(47,208)	(46,702)
Total Shareholders' Equity		17,252	17,084
Total Liabilities and Shareholders' Equity		\$ 17,559	\$ 17,511

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

Approved on behalf of the Board:

/s/ Bradford Cooke

Director

/s/ Martin Burian

Director

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(Unaudited – Prepared by Management)

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

	Notes	Three Months ended June 30,		Six Months ended June 30,	
		2019	2018	2019	2018
Expenses:					
Amortization	9	\$ 12	\$ 7	\$ 24	\$ 12
Corporate development	13, 14	15	5	18	11
Employee and director remuneration	14	182	298	279	427
General and administrative	13, 14	34	52	69	97
Shareholder relations		28	16	64	39
Share-based payments	12(c), 14	35	28	61	57
Loss before the undernoted		(306)	(406)	(515)	(643)
Interest income		10	13	17	22
Foreign exchange gain (loss)		34	1	37	7
Change in fair value of marketable securities	7	(83)	113	(32)	34
Interest and finance charges	11	(11)	(8)	(23)	(16)
Recovery of loan receivable	6	-	-	-	220
Net loss before income tax		(356)	(287)	(516)	(376)
Income tax recovery	10(b)	-	3	-	3
Net loss for the period		(356)	(284)	(516)	(373)
Other comprehensive income (loss):					
Items that will not be reclassified into profit or loss:					
Foreign currency translation adjustment		301	(356)	635	(850)
Comprehensive income (loss) for the period		\$ (55)	\$ (640)	\$ 119	\$ (1,223)
Basic and diluted loss per share:		\$ -	\$ -	\$ -	\$ -
Weighted average number of shares outstanding		218,355,144	218,670,397	218,355,144	218,745,741

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Share Capital		Reserve for Share-Based Payments	Accumulated Other Comprehensive Income (Loss)		Deficit	Total
	Number of Shares	Amount					
Balance, December 31, 2017	218,779,144	\$ 66,328	\$ 1,101	\$ (1,995)	\$ (46,054)	\$ 19,380	
Common share buy-back under normal course issuer bid (Notes 12(b)(ii) and (iii))	(524,000)	(21)	-	-	-	(21)	
Property acquisition (Note 12(b)(ii))	100,000	4	-	-	-	4	
Share issue expenses	-	(6)	-	-	-	(6)	
Share-based payments	-	-	118	-	-	118	
Cancellation and expiration of stock options	-	-	(407)	-	407	-	
Expiration of finders fee warrants	-	-	(70)	-	70	-	
Other comprehensive income (loss):							
Foreign currency translation adjustment	-	-	(8)	(1,258)	-	(1,266)	
Net loss for the year	-	-	-	-	(1,125)	(1,125)	
Balance, December 31, 2018	218,355,144	66,305	734	(3,253)	(46,702)	17,084	
Impact of adopting IFRS 16 (Note 3(d))	-	-	-	-	(2)	(2)	
Balance, January 1, 2019	218,355,144	66,305	734	(3,253)	(46,704)	17,082	
Share-based payments	-	-	61	-	-	61	
Expiration of finders fee warrants	-	-	(22)	-	22	-	
Other comprehensive income (loss):							
Foreign currency translation adjustment	-	-	-	635	(10)	625	
Net loss for the period	-	-	-	-	(516)	(516)	
Balance, June 30, 2019	218,355,144	\$ 66,305	\$ 773	\$ (2,618)	\$ (47,208)	\$ 17,252	
Balance, December 31, 2017	218,779,144	\$ 66,328	\$ 1,101	\$ (1,995)	\$ (46,054)	\$ 19,380	
Common share buy-back under normal course issuer bid (Note 12(b)(iii))	(109,000)	(7)	-	-	-	(7)	
Share-based payments	-	-	57	-	-	57	
Cancellation and expiration of stock options	-	-	(161)	-	161	-	
Other comprehensive income (loss):							
Foreign currency translation adjustment	-	-	-	(850)	(5)	(855)	
Net loss for the period	-	-	-	-	(373)	(373)	
Balance, June 30, 2018	218,670,144	\$ 66,321	\$ 997	\$ (2,845)	\$ (46,271)	\$ 18,202	

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Cash provided from (used by):				
Operations:				
Net loss	\$ (356)	\$ (284)	\$ (516)	\$ (373)
Items not involving cash:				
Accrued interest	15	8	23	16
Amortization	12	7	24	12
Share-based payments	35	28	61	57
Change in fair value of marketable securities	83	(113)	32	(34)
Income tax recovery	-	(3)	-	(3)
Recovery of promissory note receivable	-	-	-	(220)
	(211)	(357)	(376)	(545)
Changes in non-cash working capital items:				
Receivables and prepaids	(59)	(33)	(66)	(26)
Accounts payable and accrued liabilities	(109)	144	(185)	79
Net cash used by operating activities	(379)	(246)	(627)	(492)
Financing:				
Lease payments	(12)	-	(17)	-
Share buyback under normal course issuer bid	-	(2)	-	(7)
Cash used by financing activities	(12)	(2)	(17)	(7)
Investing:				
Expenditures for mineral properties, net of recoveries	(41)	(214)	(369)	(284)
Acquisition of marketable securities	-	4	-	(293)
Proceeds from disposition of marketable securities	504	-	504	-
Proceeds from promissory note receivable	-	-	59	25
Acquisition of equipment	(4)	-	(5)	-
Deferred royalty payment	(35)	-	(35)	-
Cash provided from (used by) investing activities	424	(210)	154	(552)
Unrealized foreign exchange gain (loss) on cash	(12)	(87)	56	(219)
(Decrease) increase in cash	21	(545)	(434)	(1,270)
Cash, beginning of period	1,874	3,579	2,329	4,304
Cash, end of period	\$ 1,895	\$ 3,034	\$ 1,895	\$ 3,034

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Notes	Three Months ended June 30,		Six Months ended June 30,	
		2019	2018	2019	2018
Non-cash financing and investing activities:					
Initial recognition from change in accounting policy for lease:					
Right of use asset	3(d)	\$ -	\$ -	\$ 122	\$ -
Amortization of leased asset	3(d)	-	-	34	-
Lease liability	3(d)	-	-	90	-
Cancellation/expiration of:					
Stock options		-	161	-	161
Finders fee warrants		11	-	22	-
Income taxes paid		-	-	-	-
Interest paid	11	26	-	30	-

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

1. Nature of Operations and Going Concern

Canarc Resource Corp. (the “Company”), a company incorporated under the laws of British Columbia on January 22, 1987, is in the mineral exploration business and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of reserves in its mineral property interests, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its mineral property interests, and upon future profitable production or proceeds from the disposition thereof. The address of the Company’s registered office is #910 – 800 West Pender Street, Vancouver, BC, Canada, V6C 2V6 and its principal place of business is #810 – 625 Howe Street, Vancouver, BC, Canada, V6C 2T6.

The Company has no operating revenues, has incurred a significant net loss of \$516,000 for the six months ended June 30, 2019 (June 30, 2018 – \$373,000) and has a deficit of \$47.2 million as at June 30, 2019 (December 31, 2018 - \$46.7 million). In addition, the Company has negative cash flows from operations. These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and repayment of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management continues to find opportunities to raise the necessary capital to meet its planned business objectives and continues to seek financing opportunities. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

2. Basis of Presentation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Standards Interpretations Committee. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required for full and complete annual financial statements, and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018. The Company has consistently applied the same accounting policies for all periods as presented except for change in accounting standard for leases under IFRS 16 *Leases* which became effective January 1, 2019 (Note 3(d)). Certain of the prior periods’ comparative figures may have been reclassified to conform to the presentation adopted in the current period.

(b) Approval of condensed consolidated interim financial statements:

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors on August 12, 2019.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(c) Basis of presentation:

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

(d) Functional currency and presentation currency:

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

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

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

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

(e) Critical accounting estimates and judgements:

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

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

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

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

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

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

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

(f) New accounting standards and recent pronouncements:

The standards listed below include only those which the Company reasonably expects may be applicable to the Company in the current period and at a future date. The Company is currently assessing the impact of these future standards on the condensed consolidated interim financial statements.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

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

The following standards will become effective in future periods:

(i) The Conceptual Framework for Financial Reporting

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

The revised Conceptual Framework includes the following:

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

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

(ii) Annual Improvements to IFRS Standards 2015–2017 Cycle

The following standards have been revised to incorporate amendments:

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

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

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

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

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

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

(iv) IFRIC 23 *Uncertainty over Income Tax Treatments*

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

The main features of IFRIC 23 are as follows:

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

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies

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

(a) Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries including New Polaris Gold Mines Ltd. and American Innovative Minerals, LLC (“AIM”). The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date control commences until the date control ceases. All significant intercompany transactions and balances are eliminated on consolidation.

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

(b) Financial instruments:

The Company has classified its financial instruments under IFRS 9 *Financial Instruments* (“IFRS 9”) as follows:

	IFRS 9
Financial Assets	
Cash	Fair value through profit or loss (“FVTPL”)
Marketable securities	FVTPL
Receivables	Amortized cost
Financial Liability	
Accounts payable and accrued liabilities	Amortized cost
Deferred royalty liability	Amortized cost
Lease liability	Amortized cost

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies (continued)

(c) Mineral property interests:

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

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

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

(d) Change in accounting policy – IFRS 16, *Leases*:

IFRS 16 – Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single accounting model, requiring the recognition of assets and liabilities for all major leases previously classified as "operational leases" under the principles of IAS 17 – Leases, and related interpretations.

(i) The Company's accounting policy under IFRS 16

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to grandfather the lease definition for existing contracts on transition. It applied the definition of a lease under IFRS 16 to existing contracts as of January 1, 2019.

The Company has also elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies (continued)

(d) Change in accounting policy – IFRS 16, *Leases*: (continued)

As a lessee

The Company leases its head office space, based on lease agreement having a fixed duration until July 31, 2022.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, based on the initial amount of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The ongoing lease liability is measured at amortized cost using the effective interest method. It is measured when there is a change in future lease payments, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Impact of transition to IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The cumulative effect of initial application is recognized in deficit at January 1, 2019. Comparative amounts for 2018 remain as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease receivables and/or lease liabilities. Lease receivables and liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied was 18% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment. As of the initial date of application of IFRS 16, the remaining noncancelable period of the office lease was three years and seven months.

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Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies (continued)

(d) Change in accounting policy – IFRS 16, *Leases*: (continued)

(ii) Impact of transition to IFRS 16 (continued)

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application and leases of low value assets as short-term leases. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

The Company has also elected to apply the practical expedient for excluding the initial direct costs for the measurement of right-of-use assets at the date of initial application, as well as for using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets and lease liabilities as at January 1, 2019 as summarized in the following table:

	December 31, 2018 prior to adoption of IFRS 16	Adjustments	January 1, 2019 after adoption of IFRS 16
Non-current assets:			
Equipment	\$ 80	\$ 88	\$ 168
Non-current liabilities:			
Lease liability	\$ -	\$ 90	\$ 90
Shareholders equity:			
Deficit	\$ (46,702)	\$ (2)	\$ (46,704)

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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3. Significant Accounting Policies (continued)

(d) Change in accounting policy – IFRS 16, Leases: (continued)

(iii) Impact for the period

The following tables summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim financial statements for the six months ended June 30, 2019:

	June 30, 2019 without adoption of IFRS 16	Adjustments for adoption of IFRS 16	June 30, 2019 as reported
Non-current assets:			
Equipment	\$ 71	\$ 77	\$ 148
Non-current liabilities:			
Lease liability	\$ -	\$ 85	\$ 85
Shareholders equity:			
Accumulated other comprehensive loss	\$ (2,621)	\$ (6)	\$ (2,627)
Deficit	\$ (46,206)	\$ (2)	\$ (46,208)
Expenses:			
Amortization	\$ (13)	\$ (11)	\$ (24)
General and administrative	\$ (86)	\$ 17	\$ (69)
Other items:			
Interest and finance charges	\$ (15)	\$ (8)	\$ (23)
Net loss for the period	\$ (159)	\$ (2)	\$ (161)

Right of use assets are included in equipment.

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4. Management of Capital

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

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

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

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

There were no changes in the Company's approach to capital management during the six months ended June 30, 2019.

5. Management of Financial Risk

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

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

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

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5. Management of Financial Risk (continued)

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

(a) Credit risk:

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

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

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

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. As at June 30, 2019, the Company had a working capital of \$2.1 million (December 31, 2018 – \$2.9 million). The Company has sufficient funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2019.

The following schedule provides the contractual obligations related to the office lease and deferred royalty payments (Notes 8(b)(i) and 11) as at June 30, 2019:

	Payments due by Period (CAD\$000)					Payments due by Period (US\$000)				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Basic office lease	\$ 146	\$ 46	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advance royalty payments	-	-	-	-	-	320	-	105	105	110
Total	\$ 146	\$ 46	\$ 100	\$ -	\$ -	\$ 320	\$ -	\$ 105	\$ 105	\$ 110

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

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5. Management of Financial Risk (continued)

(c) Market risk:

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

(i) Foreign currency risk:

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

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

	Stated in U.S. Dollars (Held in Canadian Dollars)	
	June 30, 2019	December 31, 2018
Cash	\$ 1,871	\$ 2,288
Marketable securities	203	719
Receivables	10	17
Accounts payable and accrued liabilities	(38)	(215)
Lease liability	(85)	-
Net financial assets (liabilities)	\$ 1,961	\$ 2,809

Based upon the above net exposure as at June 30, 2019 and assuming all other variables remain constant, a 5% (December 31, 2018 - 10%) depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$98,000 (December 31, 2018 - \$281,000) in the cumulative translation adjustment in the Company's shareholders' equity.

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

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5. Management of Financial Risk (continued)

(c) Market risk: (continued)

(ii) Interest rate risk:

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

(iii) Other price risk:

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

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

As certain of the Company's marketable securities are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's marketable securities. Based upon the net exposure as at June 30, 2019 and assuming all other variables remain constant, a net increase or decrease of 60% (December 31, 2018 - 50%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by \$122,000 (December 31, 2018 - \$360,000).

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

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6. Promissory Note Receivable

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

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

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

7. Marketable Securities

	June 30, 2019	December 31, 2018
Balance, begin of period	\$ 719	\$ 787
Investment in marketable securities	-	289
Disposition of marketable securities at fair value	(504)	(154)
Change in fair value of marketable securities	(32)	(140)
Foreign currency translation adjustment	20	(63)
Balance, end of period	<u>\$ 203</u>	<u>\$ 719</u>

The quoted market value and fair value of shares of companies was \$203,000 at June 30, 2019 (December 31, 2018 - \$719,000).

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8. Mineral Property Interests

	Canada						USA		Other (Note 8(c))	Total
	British Columbia			Nunavut			Nevada			
	New Polaris (Note 8(a)(i))	Windfall Hills (Note 8(a)(ii))	Princeton (Note 8(a)(iv))	Hard Cash (Note 8(a)(v))	Nigel (Note 8(a)(v))	Fondaway Canyon (Note 8(b)(i))	Corral Canyon (Note 8(b)(ii))			
Acquisition Costs:										
Balance, December 31, 2017	\$ 3,875	\$ 374	\$ -	\$ -	\$ -	\$ 2,173	\$ -	\$ -	\$ 6,422	
Additions, net of recoveries	6	-	-	9	2	12	23	10	62	
Foreign currency translation adjustment	7	(30)	-	-	-	(175)	-	-	(198)	
Balance, December 31, 2018	3,888	344	-	9	2	2,010	23	10	6,286	
Additions, net of recoveries	9	-	6	-	-	-	-	-	15	
Foreign currency translation adjustment	(13)	14	-	-	-	86	2	-	89	
Balance, June 30, 2019	3,884	358	6	9	2	2,096	25	10	6,390	
Deferred Exploration Expenditures:										
Balance, December 31, 2017	6,431	522	-	-	-	1,090	-	-	8,043	
Additions, net of recoveries	88	150	69	120	-	351	1	-	779	
Foreign currency translation adjustment	(741)	(42)	-	-	-	(88)	-	-	(871)	
Balance, December 31, 2018	5,778	630	69	120	-	1,353	1	-	7,951	
Additions, net of recoveries	127	6	45	68	-	32	76	-	354	
Foreign currency translation adjustment	372	27	3	5	-	58	-	-	465	
Balance, June 30, 2019	\$ 6,277	\$ 663	\$ 117	\$ 193	\$ -	\$ 1,443	\$ 77	\$ -	\$ 8,770	
Mineral property interests:										
Balance, December 31, 2018	\$ 9,666	\$ 974	\$ 69	\$ 129	\$ 2	\$ 3,363	\$ 24	\$ 10	\$ 14,237	
Balance, June 30, 2019	10,161	1,021	123	202	2	3,539	102	10	15,160	

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8. Mineral Property Interests (continued)

(a) Canada:

(i) New Polaris (British Columbia):

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at June 30, 2019 include a reclamation bond for \$192,000 (December 31, 2018 - \$184,000).

(ii) Windfall Hills (British Columbia):

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

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

(iii) FG Gold (British Columbia):

On August 24, 2016, the Company entered into a property option agreement with Eureka Resources, Inc., (“Eureka”) which closed on October 12, 2016. The Company can earn up to a 75% interest in the FG gold property in two stages. If the Company failed to satisfy the consideration necessary to exercise the second stage, then a joint venture would be deemed to have formed with the Company having a 51% interest and Eureka with a 49% interest. In 2017, the Company terminated the property option agreement with Eureka and wrote off the FG Gold project.

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8. Mineral Property Interests (continued)

(a) Canada: (continued)

(iv) Princeton (British Columbia):

In December 2018 and then as amended in June 2019, the Company entered into a property option agreement jointly with Universal Copper Ltd. (formerly, Tasca Resources Ltd.) (“Universal”) and an individual whereby the Company has an option to earn a 75% interest in the Princeton property by: incurring exploration expenditures of CAD\$490,000 over a two year period; issuing 375,000 common shares to Universal by December 1, 2019; paying CAD\$25,000 cash to Universal by March 16, 2021; and granting a 1% NSR to Universal which can be acquired for CAD\$1 million and honoring a 2% NSR to the individual of which 1% NSR can be acquired for CAD\$1 million.

(v) Hard Cash and Nigel (Nunavut):

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

(vi) Eskay Creek property (British Columbia):

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

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8. Mineral Property Interests (continued)

(b) United States:

(i) Fondaway Canyon (Nevada):

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

Certain of the mineral properties are subject to royalties. For the Fondaway Canyon project, it bears both a 3% NSR and a 2% NSR. The 3% NSR has a buyout provision for an original amount of \$600,000 which is subject to advance royalty payments of \$35,000 per year by July 15th of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out. A balance of \$425,000 with a fair value of \$183,000 was outstanding upon the closing of the Membership Agreement; a remaining balance of \$320,000 remains payable as at June 30, 2019 (December 31, 2018 - \$355,000). The 2% NSR has a buyout provision of either \$2 million in cash or 19.99% interest of a public entity which owns AIM if AIM were to close an initial public offering of at least \$5 million.

(ii) Corral Canyon (Nevada):

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

(iii) Silver King (Nevada):

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

(c) Other:

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

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8. Mineral Property Interests (continued)

(d) Expenditure options:

As at June 30, 2019, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments as follows:

	Cash Payments (CAD\$000)	Exploration Expenditures (CAD\$000)	Cash Payments (US\$000)	Annual Payments (US\$000)	Number of Shares
New Polaris (Note 8(a)(i)):					
Net profit interest reduction or buydown	\$ -	\$ -	\$ -	\$ -	150,000
Fondaway Canyon (Note 8(b)(i)):					
Advance royalty payment for buyout of 3% net smelter return ⁽¹⁾	-	-	-	35	-
Buyout provision for net smelter return of 2% ⁽²⁾	-	-	2,000	-	-
Windfall Hills (Note 8(a)(ii)):					
Buyout provision for net smelter return of 1.5%	1,000	-	-	-	-
Reduction of net smelter return of 2% to 1%	-	-	500	-	-
Princeton (Note 8(a)(iv)):					
On or before:					
December 1, 2019	-	-	-	-	375,000
December 31, 2019	-	36	-	-	-
December 31, 2020	-	300	-	-	-
March 16, 2021	25	-	-	-	-
Buyout provision for net smelter return of 1%	1,000	-	-	-	-
Reduction of net smelter return of 2% to 1%	1,000	-	-	-	-
Hard Cash and Nigel (Note 8(a)(v)):					
On or before:					
November 23, 2019	20	-	-	-	200,000
November 23, 2020	30	-	-	-	300,000
November 23, 2021	40	-	-	-	400,000
November 23, 2022	50	-	-	-	500,000
Reduction of net smelter return of 2% to 1%	1,000	-	-	-	-
Other (Note 8(c)):					
Success fee	-	-	10	-	-
	\$ 4,165	\$ 336	\$ 2,510	\$ 35	1,925,000

(1) Advance royalty payments of \$320,000 remain payable as at June 30, 2019 with annual payments of \$35,000.

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

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

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8. Mineral Property Interests (continued)

(e) Title to mineral property interests:

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

(f) Realization of assets:

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

(g) Environmental:

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

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

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

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9. Equipment

	Leasehold Improvements	Office Furnishings and Equipment	Right of Use Asset	Total
Cost:				
Balance, December 31, 2017	\$ 90	\$ 31	\$ -	\$ 121
Acquisitions	-	6	-	6
Write-off	-	(2)	-	(2)
Foreign currency translation adjustment	(7)	(2)	-	(9)
Balance, December 31, 2018	83	33	-	116
Initial recognition (Note 3(d))	-	-	122	122
Balance, January 1, 2019	83	33	122	238
Acquisitions	-	5	-	5
Foreign currency translation adjustment	4	1	(5)	-
Balance, June 30, 2019	87	39	117	243
Accumulated amortization:				
Balance, December 31, 2017	10	4	-	14
Amortization	17	7	-	24
Write-off	-	(1)	-	(1)
Foreign currency translation adjustment	(1)	-	-	(1)
Balance, December 31, 2018	26	10	-	36
Initial recognition (Note 3(d))	-	-	34	34
Balance, January 1, 2019	26	10	34	70
Amortization	9	4	11	24
Foreign currency translation adjustment	-	1	-	1
Balance, June 30, 2019	35	15	45	95
Net book value:				
Balance, December 31, 2018	\$ 57	\$ 23	\$ -	\$ 80
Balance, June 30, 2019	\$ 52	\$ 24	\$ 72	\$ 148

10. Current Liabilities

(a) Accounts Payable and Accrued Liabilities:

Flow-Through Tax Indemnification:

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

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10. Current Liabilities (continued)

(b) Flow Through Premium Liability:

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

Balance, December 31, 2016	\$ -
Add:	
Excess of subscription price over fair value of flow through common shares	57
Foreign currency translation adjustment	4
Less:	
Income tax recovery	(7)
Balance, December 31, 2017	<hr/> 54
Less:	
Income tax recovery	(54)
Balance, December 31, 2018 and June 30, 2019	<hr/> \$ - <hr/>

11. Long Term Liabilities

(a) Deferred Royalty Liability:

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

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11. Long Term Liabilities (continued)

(a) Deferred Royalty Liability: (continued)

	<u>Deferred Royalty Liability</u>
Balance, December 31, 2017	\$ 171
Add:	
Interest	30
Less:	
Advance royalty payment	(35)
Foreign currency translation adjustment	(1)
	<hr/>
Balance, December 31, 2018	165
Add:	
Interest	15
Less:	
Advance royalty payment	(35)
Foreign currency translation adjustment	-
	<hr/>
Balance, June 30, 2019	\$ 145

(b) Lease Liability:

	<u>Lease Liability</u>
Balance, December 31, 2018	\$ -
Initial recognition	122
Lease payments	(23)
Foreign currency translation adjustment	(9)
Balance, January 1, 2019	<hr/> 90
Add:	
Interest	8
Less:	
Payments	(17)
Foreign currency translation adjustment	4
	<hr/>
Balance, June 30, 2019	\$ 85

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12. Share Capital

(a) Authorized:

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

(b) Issued:

(i) On July 23, 2019, the Company closed a private placement for 23.7 million flow through common shares for gross proceeds of CAD\$1.4 million; of these shares, 17.3 million were issued at a price of CAD\$0.06 per share and 6.4 million shares at CAD\$0.0625 per share. The fair value of the shares was CAD\$0.06 per share, resulting in the recognition of a flow through premium liability of CAD\$0.0025 per share for a total of CAD\$16,000. Finder fees were comprised of CAD\$91,400 in cash and 1.5 million warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.06 per share until July 23, 2021.

(ii) In June 2018, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid was effective on June 21, 2018 and terminated on June 20, 2019. The actual number of common shares purchased under the bid and the timing of any such purchases were at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; no further shares were purchased in 2019 under its normal course issuer bid.

In December 2018, the Company issued 100,000 common shares at a value of CAD\$0.05 per share to Silver Range for the Hard Cash and Nigel properties (Note 8(a)(v)).

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(c) Stock option plan:

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

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

The continuity of outstanding stock options for the six months ended June 30, 2019 is as follows:

	June 30, 2019	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	16,400,000	\$0.08
Granted	<u>3,750,000</u>	\$0.06
Outstanding balance, end of period	<u>20,150,000</u>	\$0.08
Exercise price range (CAD\$)	<u>\$0.05 - \$0.10</u>	

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at June 30, 2019:

Exercise Prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number Outstanding at June 30, 2019	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)	Number Exercisable at June 30, 2019	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.10	2,300,000	0.05	\$0.10	2,300,000	0.05	\$0.10
\$0.06	3,700,000	1.44	\$0.06	3,700,000	1.44	\$0.06
\$0.08	3,600,000	2.02	\$0.08	3,600,000	2.02	\$0.08
\$0.10	2,050,000	2.92	\$0.10	2,050,000	2.92	\$0.10
\$0.09	500,000	3.21	\$0.09	500,000	3.21	\$0.09
\$0.08	3,250,000	4.00	\$0.08	1,950,000	4.00	\$0.08
\$0.055	1,000,000	4.37	\$0.055	400,000	4.37	\$0.055
\$0.07	700,000	4.65	\$0.07	140,000	4.65	\$0.07
\$0.08	300,000	4.73	\$0.08	60,000	4.73	\$0.08
\$0.06	2,750,000	4.99	\$0.06	550,000	4.99	\$0.06
	20,150,000	2.78	\$0.08	15,250,000	2.20	\$0.08

During the six months ended June 30, 2019, the Company recognized share-based payments of \$61,000 (June 30, 2018 - \$57,000), net of forfeitures, based on the fair value of stock options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants, as applicable, as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Directors and officers	\$ 30	\$ 28	\$ 48	\$ 57
Employees	1	-	1	-
Consultants	4	-	12	-
	\$ 35	\$ 28	\$ 61	\$ 57

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

12. 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:

	June 30,	
	2019	2018
Number of stock options granted	3,750,000	3,250,000
Fair value of stock options granted (CAD\$)	\$0.04	\$0.04
Market price of shares on grant date (CAD\$)	\$0.06	\$0.06
Pre-vest forfeiture rate	13.81%	16.59%
Risk-free interest rate	1.41%	2.02%
Expected dividend yield	0%	0%
Expected stock price volatility	107.33%	120.48%
Expected option life in years	4.28	4.24

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

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

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

For the six months ended June 30, 2019, the Company granted the following stock options:

- 700,000 stock options to consultants with an exercise price of CAD\$0.07 per share and an expiry date of February 22, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter;
- 300,000 stock options to a director with an exercise price of CAD\$0.08 per share and an expiry date of March 21, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter; and
- 2,750,000 stock options to directors, officers and employees with an exercise price of CAD\$0.06 and an expiry date of June 27, 2024, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(d) Warrants:

At June 30, 2019, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2018	Issued	Exercised	Expired	Outstanding at June 30, 2019
\$0.12	March 14, 2019	2,497,222	-	-	(2,497,222)	-
\$0.12	March 14, 2019 ⁽¹⁾	155,556	-	-	(155,556)	-
\$0.12	April 21, 2019 ⁽²⁾	250,000	-	-	(250,000)	-
		2,902,778	-	-	(2,902,778)	-

⁽¹⁾ As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.

⁽²⁾ As these warrants are agent's warrants, a fair value of \$11,460 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 125%, risk-free rate 0.71%, expected life 2 years, and expected dividend yield 0%.

On July 23, 2019, the Company issued 1.5 million finder fee warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.06 per share until July 23, 2021. (Note 12(b)(i)).

(e) Common shares reserved for issuance as at June 30, 2019:

	Number of Shares
Stock options (Note 12(c))	20,150,000
Warrants (Note 12(d))	-
Common shares reserved for issuance	20,150,000

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

13. Corporate Development and General and Administrative

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Corporate Development:				
Salaries	\$ 9	\$ -	\$ 9	\$ -
Sundry	3	-	3	-
Travel and transportation	3	5	6	11
	<u>\$ 15</u>	<u>\$ 5</u>	<u>\$ 18</u>	<u>\$ 11</u>
General and Administrative:				
Accounting and audit	\$ -	\$ -	\$ (3)	\$ (3)
Legal	2	6	10	17
Office and sundry	11	16	26	29
Regulatory	14	14	21	20
Rent	7	16	15	34
	<u>\$ 34</u>	<u>\$ 52</u>	<u>\$ 69</u>	<u>\$ 97</u>

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

14. Related Party Transactions

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

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the Company had the following general and administrative costs with related parties during the six months ended June 30, 2019 and 2018:

	Six months ended June 30,		Net balance receivable (payable)	
	2019	2018	June 30, 2019	December 31, 2018
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 239	\$ 278	\$ -	\$ -
Severance	90	186	-	-
Directors fees	12	15	(6)	(7)
Share-based payments	48	57	-	-
	<u>\$ 389</u>	<u>\$ 536</u>	<u>\$ (6)</u>	<u>\$ (7)</u>
Net office, sundry, rent and salary allocations recovered from (charged by) company(ies) sharing certain common director(s) ⁽²⁾	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 1</u>

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

(2) The companies include Endeavour Silver Corp. (“Endeavour”) and Aztec Minerals Corp. (“AzMin”), companies which share one common director.

The above transactions are incurred in the normal course of business. Note 7 for marketable securities held in Endeavour, AzMin and AzMet.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months ended June 30, 2019

(Unaudited – Prepared by Management)

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

15. Segment Disclosures

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

	June 30, 2019				December 31, 2018			
	Canada	USA	Other	Total	Canada	USA	Other	Total
Mineral property interests	\$ 11,509	\$ 3,641	\$ 10	\$ 15,160	\$ 10,840	\$ 3,387	\$ 10	\$ 14,237
Equipment	148	-	-	148	80	-	-	80

16. Commitments

In February 2017, the Company entered into an office lease arrangement for a term of five years with a commencement date of August 1, 2017. The basic rent per year is CAD\$46,000 for years 1 to 3 and CAD\$48,000 for years 4 to 5. As at June 30, 2019, the Company is committed to the following payments for base rent at its corporate head office in Vancouver, BC, as follows:

	Amount
	(CAD\$000)
Year:	
2019	\$ 23
2020	47
2021	48
2022	28
	\$ 146

For the Fondaway Canyon project, the 3% NSR has a buyout provision which is subject to advance royalty payments of \$35,000 per year by July 15th of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out. A balance of \$320,000 remains payable as at June 30, 2019. (Note 8(b)(i)).

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Bradford Cooke
Scott Eldridge
Martin Burian
Deepak Malhotra
Kai Hoffmann

OFFICERS

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

**REGISTRAR AND
TRANSFER AGENT**

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SHARES LISTED

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



CANARC RESOURCE CORP.

Second Quarter Report

Management Discussion and Analysis

(expressed in United States dollars)

Three and Six Months ended June 30 2019

CANARC RESOURCE CORP.
(the “Company”)

Second Quarter Report

Management’s Discussion and Analysis
For the Three and Six Months ended June 30, 2019
(expressed in United States dollars)

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019, audited consolidated statement of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the years ended December 31, 2018, 2017 and 2016, and a summary of significant accounting policies and other explanatory information, all of which are available at the SEDAR website at www.sedar.com.

Financial information in this MD&A is prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”) based upon the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of August 12, 2019 unless otherwise indicated.

1.1 Background

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Three and Six Months ended June 30, 2019

(expressed in United States dollars)

1.2 Overall Performance

The Company currently owns a direct interest in the precious metal properties, known as the New Polaris property (British Columbia), the Windfall Hills property (British Columbia) and Fondaway Canyon and Corral Canyon properties (Nevada), and has option interests in the Princeton property (British Columbia) and Hard Cash and Nigel properties (Nunavut).

New Polaris property (British Columbia, Canada)

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

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

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

On April 17, 2019, the Company filed its updated NI 43-101 preliminary economic assessment study by Moose Mountain Technical Services ("Moose Mountain") for the New Polaris gold project (the "New Polaris Preliminary Economic Report"), using flotation/bio-oxidation and CIL leaching process.

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

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Three and Six Months ended June 30, 2019

(expressed in United States dollars)

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

Notes for mineral resource estimate:

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

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Three and Six Months ended June 30, 2019

(expressed in United States dollars)

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

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

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

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

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

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

- News release dated January 14, 2019 and titled, "*Canarc Achieves up to 96% Gold Recovery from BIOX Metallurgical Tests on High Grade New Polaris Project Flotation Concentrate*"; and
- News release dated March 4, 2019 and titled, "*Canarc Announces Robust Preliminary Economic Assessment on the New Polaris Gold Mine Delivering Post Tax IRR of 38%*".
- News release dated April 18, 2019 and titled, "*Canarc Announces the Filing of New Polaris Preliminary Economic Assessment Report*".

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

Purchase Agreement with American Innovative Minerals, LLC

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

Certain of the mineral properties are subject to royalties. For the Fondaway Canyon project, it bears both a 3% NSR and a 2% NSR. The 3% NSR has a buyout provision for an initial amount of \$600,000 which is subject to advance royalty payments of \$35,000 per year by July 15th of each year until a gross total of \$600,000 has been paid at which time the NSR is bought out. A balance of \$425,000 was outstanding upon the closing of the Membership Agreement and a balance of \$320,000 remains payable as at June 30, 2019. The 2% NSR has a buyout provision of either \$2 million in cash or 19.99% interest of a public entity which owns AIM if AIM were to close an initial public offering of at least \$5 million.

AIM owns 11 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates, and owns one gold property in Idaho, and has two royalty interests on other properties. These properties include the following:

- **Fondaway Canyon** is an advanced exploration stage gold property located in Churchill County, Nevada. The land package contains 136 unpatented lode claims. The property has a history of previous surface exploration and mining in the late 1980s and early 1990s. The Fondaway Canyon district consists of shear-zone style gold mineralization developed along 3.7 km of strike with a width of up to 900 m. Multiple exploration targets exist along major structural zones, and mineralization is locally concealed by alluvial cover.
- **Dixie Comstock**, also located in Churchill County, Nevada, consists of 26 unpatented lode claims. The property contains a range-front epithermal gold deposit with a non-43-101 compliant resource of 146,000 ounces of gold at 1.063 grams per tonne Au.
- **Clear Trunk** property is located in Pershing and Humboldt Counties, Nevada on 4500 acres of fee mineral and unpatented claims in the Sonoma Range, south of Winnemucca and near the Goldbanks gold deposit. The property contains gold-bearing epithermal quartz veins, mesothermal quartz veins with high-grade gold and copper-gold intrusion-hosted mineralization.

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- **Bull Run** property is located in Elko County, Nevada on two large patented claim groups of 500 acres near the Jerritt Canyon gold district.
- **Hot Springs Point** property is located in Eureka County, Nevada on 160 acres of fee land on north end of the prolific Cortez Trend. Hecla Mining claims surround the project on three sides.
- **Jarbidge** property is located in Elko County, Nevada on 8 patented claims along the east end of major gold veins in the Jarbidge mining district.
- **Lightning Tree** property is located in Lemhi County, Idaho on 4 unpatented claims near the Musgrove gold deposit.
- **Silver King** property is located in Humboldt County, Nevada on 4 patented claims in the Iron Point mining district. Previous exploration focused on low grade gold values but the property was never been explored for silver.
- **A&T** property is located in Humboldt Co., Nevada on 2 patented claims on Winnemucca Mountain. The property contains gold-bearing veins in altered shale.
- **Eimis** property is located in Elko County, Nevada on one 20 acre patented claim adjacent to the Coleman Canyon gold deposit controlled by Arnevt Resources. Gold anomalies extend onto Eimis property.
- **Silver Peak** property is located in Esmeralda County, Nevada on 3 patented (57 acres) and 3 unpatented mining claims covering 50 acres. The property is adjacent to the Mineral Ridge mine controlled by Scorpio Gold Corporation.

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

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

1. *CIM Definition Standards were followed for reporting the Mineral Resource estimates.*
2. *Mineral Resources are reported on a dry, in-situ basis. A bulk density of 2.56 tonnes/m³ was applied for volume to tonnes conversion.*
3. *The reporting cutoff grade of 3.43 g/t was based on capital and operating costs for a similar project, the three-year trailing average Au price of \$US 1,225/ oz Au , a metallurgical recovery of 90%, and an underground mining method suitable for steeply-dipping veins.*
4. *Mineral Resources are estimated from surface to approximately 400 m depth.*

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

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

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

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

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

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

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

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

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

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

Windfall Hills property (British Columbia, Canada)

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

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

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

Princeton property (British Columbia, Canada)

In December 2018 and then as amended in June 2019, the Company entered into a property option agreement jointly with Universal Copper Ltd. (formerly, Tasca Resources Ltd.) (“Universal”) and an individual whereby the Company has an option to earn a 75% interest in the Princeton property by: incurring exploration expenditures of CAD\$490,000 over a two year period; issuing 375,000 common shares to Universal by December 1, 2019; paying CAD\$25,000 cash to Universal by March 16, 2021; granting a 1% NSR to Universal which can be acquired for CAD\$1 million; and honoring a 2% NSR to the individual of which 1% NSR can be acquired for CAD\$1 million.

The Princeton gold property consists of 14,650 hectares located 35 kilometers (km) south of Princeton, British Columbia, and is readily accessible by road. The property contains quartz veins with high grade gold (> 10 g/t) hosted in Triassic Nicola Group metasedimentary and metavolcanic rocks intruded by undated granitic dikes and stocks.

In 2018, the Company completed a 2,350 line-kilometer aeromagnetic survey on the property to assist in its geologic evaluation. The survey covered about 16 km by 10 km, extending well beyond the known area of gold vein mineralization. In July 2019, the Company reviewed the results of the survey. The results have been used to delineate geologic units, including intrusive rocks, and have clarified the broad geologic setting and structural fabric of the area that should help to identify and prioritize drill targets.

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In July 2019, the Company commenced an exploration program of general prospecting, mapping, sampling and trenching of existing gold vein prospects, as well as evaluating whether additional geophysical methods might be utilized to detect buried veins. The program includes a 500 m machine trenching program in the area of the main gold vein prospect. The trenching will test a much broader area than was trenched in late 2018 and will attempt to trace the previously-trenched main vein along strike as well as explore for adjacent veins, particular in areas of mineralized float.

Hard Cash and Nigel (Nunavut, Canada)

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

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

The Company's consulting geologist visited the property in September 2018 and collected samples in quartz vein float and outcrop at and near the Swamp showing. In January 2019, the Company completed a 970 line-km airborne magnetic and radiometric survey over the 2,090 hectare Hard Cash property. The new geophysical survey results define the magnetic and radiometric responses of the known gold mineralization. In June 2019, geophysical modelling and interpretation were completed, followed by geological and structural interpretation. The results have clarified the broad geological and structural controls on gold mineralization and will help to identify and prioritize drill targets. In July 2019, the Company completed a district-scale soil survey (approximately 500 samples), geologic mapping and rock-chip sampling (approximately 100 samples). Analytical results are expected by the end of August, 2019, and along with the geologic and geophysical data, will be used to identify drill targets.

Corral Canyon property (Nevada, USA)

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

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

In 2019, the Company has completed detailed geologic mapping, a district-scale soil sampling program, rock-chip sampling, re-logging of previous core holes and an analysis of historical geophysical data in an effort to identify drill targets to expand on the known gold mineralization. The final phases of this work are scheduled to be completed before the end of August, 2019. The Company expects to design a drilling program by the end of August 2019, and will consider completing a drilling program in late September to mid November 2019.

Silver King (Nevada, USA)

On October 25, 2018, the Company entered into an option agreement with Brownstone Ventures (US) Inc., a subsidiary of Casino Gold Corp., ("Brownstone Ventures") on the Company's wholly owned Silver King patented claim group located in

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Humboldt County, Nevada. Under the terms of the ten-year agreement, the Company will receive annual payments of \$12,000 plus an option exercise payment of \$120,000. Upon exercise of the option, the Company will retain a 2% NSR royalty on the property of which Brownstone Ventures will have the right to buy back one-half (1%) of the royalty for \$1 million. The Silver King property is a non-core asset in the Company's Nevada property portfolio.

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

Other Mineral Property

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

Eskay Creek property (British Columbia, Canada)

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

Other Matters

On February 12, 2018, the Company entered into a Forbearance Agreement with the debtor in which the loan principal totaling \$220,000, which was previously written off in 2014, shall be repaid in full. Funds of \$94,500 were received in 2018 with a balance of \$59,500 received in January 2019, net of legal fees.

In June 2018, the Company received regulatory approval for its normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid was effective on June 21, 2018 and terminated on June 20, 2019, or on such earlier date as the bid was completed. The actual number of common shares purchased under the bid and the timing of any such purchases were at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018. No further shares were purchased in 2019 by the Company during the remainder of the term of the normal course issuer bid which ended June 20, 2019.

For the six months ended June 30, 2019, the Company granted the following stock options:

- 700,000 stock options to consultants with an exercise price of CAD\$0.07 per share and an expiry date of February 22, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter;
- 300,000 stock options to a director with an exercise price of CAD\$0.08 per share and an expiry date of March 21, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter; and
- 2,750,000 stock options to directors, officers and employees with an exercise price of CAD\$0.06 and an expiry date of June 27, 2024, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

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On July 23, 2019, the Company closed a private placement for 23.7 million flow through common shares for gross proceeds of CAD\$1.4 million; of these shares, 17.3 million were issued at a price of CAD\$0.06 per share and 6.4 million shares at CAD\$0.0625 per share. The fair value of the shares was CAD\$0.06 per share, resulting in the recognition of a flow through premium liability of CAD\$0.0025 per share for a total of CAD\$16,000. Finder fees were comprised of CAD\$91,400 in cash and 1.5 million warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.06 per share until July 23, 2021.

1.3 Selected Annual Information

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

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

1.4 Results of Operations

Second Quarter of Fiscal 2019 – Six months ended June 30, 2019 compared with June 30, 2018

The Company incurred a net loss of \$516,000 for the six months ended June 30, 2019 which is higher than the net loss of \$373,000 for the same period in fiscal 2018, but the latter had higher operating expenses. Net losses were impacted by different functional expense items.

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

Amortization is for the leasehold improvements and office furnishings and equipment as well as for the right of use asset from the adoption of new accounting standard for leases under IFRS 16 effective January 1, 2019. The fair value of the right to use

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asset was significant in comparison to the other equipment categories resulting in higher amortization in the current quarters. The Company adopted the modified retrospective method with no restatement of prior quarters in 2018.

Corporate development expenses were relatively nominal for both comparative quarters in 2018 and 2019. In the first and second quarters of 2018, corporate development efforts were at a reduced level which involve site visits and preliminary discussions and technical overview of possible projects of merit which have possible near term gold mining properties but such discussions did not advance. Negligible corporate development was done in the third quarter as the Company focused on a 3D model for Fondaway Canyon property, various scenarios for processing concentrates into gold dore bars at the New Polaris property site, and mobilization of the trenching and exploration program for Windfall Hills property. Corporate development activities increased in the fourth quarter with a heightened emphasis on "elephant hunting" in seeking projects with potential to be discoveries. These efforts in the last quarter of 2018 culminated in two property option agreements for the Princeton (British Columbia, Canada) and Hard Cash and Nigel (Nunavut, Canada) properties and the staking of 92 mining claims in northwestern Nevada (USA). The active exploration programs for geophysics in the fourth quarter of 2018 which continued into the first quarter of 2019 and the revision to the preliminary economic assessment for the New Polaris project reduced efforts to seek new projects. Corporate development activities increased in the second quarter of 2019 to review possible projects of merit in North America whilst the Company's exploration programs were pending mobilization in the third quarter of 2019 and pending the flow through private placement which closed in July 2019.

Remuneration for employees in the first quarter of 2019 was lower than the first quarter in 2018. Employee remuneration directly related to mineral exploration projects and corporate development were allocated to those specific activities rather than to operations. In the first quarter of 2019, the Company continued with exploration programs for the Hard Cash and Princeton properties which were implemented in late 2018, as well as proceeded with updating the preliminary economic assessment for the New Polaris property which was filed in April 2019. Given the lower level of exploration activity in the first quarter of 2018, employee remuneration would be higher due to lower project allocations. In the second quarter of 2018, the departure of a senior officer resulted in the incurrence of severance pay which increased employee remuneration. Remuneration for employees was lower in the third quarter than comparable quarters in 2018 due to the departure of a senior officer at the end of June 2018. Heightened corporate development efforts, active exploration programs for the Windfall Hills, Princeton and Hard Cash properties, and ongoing assessment of scenarios for processing concentrates into gold dore bars at the New Polaris property site would reduce technical employee remuneration in the fourth quarter of 2018 as these costs would be allocated to the applicable projects. Such reduction would be offset by the employment of a non technical senior officer in October 2018. In June 2019, prorated severance was paid to a senior officer who reduced his employment status, effectively increasing remuneration in the quarter.

Overall general and administrative expenses were lower in the first and second quarters of 2019 than in 2018 but were only slightly affected by different expense segments except for rent. Upon the adoption of new accounting standards for leases effective January 1, 2019, rent would reduce as basic rent payments would be applied against lease liability for right to use asset which is amortized over the life of the lease and interest would be recognized from the fair value of the lease. The Company adopted the modified retrospective method with no restatement of prior quarters in 2018. Audit and tax expenses were similar for both fiscal periods as audit fees did not change, and no changes in corporate tax issues, and legal fees for debt settlement in 2018 were applied subsequently against the recovery of the debt principal. Legal fees were lower in the second quarter of 2019 and generally involve reviewing certain of the Company's continuous disclosure documents in the first quarter of 2019. Office and sundry are similar across comparative quarters given the fixed nature of such expense. Except for translational effects, general and administrative and regulatory expenses do not tend to fluctuate given their fixed nature but would increase in the second quarter as the Company normally holds its annual general shareholders meeting in June of each fiscal year.

In the January 2019, the Company engaged a part time shareholder communications consultant to focus on creating market awareness of the Company, its portfolio of exploration projects with active exploration programs, and the revised preliminary economic assessment for its New Polaris project, and such consultant services continued into the second quarter. Given the stagnancy in the markets in 2018, shareholder relations efforts were kept to a reduced level.

Share-based payments were slightly higher in the current quarter relative to the prior comparative quarters with ongoing vesting provisions of outstanding stock options. In late June 2018, the departure of a senior officer resulted in the forfeiture of unvested

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stock options which would reduce share-based payments with vested stock options being cancelled in July 2018. Also at the end of June 2018, the Company granted 3,250,000 stock options to directors, officers and employees. In November 2018, the Company granted 1,000,000 stock options to an officer of which 500,000 stock options have an exercise price of CAD\$0.05 and 500,000 stock options with an exercise price of CAD\$0.06. In February 2019, 700,000 stock options were granted to consultants and in March 2019 300,000 stock options to a director and in June 2019 2,750,000 stock options to directors, officers and employees. The stock option grants in 2018 and 2019 are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter. There were no forfeitures for the six months ended June 30, 2019.

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

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

Change in the fair value of marketable securities is attributable to disposition of marketable securities, the quoted market price changes in investments in shares, and impairment if any. Marketable securities are classified as financial assets at fair value through profit or loss with any resulting gains or losses in fair values being recognized in profit or loss. The Company's shareholdings decreased in fair value in the first quarter of 2018, then increased in the second quarter, significantly decreased in the third quarter and again increasing in the fourth quarter as market prices of its financial instruments fluctuate to market conditions; there were no dispositions of marketable securities in 2018, and an impairment loss was recognized in the last quarter which was offset by gains in fair values. The Company did dispose a significant portion of its marketable securities in the second quarter of 2019 which resulted in losses but was offset by gains in market prices for remaining shares of marketable securities. There were no dispositions in the first quarter of 2019.

Interest expense was incurred and accrued for the buyout amount which the Company recognized as a deferred royalty liability upon the acquisition of AIM in March 2017 for the 3% NSR for the Fondaway Canyon project; the original buyout amount was \$600,000. Advance royalty payments of \$35,000 are due and payable by July 15th of each year until the buyout amount has been fully paid for the 3% NSR for the Fondaway Canyon project. Interest expense shall continue to be incurred until the buyout amount has been fully paid by the annual advance royalty payments. Upon the adoption of new accounting standards for its office lease effective January 1, 2019, interest expense would be recognized for fair value of the lease liability for right of use asset for its office facilities, over the term of the lease. The Company adopted the modified retrospective method with no restatement of prior quarters in 2018. Periodic installment payments would reduce the recognition of interest expense during the term of these financial obligations.

On February 12, 2018, the Company entered into a Forbearance Agreement with the debtor in which the loan principal totaling \$220,000 shall be repaid in 2018, which loan had been written off in 2014. The gain from the recovery significantly reduced losses in 2018.

The Company received \$12,000 from Brownstone in late 2018 and recognized a recovery for the Silver King property which has nil net book value.

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

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As at June 30, 2019, the Company has mineral property interests which are comprised of the following:

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(\$000)	Canada						USA		Other	Total
	British Columbia			Nunavut			Nevada			
	New Polaris	Windfall Hills	Princeton	Hard Cash	Nigel	Fondaway Canyon	Corral Canyon			
Acquisition Costs:										
Balance, December 31, 2017	\$ 3,875	\$ 374	\$ -	\$ -	\$ -	\$ -	\$ 2,173	\$ -	\$ -	\$ 6,422
Additions, net of recoveries	6	-	-	9	2	12	23	10	62	
Foreign currency translation adjustment	7	(30)	-	-	-	(175)	-	-	(198)	
Balance, December 31, 2018	3,888	344	-	9	2	2,010	23	10	6,286	
Additions, net of recoveries	9	-	6	-	-	-	-	-	15	
Foreign currency translation adjustment	(13)	14	-	-	-	86	2	-	89	
Balance, June 30, 2019	3,884	358	6	9	2	2,096	25	10	6,390	
Deferred Exploration Expenditures:										
Balance, December 31, 2017	6,431	522	-	-	-	1,090	-	-	8,043	
Additions, net of recoveries	88	150	69	120	-	351	1	-	779	
Foreign currency translation adjustment	(741)	(42)	-	-	-	(88)	-	-	(871)	
Balance, December 31, 2018	5,778	630	69	120	-	1,353	1	-	7,951	
Additions, net of recoveries	127	6	45	68	-	32	76	-	354	
Foreign currency translation adjustment	372	27	3	5	-	58	-	-	465	
Balance, June 30, 2019	\$ 6,277	\$ 663	\$ 117	\$ 193	\$ -	\$ 1,443	\$ 77	\$ -	\$ 8,770	
Mineral property interests:										
Balance, December 31, 2018	\$ 9,666	\$ 974	\$ 69	\$ 129	\$ 2	\$ 3,363	\$ 24	\$ 10	\$ 14,237	
Balance, June 30, 2019	10,161	1,021	123	202	2	3,539	102	10	15,160	

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1.5 Summary of Quarterly Results (Unaudited)

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, June 30, 2019. All dollar amounts are expressed in U.S. dollars unless otherwise indicated.

(in \$000s except per share amounts)	2019		2018				2017	
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Loss) income before discontinued operations and extraordinary items:								
(i) Total	\$ (356)	\$ (160)	\$ (452)	\$ (300)	\$ (284)	\$ (89)	\$ (259)	\$ (496)
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net (loss) income:								
(i) Total	\$ (356)	\$ (160)	\$ (452)	\$ (300)	\$ (284)	\$ (89)	\$ (259)	\$ (496)
(ii) Basic per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 17,559	\$ 17,673	\$ 17,511	\$ 18,376	\$ 18,621	\$ 19,118	\$ 19,763	\$ 20,147
Total long-term liabilities	\$ 200	\$ 192	\$ 130	\$ 123	\$ 151	\$ 143	\$ 136	\$ -
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

1.6 Liquidity

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

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

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(\$000s)	June 30, 2019	December 31, 2018
Cash	\$ 1,895	\$ 2,329
Working capital	2,144	2,897

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

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

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

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

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

In June 2018, the Company again proceeded with a normal course issuer bid which received regulatory approval to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid was effective on June 21, 2018 and terminated on June 20, 2019. The actual number of common shares purchased under the bid and the timing of any such purchases were at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were returned to treasury and cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018. No further shares were purchased in 2019 by the Company during the remainder of the term of the normal course issuer bid which ended June 20, 2019.

In the past, the Company has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.7, further

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details of contractual obligations are provided as at June 30, 2019. The Company will continue to rely upon equity financing as its principal source of financing its projects.

On July 23, 2019, the Company closed a private placement for 23.7 million flow through common shares for gross proceeds of CAD\$1.4 million; of these shares, 17.3 million were issued at a price of CAD\$0.06 per share and 6.4 million shares at CAD\$0.0625 per share. The fair value of the shares was CAD\$0.06 per share, resulting in the recognition of a flow through premium liability of CAD\$0.0025 per share for a total of CAD\$16,000. Finder fees were comprised of CAD\$91,400 in cash and 1.5 million warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.06 per share until July 23, 2021.

1.7 Capital Resources

At June 30, 2019, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Cash Payments (CAD\$000)	Exploration Expenditures (CAD\$000)	Cash Payments (US\$000)	Annual Payments (US\$000)	Number of Shares
New Polaris:					
Net profit interest reduction or buydown	\$ -	\$ -	\$ -	\$ -	150,000
Fondaway Canyon:					
Advance royalty payment for buyout of 3% net smelter return ⁽¹⁾	-	-	-	35	-
Buyout provision for net smelter return of 2% ⁽²⁾	-	-	2,000	-	-
Windfall Hills:					
Buyout provision for net smelter return of 1.5%	1,000	-	-	-	-
Reduction of net smelter return of 2% to 1%	-	-	500	-	-
Princeton:					
On or before:					
December 1, 2019	-	-	-	-	375,000
December 31, 2019	-	36	-	-	-
December 31, 2020	-	300	-	-	-
March 16, 2021	25	-	-	-	-
Buyout provision for net smelter return of 1%	1,000	-	-	-	-
Reduction of net smelter return of 2% to 1%	1,000	-	-	-	-
Hard Cash and Nigel:					
On or before:					
November 23, 2019	20	-	-	-	200,000
November 23, 2020	30	-	-	-	300,000
November 23, 2021	40	-	-	-	400,000
November 23, 2022	50	-	-	-	500,000
Reduction of net smelter return of 2% to 1%	1,000	-	-	-	-
Other:					
Success fee	-	-	10	-	-
	\$ 4,165	\$ 336	\$ 2,510	\$ 35	1,925,000

⁽¹⁾ Advance royalty payments of \$320,000 remain payable as at June 30, 2019 with annual payments of \$35,000.

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

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

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

The following schedule provides the contractual obligations related to the basic office lease for its Vancouver, BC office and the advance royalty payments for the Fondaway Canyon property as at June 30, 2019:

	Payments due by Period (CAD\$000)					Payments due by Period (US\$000)				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Basic office lease	\$ 146	\$ 46	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advance royalty payments	-	-	-	-	-	320	-	105	105	110
Total	\$ 146	\$ 46	\$ 100	\$ -	\$ -	\$ 320	\$ -	\$ 105	\$ 105	\$ 110

In June 2019, the Company paid the advance royalty commitment of \$35,000.

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

1.8 Off-Balance Sheet Arrangements

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

1.9 Transactions with Related Parties

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

Except as disclosed elsewhere in the MD&A, the Company had the following general and administrative costs with related parties during the six months ended June 30, 2019 and 2018:

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(\$000s)	Six months ended June 30,		Net balance receivable (payable)	
	2019	2018	June 30, 2019	December 31, 2018
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 239	\$ 278	\$ -	\$ -
Severance	\$ 90	\$ 186		
Directors fees	12	15	(6)	(7)
Share-based payments	48	57	-	-
	<u>\$ 389</u>	<u>\$ 536</u>	<u>\$ (6)</u>	<u>\$ (7)</u>
Net office, sundry, rent and salary allocations recovered from (charged by) company(ies) sharing certain common director(s) ⁽²⁾	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 1</u>

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

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

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

1.10 Second Quarter

Items 1.2, 1.4, 1.5, 1.6 and 1.7 provide further details for the second quarter of fiscal 2019.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates and Judgements

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

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

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

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

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

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

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

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

1.13 Changes in Accounting Policies including Initial Adoption

IFRS 16 Leases:

Effective January 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single accounting model, requiring the recognition of assets and liabilities for all major leases previously classified as "operational leases" under the principles of IAS 17 – Leases, and related interpretations.

- (i) The Company's accounting policy under IFRS 16

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to grandfather the lease definition for existing contracts on transition. It applied the definition of a lease under IFRS 16 to existing contracts as of January 1, 2019.

The Company has also elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

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As a lessee

The Company leases its head office space, based on lease agreement having a fixed duration until July 31, 2022.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, based on the initial amount of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The ongoing lease liability is measured at amortized cost using the effective interest method. It is measured when there is a change in future lease payments, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Impact of transition to IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The cumulative effect of initial application is recognized in deficit at January 1, 2019. Comparative amounts for 2018 remain as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease receivables and/or lease liabilities. Lease receivables and liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied was 18% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment. As of the initial date of application of IFRS 16, the remaining noncancelable period of the office lease was three years and seven months.

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application and leases of low value assets as short-term leases. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

The Company has also elected to apply the practical expedient for excluding the initial direct costs for the measurement of right-of-use assets at the date of initial application, as well as for using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets and lease liabilities as at January 1, 2019 as summarized in the following table:

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(\$000)	December 31, 2018 prior to adoption of IFRS 16	Adjustments	January 1, 2019 after adoption of IFRS 16
Non-current assets:			
Equipment	\$ 80	\$ 88	\$ 168
Non-current liabilities:			
Lease liability	\$ -	\$ 90	\$ 90
Shareholders equity:			
Deficit	\$ (46,702)	\$ (2)	\$ (46,704)

The following tables summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim financial statements for the six months ended June 30, 2019:

(\$000)	June 30, 2019 without adoption of IFRS 16	Adjustments for adoption of IFRS 16	June 30, 2019 as reported
Non-current assets:			
Equipment	\$ 71	\$ 77	\$ 148
Non-current liabilities:			
Lease liability	\$ -	\$ 85	\$ 85
Shareholders equity:			
Accumulated other comprehensive loss	\$ (2,621)	\$ (6)	\$ (2,627)
Deficit	\$ (46,206)	\$ (2)	\$ (46,208)
Expenses:			
Amortization	\$ (13)	\$ (11)	\$ (24)
General and administrative	\$ (86)	\$ 17	\$ (69)
Other items:			
Interest and finance charges	\$ (15)	\$ (8)	\$ (23)
Net loss for the period	\$ (159)	\$ (2)	\$ (161)

Right of use assets are included in equipment.

New Accounting Pronouncements

The Company did not early adopt any recent pronouncements as disclosed in Note 2(f), "New accounting standards and recent pronouncements", of the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019.

1.14 Financial Instruments and Other Instruments

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IFRS 9 *Financial Instruments*:

The Company has classified its financial instruments under IFRS 9 *Financial Instruments* ("IFRS 9") as follows:

	IFRS 9
Financial Assets	
Cash	Fair value through profit or loss ("FVTPL")
Marketable securities	FVTPL
Receivables	Amortized cost
Financial Liability	
Accounts payable and accrued liabilities	Amortized cost
Deferred royalty liability	Amortized cost
Lease liability	Amortized cost

Management of Financial Risk

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

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

The fair values of the Company's receivables, accounts payable and accrued liabilities, and flow through premium liability approximate their carrying values due to the short terms to maturity. Cash and certain marketable securities are measured at fair values using Level 1 inputs. Certain other marketable securities are measured using Level 3 of the fair value hierarchy. The fair value of deferred royalty and lease liabilities approximate their carrying values as they are at estimated market interest rates using Level 2 inputs.

(a) Credit risk:

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

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

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

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(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. As at June 30, 2019, the Company had a working capital of \$2.1 million (December 31, 2018 – \$2.9 million). The Company has sufficient funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2019.

The following schedule provides the contractual obligations related to the deferred royalty payments for the Fondaway Canyon project and office lease obligations as at June 30, 2019:

	Payments due by Period (CAD\$000)					Payments due by Period (US\$000)				
	Total	Less than	1-3 years	3-5 years	After 5 years	Total	Less than	1-3 years	3-5 years	After 5 years
		1 year					1 year			
Basic office lease	\$ 146	\$ 46	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advance royalty payments	-	-	-	-	-	320	-	105	105	110
Total	\$ 146	\$ 46	\$ 100	\$ -	\$ -	\$ 320	\$ -	\$ 105	\$ 105	\$ 110

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

(c) Market risk:

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

(i) Foreign currency risk:

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

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

(\$000s)	Stated in U.S. Dollars (Held in Canadian Dollars)	
	June 30, 2019	December 31, 2018
	Cash	\$ 1,871
Marketable securities	203	719
Receivables	10	17
Accounts payable and accrued liabilities	(38)	(215)
Lease liability	(85)	-
Net financial assets (liabilities)	\$ 1,961	\$ 2,809

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Based upon the above net exposure as at June 30, 2019 and assuming all other variables remain constant, a 5% (December 31, 2018 - 10%) depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$98,000 (December 31, 2018 - \$281,000) in the cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

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

(iii) Other price risk:

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

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

As certain of the Company's marketable securities are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's marketable securities. Based upon the net exposure as at June 30, 2019 and assuming all other variables remain constant, a net increase or decrease of 60% (December 31, 2018 - 50%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by \$122,000 (December 31, 2018 - \$360,000).

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

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at www.sedar.com;
- (b) may be found in the Company's annual information form; and

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- (c) is also provided in the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and audited consolidated financial statements for the years ended December 31, 2018 and 2017.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the six months ended June 30, 2019 are as follows:

	Number of Shares	Amount (in \$000s)
Balance at December 31, 2017	218,779,144	\$ 66,328
Issued:		
Property acquisition	100,000	4
Common share buy-back under normal course issuer bid	(524,000)	(27)
Balance at December 31, 2018 and June 30, 2019	218,355,144	\$ 66,305

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

In June 2018, the Company again proceeded with a normal course issuer bid which received regulatory approval to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid was effective on June 21, 2018 and terminated on June 20, 2019, or on such earlier date as the bid was completed. The actual number of common shares purchased under the bid and the timing of any such purchases were at the Company's discretion. Purchases under the bid shall not exceed 23,893 common shares per day. The Company paid the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company were cancelled. From June to December 2018, the Company purchased 438,000 shares for CAD\$20,595 with an average price of CAD\$0.05 per share; the shares were cancelled in 2018. No further shares were purchased in 2019 by the Company during the remainder of the term of the normal course issuer bid which ended June 20, 2019.

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

On July 23, 2019, the Company closed a private placement for 23.7 million flow through common shares for gross proceeds of CAD\$1.4 million; of these shares, 17.3 million were issued at a price of CAD\$0.06 per share and 6.4 million shares at CAD\$0.0625 per share. The fair value of the shares was CAD\$0.06 per share, resulting in the recognition of a flow through premium liability of CAD\$0.0025 per share for a total of CAD\$16,000. Finder fees were comprised of CAD\$91,400 in cash

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and 1.5 million warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.06 per share until July 23, 2021.

At August 12, 2019, there were 242,085,000 common shares issued and outstanding.

At June 30, 2019, the Company had outstanding stock options to purchase an aggregate 20,150,000 common shares as follows:

	June 30, 2019	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	16,400,000	\$0.08
Granted	3,750,000	\$0.06
Outstanding balance, end of period	20,150,000	\$0.08
Exercise price range (CAD\$)	\$0.05 - \$0.10	

In February 2019, the Company granted 700,000 stock options to consultants with an exercise price of \$0.07 per share and an expiry date of February 22, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter. In March 2019, the Company granted 300,000 stock options to a director with an exercise price of CAD\$0.08 per share and an expiry date of March 21, 2024 and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter. In June 2019, the Company granted 2,750,000 stock options to directors, officers and employees with an exercise price of CAD\$0.06 and an expiry date of June 27, 2024, and which are subject to vesting provisions in which 20% of the options vest immediately on the grant date and 20% vest every six months thereafter.

At August 12, 2019, stock options for 17,850,000 common shares remain outstanding of which 12,950,000 stock options are exercisable.

At June 30, 2019, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2018	Issued	Exercised	Expired	Outstanding at June 30, 2019
\$0.12	March 14, 2019	2,497,222	-	-	(2,497,222)	-
\$0.12	March 14, 2019 ⁽¹⁾	155,556	-	-	(155,556)	-
\$0.12	April 21, 2019 ⁽²⁾	250,000	-	-	(250,000)	-
		2,902,778	-	-	(2,902,778)	-

⁽¹⁾ As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.

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- (2) As these warrants are agent's warrants, a fair value of \$11,460 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 125%, risk-free rate 0.71%, expected life 2 years, and expected dividend yield 0%.

At August 12, 2019, there were outstanding warrants for 1,508,121 common shares.

1.16 Outlook

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

1.17 Risk Factors

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

Exploration and Development Risks

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

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

Financing Risks

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

The Company does not presently have sufficient financial resources or operating cash-flow to undertake by itself all of its planned exploration and development programs. The development of the Company's mineral property interests may therefore depend on the Company's joint venture partners and on the Company's ability to obtain additional required financing. There

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is no assurance the Company will be successful in obtaining the required financing, the lack of which could result in the loss or substantial dilution of its interests (as existing or as proposed to be acquired) in its properties as disclosed herein. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise debt and equity capital financings, the attainment of profitable operations, external financings, and further share issuance to satisfy working capital and operating needs.

Estimates of Mineral Deposits

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

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

Mineral Prices

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

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

Title Matters

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

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

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Columbia and elsewhere, native land claims or claims of aboriginal title may be asserted over areas in which the Company's properties are located.

Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

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

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implementation of current laws, regulations or permits, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Reclamation

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

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

Third Party Reliance

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

Volatility of Shares Could Cause Investor Loss

The market price of a publicly traded stock, especially a junior issuer like the Company, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of the market for junior resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of the common shares on the TSX and NASD-OTC suggests that the Company's shares will continue to be volatile. Therefore, investors could 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 June 30, 2019, the Company had 218,355,144 common shares, and 20,150,000 outstanding share purchase options and nil share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a

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depressing effect on the market for the Company's shares. At June 30, 2019, securities that could be dilutive represented approximately 9.2% of the Company's issued shares. Certain of these dilutive securities were exercisable at prices below the June 28, 2019 closing market price of CAD\$0.06 for the Company's shares, which accordingly would result in dilution to existing shareholders.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013)*. Based on its evaluation, management has concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at June 30, 2019, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of the unaudited condensed consolidated interim financial statements. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Controls over Financial Reporting

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

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

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

Management concluded that the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 fairly present the Company's financial position and its financial performance for the period then ended.

Changes in Internal Controls over Financial Reporting

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