

CANARC RESOURCE CORP  
Form 20-F  
May 20, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
X OF 1934**

For fiscal year ended December 31, 2013

**OR**  
**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_ to \_\_\_\_\_

**OR**  
**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report:

**Commission file number: 0-18860**

**CANARC RESOURCE CORP.**

(Exact name of Registrant as specified in its charter)



**Province of British Columbia, Canada**

(Jurisdiction of incorporation or organization)

**Suite #301 - 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8**

(Address of principal executive offices)

**Philip Yee, Chief Financial Officer, Phone: (604) 685-9700, Fax: (604) 685-9744, e-mail: philip@canarc.net**

**Canarc Resource Corp., Suite #301 - 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, without par value**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of the close of the period covered by the annual report: **114,818,195 common shares as at December 31, 2013**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued  Other   
by the International Accounting Standards Board

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow: Item 17  Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No



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## CAUTION – FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F and the exhibits attached hereto contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements concern the Registrant’s anticipated results and developments in the Registrant’s operations in future periods, planned exploration and development of its mineral property interests, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “estimates” or “intends”, stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- risks related to our exploration and development activities;
- risks related to the financing needs of our planned operations;
- risks related to estimates of mineral deposits, resources and reserves;
- risks related to fluctuations in mineral prices;
- risks related to the titles of our mineral property interests;
- risks related to competition in the mineral exploration and mining industry;
- risks related to potential conflicts of interest with our officers and directors;
- risks related to environmental and regulatory requirements;
- risks related to foreign currency fluctuations;
- risks related to our possible status as a passive foreign investment company;
- risks related to the volatility of our common stock; and
- risks related to the possible dilution of our common stock.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled “Risk Factors” and “Information on the Company” of this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events other than as may be specifically required by applicable securities laws and regulations.

We qualify all the forward-looking statements contained in this annual report by the foregoing cautionary statements.

**Unless the context otherwise requires, all references to “we” or “our” or the “Registrant” or the “Company” or “Canarc” refer to Canarc Resource Corp. and/or its subsidiaries. All monetary figures are in terms of United States dollars unless otherwise indicated.**

## GLOSSARY OF MINING TERMS

The following is a glossary of some of the terms used in the mining industry and referenced herein:

**1933 Act** - means the United States Securities Act of 1933, as amended.

**adit** – a horizontal tunnel in an underground mine driven from a hillside surface.

**Ag** – silver.

**alluvial mining** - mining of gold bearing stream gravels using gravity methods to recover the gold, also known as placer mining.

**andesite** - a volcanic rock of intermediate composition, the extrusive equivalent of diorite.

**arsenopyrite** – an ore mineral of arsenic, iron, and sulphur, often containing gold.

**assay** – a precise and accurate analysis of the metal contents in an ore or rock sample.

**Au** - gold.

**auger drill** – a handheld machine that produces small, continuous core samples in unconsolidated materials.

**autoclave** – a mineral processing vessel operated at high temperature and pressure in order to oxidize sulfide and carbon compounds, so the contained metals can be leached and concentrated.

**Banka drilling** - a hand operated drill specifically designed for sampling alluvial deposits. The drill rods (10-12 centimetres in diameter) are forced into the gravel and then the core sample is extracted from the rods.

**Commission** - United States Securities and Exchange Commission, or S.E.C.

**concentrate** – a concentrate of minerals produced by crushing, grinding and processing methods such as gravity or flotation.

**contained gold** – total measurable gold in grams or ounces estimated to be contained within a mineral deposit. Makes no allowance for economic criteria, mining dilution or recovery losses.

**Cu** – copper.

**cut-off grade** – deemed grade of mineralization, established by reference to economic factors, above which material is considered ore and below which is considered waste.

**diamond drill** – a large machine that produces a continuous core sample of the rock or material being drilled.

**diorite** – a plutonic rock of intermediate composition, the intrusive equivalent of andesite.

**doré** – bullion of gold, with minor silver and copper produced by smelting, prior to refining.

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**epithermal** – used to describe hydrothermal mineral deposits, typically in veins, formed at lower temperatures and pressures within 1 km of the earth surface.

**Exchange Act** – means the United States Securities Exchange Act of 1934, as amended.

**feasibility study** – a detailed report assessing the feasibility, economics and engineering of placing a mineral deposit into commercial production.

**flotation** – a mineral recovery process using soapy compounds to float finely ground metallic minerals into a concentrate.

**garimpeiros** – a Brazilian term used in South America referring to small scale, artisanal miners and prospectors.

**gold deposit** - means a mineral deposit mineralised with gold.

**gold equivalent** - a method of presenting combined gold and silver concentrations or weights for comparison purposes. Commonly involves expressing silver as its proportionate value in gold based on the relative values of the two metals.

**gold resource** – see mineral resource.

**gpt** - grams per tonne.

**grams per cubic meter** - alluvial mineralisation measured by grams of gold contained per cubic meter of material, a measure of gold content by volume not by weight.

**greenstone** - a field term for any compact dark-green altered or metamorphosed basic igneous rock that owes its colour to green minerals such as chlorite, actinolite or epidote.

**indicated resource** - means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

**inferred resource** - means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

**laterite** - highly weathered residual superficial soils and decomposed rocks, rich in iron and aluminum oxides, that are characteristically developed in tropical climates.

**lode mining** – mining of ore, typically in the form of veins or stockworks.

**measured resource** means that part of a mineral resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

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**mesothermal** – used to describe hydrothermal mineral deposits, typically in veins, formed at higher temperatures and pressures deeper than 1 km of the earth’s surface.

**mineral reserve** means the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

**mineral resource** – a body of mineralized material which has not yet been determined to be ore, and the potential for mining of which has not yet been determined; categorized as possible, probable and proven, according to the degree of certainty with which their grade and tonnage are known; sometimes referred to as a “geological resource” or “mineral inventory”.

**net profits interest or NPI** – a royalty based on the net profits generated after recovery of all costs.

**net smelter royalty or NSR** - a royalty based on the gross proceeds received from the sale of minerals less the cost of smelting, refining, freight and other related costs.

**nugget effect** – an effect of high variability of gold assays, due to the gold occurring in discreet coarse grains such that their content in any given sample is highly variable.

**ore** – a naturally occurring rock or material from which economic minerals can be extracted at a profit.

**ounce or oz.** - a troy ounce or 20 pennyweights or 480 grains or 31.103 grams.

**opt** – troy ounces per ton.

**porknockers** - a local term used in Guyana and Suriname to refer to small scale artisanal miners and prospectors.

**porphyry** – an igneous rock containing coarser crystals in a finer matrix.

**probable reserve** - the economically mineable part of an indicated, and in some circumstances a measured resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

**professional association**, for the purposes of the definition of a Qualified Person below, means a self-regulatory organization of engineers, geoscientists or both engineers and geoscientists that (a) has been given authority or recognition by statute; (b) admits members primarily on the basis of their academic qualifications and experience; (c) requires compliance with the professional standards of competence and ethics established by the organization; and (d) has disciplinary powers, including the power to suspend or expel a member.

**prospect** – an area prospective for economic minerals based on geological, geophysical, geochemical and other criteria

**proven reserve** means the economically mineable part of a measured resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

**pyrite** – an ore mineral of iron and sulphur.

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**Qualified Person** means an individual who (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project and the technical report; and (c) is a member in good standing of a professional association.

**quartz** – a rock-forming mineral of silica and oxygen, often found in veins also.

**raise** – a vertical or inclined tunnel in an underground mine driven upwards from below.

**ramp** – an inclined tunnel in an underground mine driven downwards from surface.

**reverse circulation drill** – a large machine that produces a continuous chip sample of the rock or material being drilled.

**saprolite** - a soft, earthy, clay rich and thoroughly decomposed rock with its original textures intact, formed in place by chemical weathering of igneous, sedimentary or metamorphic rocks.

**scoping study** – a conceptual report assessing the scope, economics and engineering of placing a mineral deposit into commercial production.

**shaft** – a vertical or inclined tunnel in an underground mine driven downward from surface.

**shear** – a tabular zone of faulting within which the rocks are crushed and flattened.

**stibnite** – an ore mineral of antimony and sulphur.

**stock or pluton** – a body of intrusive rock that covers less than 40 square miles, has steep dips and is discordant with surrounding rock.

**stockwork** – multiple small veins of mineralisation that have so penetrated a rock mass that the whole rock mass can be considered mineralised.

**strike length** - the longest horizontal dimensions of a body or zone of mineralisation.

**stripping ratio** - the ratio of waste material to ore that is estimated for or experienced in mining an ore body.

**sulphide** – an ore mineral compound linking sulphur with one or more metals.

**ton** - short ton (2,000 pounds).

**tonne** - metric tonne (2,204.6 pounds).

**trenching** – the surface excavation of a linear trench to expose mineralization for sampling.

**vein** – a tabular body of rock typically of narrow thickness and often mineralized occupying a fault, shear, fissure or fracture crosscutting another pre-existing rock.

**winze** – an internal shaft in an underground mine.

**For ease of reference, the following conversion factors are provided:**

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|        |                    |                          |                   |
|--------|--------------------|--------------------------|-------------------|
| 1 mile | = 1.609 kilometres | 1 pound                  | = 0.4535 kilogram |
| 1 yard | = 0.9144 meter     | 2,000 pounds/1 short ton | = 0.907 tonne     |
| 1 acre | = 0.405 hectare    | 1 troy ounce             | = 31.103 grams    |



## CAUTIONARY NOTE TO U.S. INVESTORS

This annual report on Form 20-F has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms “mineral reserve”, “proven mineral reserve” and “probable mineral reserve” are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) and the Canadian Institute of Mining, Metallurgy and Petroleum (the “CIM”) - *CIM Definition Standards on Mineral Resources and Mineral Reserves*, adopted by the CIM Council, as amended. These definitions differ from the definitions in the United States Securities and Exchange Commission (“SEC”) Industry Guide 7 (“SEC Industry Guide 7”) under the United States *Securities Act of 1933*, as amended. Under SEC Industry Guide 7 standards, a “final” or “bankable” feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. “Inferred mineral resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this report and the documents incorporated by reference herein containing descriptions of our mineral deposits may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

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PART I

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**3.A Selected Financial Data**

The following financial information (stated in United States dollars) with respect to the last four fiscal years ended December 31, 2013, 2012, 2011 and 2010 have been derived from Canarc's audited consolidated financial statements which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). International Financial Reporting Standards 1 – *First-time Adoption of International Financial Reporting* ("IFRS 1") has been applied with an adoption date of January 1, 2011 and a transition date of January 1, 2010, and all dollar amounts are expressed in United States dollars unless otherwise indicated. The consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 are set out and included in Item 18 of this annual report on Form 20-F.

The selected financial information for the fiscal year ended December 31, 2009 have been prepared in accordance to Canadian generally accepted accounting principles ("Canadian GAAP").

The selected financial information under IFRS should not be compared to the selected financial information under Canadian GAAP as the information was prepared using different financial reporting standards and are therefore not comparable.

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| Selected Financial Information<br>(stated in thousands of U.S. dollars, except per<br>share amounts) | IFRS<br>As at and for the years ended December 31   |             |             |             |
|--|---|-------------|-------------|-------------|
|  | 2013  | 2012        | 2011        | 2010        |
| (a) Total revenues <sup>(1)</sup>  | \$ -  | \$ -        | \$ -        | \$ -        |
| (b) Other incomes <sup>(2)</sup>   | \$ -  | \$ 77       | \$ -        | \$ -        |
| (c) Income (loss) before extraordinary items:  |   |             |             |             |
| (i) Total  | \$ (1,377)  | \$ (1,206)  | \$ (1,209)  | \$ (1,396)  |
| (ii) Basic earnings (loss) per share   | \$ (0.01)   | \$ (0.01)   | \$ (0.01)   | \$ (0.02)   |
| (d) Net income (loss):   |   |             |             |             |
| (i) Total  | \$ (1,377)  | \$ (1,206)  | \$ (1,209)  | \$ (1,396)  |
| (ii) Basic earnings (loss) per share   | \$ (0.01)   | \$ (0.01)   | \$ (0.01)   | \$ (0.02)   |
| (iii) Diluted earnings (loss) per share:   | \$ (0.01)   | \$ (0.01)   | \$ (0.01)   | \$ (0.01)   |
| (e) Total assets   | \$ 12,488   | \$ 13,983   | \$ 13,277   | \$ 13,900   |
| (f) Total long-term debt <sup>(3)</sup>  | \$ -  | \$ -        | \$ -        | \$ -        |
| (g) Shareholders' equity (net assets)  | \$ 11,412   | \$ 13,054   | \$ 12,470   | \$ 11,979   |
| (h) Dividends per share  | No cash dividends declared in any of these periods. |             |             |             |
| (i) Shares:  |   |             |             |             |
| Diluted number of common shares  | 141,447,195   | 136,945,171 | 108,461,171 | 107,335,010 |
| Number of common shares  | 114,818,195   | 110,242,171 | 94,096,171  | 90,985,890  |

(1) Canarc has no sources of operating revenues.

(2) Other income includes gains from the disposition of marketable securities and investment and other income.

(3) Canarc has no preferred shares.

| Selected Financial Information<br>(stated in thousands of U.S. dollars, except per share amounts) | Canadian GAAP<br>As at and for the year ended December 31<br>2009 |
|---|---|
| (a) Total revenues <sup>(1)</sup>   | \$ -  |
| (b) Other incomes <sup>(2)</sup>  | \$ -  |
| (c) Income (loss) before extraordinary items:   |   |
| (i) Total   | \$ (1,579)  |
| (ii) Basic earnings (loss) per share  | \$ (0.02)   |
| (d) Net income (loss):  |   |
| (i) Total   | \$ (1,579)  |
| (ii) Basic earnings (loss) per share  | \$ (0.02)   |
| (iii) Diluted earnings (loss) per share:  | \$ (0.02)   |
| (e) Total assets  | \$ 13,167   |
| (f) Total long-term debt <sup>(3)</sup>   | \$ -  |
| (g) Shareholders' equity (net assets)   | \$ 12,168   |
| (h) Dividends per share   | No cash dividends declared.                                       |
| (i) Shares:   |   |
| Diluted number of common shares   | 94,248,775  |
| Number of common shares   | 81,969,655  |

(1) Canarc has no sources of operating revenues.

(2) Other income includes gains from the disposition of marketable securities and investment and other income.

(3) Canarc has no preferred shares.

The Company is involved with mineral exploration and does not have any sources of operating revenues.

On April 28, 2014, the Bank of Canada closing rate for the conversion of one United States dollar into Canadian dollars was CAD\$1.1025.

The following table reflects the monthly high and low exchange rates for U.S.\$1.00 to the Canadian dollar for the following periods:

| <b>Month</b> | <b>Year</b> | <b>High (CAD\$)</b> | <b>Low (CAD\$)</b> |
|--------------|-------------|---------------------|--------------------|
| October      | 2013        | 1.0384              | 1.0345             |
| November     | 2013        | 1.0510              | 1.0469             |
| December     | 2013        | 1.0670              | 1.0616             |
| January      | 2014        | 1.0974              | 1.0910             |
| February     | 2014        | 1.1089              | 1.1026             |
| March        | 2014        | 1.1138              | 1.1074             |

The following table lists the high, low, average and closing exchange rates for U.S.\$1.00 to the Canadian dollar for the last five years:

| <b>Year</b> | <b>High (CAD\$)</b> | <b>Low (CAD\$)</b> | <b>Average Rate (CAD\$)</b> | <b>Close (CAD\$)</b> |
|-------------|---------------------|--------------------|-----------------------------|----------------------|
| 2009        | 1.3066              | 1.0251             | 1.1420                      | 1.0510               |
| 2010        | 1.0848              | 0.9931             | 1.0299                      | 0.9946               |
| 2011        | 1.0658              | 0.9407             | 0.9891                      | 1.0170               |
| 2012        | 1.0443              | 0.9642             | 0.9996                      | 0.9949               |
| 2013        | 1.0704              | 0.9838             | 1.0298                      | 1.0617               |

### **3.B Capitalization and Indebtedness**

Not applicable.

### **3.C Reasons for the Offer and Use of Proceeds**

Not applicable.

### **3.D Risk Factors**

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

#### **Risks Related to the Registrant's Business**

***The Registrant's exploration activities may not be commercially successful, which could lead it to abandon its plans to develop its mineral property interests and its investments in exploration and there is no assurance given by the Registrant 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 Registrant's mineral exploration and development activities will result in any discoveries of bodies of commercial ore. Unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Registrant has relied and may continue to rely upon consultants and others for construction and operating expertise. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grade of ore mined, fluctuating



mineral markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the price of gold or other minerals produced, the Registrant may determine that it is impractical to commence or continue commercial production.

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Substantial expenditures are required to establish reserves through drilling, 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 Registrant'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 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 Registrant to apply for an exploitation concession. There can be no guarantee that such a concession will be granted.

***The Registrant's planned operations will require future financing and there is no assurance given by the Registrant that it will be able to secure the financing necessary to explore, develop and produce its mineral property interests.***

The Registrant does not presently have sufficient financial resources or operating cash flows to undertake by itself all of its planned exploration and development programs. The development of the Registrant's mineral property interests may therefore depend on the Registrant's joint venture partners, if any, and on the Registrant's ability to obtain additional required financing. There is no assurance the Registrant 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 mineral property interests as disclosed herein. In addition, the Registrant does not have sufficient experience in developing mining properties into production and its ability to do so will be dependent upon securing the services of appropriately experienced personnel or entering into agreements with other major mining companies which can provide such expertise.

As noted in its audited consolidated financial statements for the year ended December 31, 2013, the Registrant has no operating revenues, has incurred significant operating losses and has an accumulated deficit of approximately \$48.7 million at December 31, 2013. Furthermore, the Registrant has a working capital deficiency of approximately \$921,000 as at December 31, 2013, and lack sufficient funds to achieve the Registrant's planned business objectives. The Registrant's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Registrant's liabilities as they become payable.

The report of our independent registered public accounting firm on the December 31, 2013 consolidated financial statements includes an additional paragraph that states the existence of material uncertainties that cast substantial doubt about the Registrant's ability to continue as a going concern. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

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***The figures for the Registrant's resources are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated and there is no assurance given by the Registrant that any estimates of mineral deposits herein will not change.***

Although all figures with respect to the size and grade of mineralized deposits included herein have been carefully prepared by the Registrant, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are estimates only 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 grade of ore ultimately mined may differ from that indicated by drilling results. 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, 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 project may adversely affect the economic recovery of gold from mining operations.

***Changes in the market price of gold, silver and other metals, which in the past have fluctuated widely, will affect the profitability of the Registrant's planned operations and financial condition and there is no assurance given by the Registrant 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 Registrant 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 Registrant, 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 Registrant 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 Registrant's properties can be mined at a profit.

***There is no assurance given by the Registrant that it owns legal title to its mineral property interests.***

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The acquisition of title to mineral property interests is a very detailed and time-consuming process. Title to any of the Registrant's mining concessions may come under dispute. While the Registrant has diligently investigated title considerations to its mineral property interests, in certain circumstances, the Registrant has only relied upon representations of property partners and government agencies. There is no guarantee of title to any of the Registrant's mineral property interests. The mineral property interests may be subject to prior unregistered agreements or transfers, and title may be affected by unidentified and undetected defects. In British Columbia and elsewhere, native land claims or claims of aboriginal title may be asserted over areas in which the Registrant's mineral property interests are located. To the best of the knowledge of the Registrant, although the Registrant understands that comprehensive land claims submissions have been received by Indian and Northern Affairs Canada from the Taku Tlingit (Atlin) Band (which encompasses the New Polaris property) and from the Association of United Tahltans and the Nisga'a Tribal Council (which may encompass the Eskay Creek property), no legal actions have been formally served on the Registrant to date asserting such rights with respect to mining properties in which the Registrant has an interest.

***The Registrant competes with larger, better capitalized competitors in the mining industry and there is no assurance given by the Registrant that it can compete for mineral properties, future financings and technical expertise.***

Significant and increasing competition exists for the limited number of gold acquisition opportunities available in North, South and Central America and elsewhere in the world. As a result of this competition, some of which is with large established mining companies which have greater financial and technical resources than the Registrant, the Registrant may be unable to acquire additional attractive gold mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Registrant's exploration and acquisition programs will yield any new resources or reserves or result in any commercial mining operation.

The Registrant may also encounter increasing competition from other mining companies in its efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Increased competition could adversely affect the Registrant's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***The Registrant's directors and officers may have conflicts of interest as a result of their relationships with other companies and there is no assurance given by the Registrant that its directors and officers will not have conflicts of interest from time to time.***

The Registrant'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 Registrant may participate, the directors of the Registrant may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In particular, Bradford Cooke, a Director of the Registrant, is also a Director of Aztec Metals Corp. (“Aztec”) and Endeavour Silver Corp. (“Endeavour”), companies in which the Registrant previously owned or currently owns shares. 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 Registrant’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 company 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 Registrant are required to act honestly, in good faith and in the best interests of the Registrant. In determining whether or not the Registrant 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 Registrant may be exposed and its financial position at that time.

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***The Registrant does not insure against all risks which we may be subject to in our planned operations and there is no assurance given by the Registrant that it is adequately insured against all risks.***

The Registrant 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.

***The Registrant is subject to significant governmental and environmental regulations and there is no assurance given by the Registrant that it has met all environmental or regulatory requirements.***

The current or future operations of the Registrant, 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 Registrant to commence production on its various mineral property interests 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 Registrant has interests and there can be no assurance that the Registrant will be able to obtain or maintain all necessary permits that may be required to commence construction, development or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs.

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



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As a prior holder of an interest in a U.S. mineral property, the Registrant may be subject to the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (“CERCLA”). CERCLA, along with analogous statutes in certain states, imposes strict, joint and several liability on owners and operators of facilities which release hazardous substances into the environment. CERCLA imposes similar liability upon generators and transporters of hazardous substances disposed of at an off-site facility from which a release has occurred or is threatened. Under CERCLA’s strict joint and several liability provisions, the Registrant could potentially be liable for all remedial costs associated with property that it owned or operated regardless of whether the Registrant’s activities are the actual cause of the release of hazardous substances. Such liability could include the cost of removal or remediation of the release and damages for injury to the natural resources. The Registrant’s one prior property was located in a historic mining district and may include abandoned mining facilities (including waste piles, tailings, portals and associated underground and surface workings). Releases from such facilities or from any of the Registrant’s prior U.S. properties due to past or current activities could form the basis for liability under CERCLA and its analogs. In addition, off-site disposal of hazardous substances, including hazardous mining wastes, may subject the Registrant to CERCLA liability. The Registrant’s prior U.S. property is not, to the Registrant’s knowledge, currently listed or proposed for listing on the National Priority List and the Registrant is not aware of pending or threatened CERCLA litigation which names the Registrant as a defendant or concerns any of its prior U.S. properties or operations. The Registrant cannot predict the potential for future CERCLA liability with respect to its prior U.S. property, nor can it predict the potential impact or future direction of CERCLA litigation in the area surrounding its prior property.

To the best of the Registrant’s knowledge, the Registrant is operating in compliance with all applicable environmental and regulatory regulations.

***Land reclamation requirements for the Registrant’s properties may be burdensome.***

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 Registrant.

***Mining is inherently dangerous and subject to conditions or events beyond the Registrant’s control, which could have a material adverse effect on the Registrant’s business.***

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Mining involves various types of risks and hazards, including:

- environmental hazards,
- power outages,
- metallurgical and other processing problems,
- unusual or unexpected geological formations,
- structural cave-ins or slides,
- flooding, fire, explosions, cave-ins, landslides and rock-bursts,
- inability to obtain suitable or adequate machinery, equipment or labour,
- metals losses, and
- periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. The Registrant may not be able to obtain insurance to cover these risks at economically feasible premiums. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, is not generally available to the Registrant or to other companies within the mining industry. The Registrant may suffer a material adverse effect on its business if it incurs losses related to any significant events that are not covered by its insurance policies.

***The Registrant will be required to locate mineral reserves for its long-term success.***

Because mines have limited lives based on proven and probable mineral reserves, the Registrant will have to continually replace and expand its mineral reserves, if any. The Registrant's ability to maintain or increase its annual production of gold and other base or precious metals once its current properties are producing, if at all, will be dependent almost entirely on its ability to acquire, explore, and develop new properties and bring new mines into production.

**The Registrant's properties may be located in foreign countries and political instability or changes in the regulations in these countries may adversely affect the Registrant's ability to carry on its business.**

Certain of the Registrant'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 Registrant 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 Registrant and its joint venture partners to obtain any required production financing for its mineral properties.

**Fluctuations in foreign currency exchange rates may adversely affect the Registrant's future profitability.**

In addition to CAD dollar currency accounts, the Registrant maintains a portion of its funds in U.S. dollar denominated accounts. Certain of the Registrant's mineral property interests and related contracts may be denominated in U.S. dollars. Accordingly, the Registrant may take some steps to reduce its risk to foreign currency fluctuations. However, the Registrant's operations in countries other than Canada are normally carried out in the currency of that country and make the Registrant subject to foreign currency fluctuations and such fluctuations may materially affect the Registrant's financial position and results. In addition future contracts may not be denominated in U.S. dollars and may expose the Registrant to foreign currency fluctuations and such fluctuations may materially affect the Registrant's financial position and results. In addition, the Registrant is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its mineral property interests outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Registrant holds property interests and future impositions of such restrictions could have a materially adverse effect on the Registrant's future profitability or ability to pay dividends.

**The Registrant is reliant on third parties.**

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

**Jurisdiction and Enforcement in U.S. and Canadian Courts.**

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The enforcement of civil liabilities under the U.S. federal and state securities laws may be affected adversely by the fact that the Registrant is incorporated under the laws of a foreign country, that certain of its officers and directors are residents of a foreign country, that the independent registered public accounting firm and some or all of the experts named in this report may be residents of a foreign country and that all or a substantial portion of the assets of the Registrant and said persons may be located outside the U.S. In particular, uncertainty exists as to whether Canadian courts would entertain claims or enforce judgments based on the civil liability provisions of the U.S. federal and state securities laws.

***The Registrant's possible PFIC status may have possible adverse tax consequences for United States Investors.***

Potential investors who are United States taxpayers should be aware that Canarc may be classified for United States tax purposes as a passive foreign investment company ("PFIC") for the current fiscal year and may also have been a PFIC in prior years, and may also be a PFIC in subsequent years. This status arises due to the fact that Canarc's excess exploration funds may be invested in interest bearing securities creating "passive income" which, while modest and ancillary to the exploration business, has been Canarc's only substantive source of income in the past. If Canarc is a PFIC for any year during a United States taxpayer's holding period, then such a United States taxpayer, generally, will be required to treat any so-called "excess distribution" received on its common shares, or any gain realized upon a disposition of common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund ("QEF") election or a mark-to-market election with respect to the shares of Canarc. In certain circumstances, the sum of the tax and the interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the taxpayer. A United States taxpayer who makes a QEF election generally must report on a current basis its share of Canarc's net capital gain and ordinary earnings for any year in which Canarc is a PFIC, whether or not Canarc distributes any amounts to its shareholders. A United States taxpayer who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer's tax basis therein. Item 10.E provides further details.

***While we believe we have adequate internal control over financial reporting, internal controls cannot provide absolute assurance that objectives are met.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have furnished a report by management on our internal controls over financial reporting in this annual report on Form 20-F. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective.

The Registrant's management does not expect that its disclosure controls and procedures or internal controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Registrant have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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## Risks Related to the Registrant's Common Shares

***The volatility of the Registrant's common shares could cause investor loss.***

The market price of a publicly traded stock, especially a junior resource issuer like Canarc, 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 Toronto Stock Exchange (the "TSX") and NASD-OTC suggests that Canarc's shares will continue to be volatile. Therefore, investors could suffer significant losses if Canarc's shares are depressed or illiquid when an investor seeks liquidity and needs to sell Canarc's shares.

***Penny stock classification could affect the marketability of the Registrant's common stock and shareholders could find it difficult to sell their stock.***

The Registrant's stock may be subject to "penny stock" rules as defined in the Exchange Act rule 3a51-1. The Securities and Exchange Commission has adopted rules which regulate broker-dealer practices in connection with transactions in penny stocks. The Registrant's common shares may be subject to these penny stock rules. Transaction costs associated with purchases and sales of penny stocks are likely to be higher than those for other securities. Penny stocks generally are equity securities with a price of less than U.S.\$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system).

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

Further, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the Registrant's common shares in the United States and shareholders may find it more difficult to sell their shares.

*Possible dilution to current shareholders based on outstanding options and warrants.*

At December 31, 2013, the Company had 114,818,195 common shares and 8,325,000 outstanding share purchase options and 18,304,000 share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At December 31, 2013, securities that could be dilutive represented approximately 23.19% of the Company's issued shares. None of these dilutive securities were exercisable at prices below the December 31, 2013 closing market price of CAD\$0.04 for the Company's shares, which would not accordingly result in dilution to existing shareholders.

#### **ITEM 4. INFORMATION ON THE COMPANY**

The Registrant is a Canadian mineral exploration company and is subject to NI 43-101, a National Instrument adopted by all of the Securities Commissions in Canada that deals with standards of disclosure for mineral projects. It applies to all oral statements and written disclosure of scientific or technical information, including disclosure of a mineral resource or mineral reserve, made by or on behalf of a company in respect of its material mineral projects. In addition to other matters, it sets out strict guidelines for the classification of and use of the terms 'mineral resource' and 'mineral reserve' and it requires all technical disclosure on all material properties to be subject to review by a senior engineer or geoscientist in good standing with a relevant professional association. The full text of NI 43-101 can be found at <http://www.bsc.bc.ca/policy.asp?id=2884&scat=4&title=4%20-%20Distribution%20Requirements>. While the Registrant believes that its technical disclosure, when made, was accurate, technical disclosure prepared by the Registrant before NI 43-101 came into force in February 2001 has not been updated by the Registrant to be compliant with NI 43-101 other than as specifically disclosed herein.

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**4.A History and Development of the Company**

**Incorporation and Reporting Status**

The Registrant was incorporated under the laws of British Columbia, Canada, on January 22, 1987 under the name, “Canarc Resource Corp.”, by registration of its Memorandum and Articles with the British Columbia Registrar of Companies.

The Company was originally incorporated under the previous Company Act (British Columbia) and transitioned to the Business Corporations Act (British Columbia) in 2005; the Business Corporations Act (British Columbia) replaced the Company Act (British Columbia) on March 29, 2004.

The Registrant is a reporting company in British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia. The Registrant became a reporting issuer under the United States Securities Exchange Act of 1934, as amended, upon filing its registration statement on Form 20-F dated October 9, 1990 with the Securities and Exchange Commission.

**Business Address**

Office address: Suite #301, 700 West Pender Street

Vancouver, British Columbia, Canada, V6C 1G8

Phone: (604) 685-9700

Registered address: #1040 – 999 West Hastings Street

Vancouver, British Columbia, Canada, V6C 2W2

Phone: (604) 683-1102

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## Introduction

The Registrant commenced operations in 1987 and, since inception, has been engaged in the business of the acquisition, exploration and, if warranted, development of precious metal properties. The Registrant currently owns or holds, directly or indirectly, interests in several precious metal properties which are located in Canada, as follows:

- New Polaris property in British Columbia,
- Windfall Hills properties, British Columbia, and
- Eskay Creek property in British Columbia,

of which the New Polaris property is the material mineral property of the Registrant.

In its consolidated financial statements prepared in accordance with IFRS, the Registrant has capitalized costs, net of recoveries and write-downs, of approximately \$12.3 million in connection with the acquisition, exploration and development on its currently held properties as at December 31, 2013 and are summarized as follows for the past three fiscal years:

| (in terms<br>of \$000s)               | 2013                 |                             |           | 2012                 |                             |           | 2011                 |                             |           |
|---------------------------------------|----------------------|-----------------------------|-----------|----------------------|-----------------------------|-----------|----------------------|-----------------------------|-----------|
|                                       | Acquisition<br>Costs | Exploration/<br>Development | Total     | Acquisition<br>Costs | Exploration/<br>Development | Total     | Acquisition<br>Costs | Exploration/<br>Development | Total     |
| <b>British Columbia<br/>(Canada):</b> |                      |                             |           |                      |                             |           |                      |                             |           |
| New Polaris                           | \$ 3,892             | \$ 7,938                    | \$ 11,830 | \$ 3,905             | \$ 8,643                    | \$ 12,548 | \$ 3,900             | \$ 8,285                    | \$ 12,185 |
| Windfall Hills                        | 408                  | 92                          | 500       | 210                  | 117                         | 327       | 67                   | 106                         | 173       |
| Devil's Thumb <sup>(1)</sup>          | -                    | -                           | -         | -                    | -                           | -         | 6                    | 15                          | 21        |
| <b>Yukon<br/>(Canada):</b>            |                      |                             |           |                      |                             |           |                      |                             |           |
| Tay-LP <sup>(2)</sup>                 | -                    | -                           | -         | 174                  | 495                         | 669       | 146                  | 423                         | 575       |
|                                       | \$ 4,300             | \$ 8,030                    | \$ 12,330 | \$ 4,289             | \$ 9,255                    | \$ 13,544 | \$ 4,119             | \$ 8,829                    | \$ 12,260 |

(1) The Devil's Thumb property was written off in 2012.

(2) The Tay-LP property was written off in 2013.

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Further information and details regarding Canarc's mineral property interests are provided in Item 4.D.

### *Developments over the Last Three Financial Years*

Over the course of the past three years ended December 31, 2013 and to the date of this Form 20-F, the Registrant had been engaged in exploration and development of precious metal projects in Canada. The major events in the development of the Registrant's business over the last three years are set out below. Information and details regarding the Registrant's properties are provided in Item 4.D.

#### *Relief Canyon project*

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

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



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

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

*Strategic Mine Acquisition Partnership with Canford Capital Inc. (“Canford”)*

In late September 2012, Canarc granted Canford a 120-day period of exclusivity to complete its due diligence and to execute a property option agreement to earn up to a 51% interest in the New Polaris gold project in return for up to a CAD\$30 million investment in exploration and development of the property. Canarc was to be the manager of the project during the property option period. In February 2013, Canarc entered into a Strategic Mine Acquisition Partnership (“SMAP”) with Canford for the purpose of acquiring, expanding and operating gold mines in North America (the “Acquisition Opportunities”). The main parameters of the SMAP agreement were as follows:

- (1) Canarc was to be the manager of the SMAP, and was to identify and evaluate each Acquisition Opportunity including the timing and capital required;  
Once Canarc and Canford agreed to pursue a particular Acquisition Opportunity, Canarc was to complete the due
- (2) diligence on behalf of the SMAP and Canford was to then arrange 100% of the debt financing required by the SMAP;
- (3) Upon closing each Acquisition Opportunity, Canford was to own a 51% interest and Canarc was to own a 49% interest therein until the debt financing was repaid in full;
- (4) Upon repayment of the debt financing, Canarc would then own a 51% interest and Canford would own a 49% interest therein;
- (5) Canford was to exercise its warrants for 5.65 million common shares of Canarc with an exercise price of CAD\$0.15 for total proceeds of CAD\$847,500, on the date of closing of the first Acquisition Opportunity; and  
Canarc was to grant Canford a further 60 day period of exclusivity to execute a property option agreement to earn
- (6) up to a 51% interest in the New Polaris gold mine project in return for up to a CAD\$30 million investment in exploration and development, as previously agreed, on the date of closing of the first Acquisition Opportunity.

This Agreement was to be binding upon both Canarc and Canford until it was replaced by a more formal Strategic Joint Venture Partnership Agreement. Canarc and Canford agreed to use their respective commercially reasonable best efforts to complete a more formal Strategic Mine Acquisition Partnership Agreement on or before March 1, 2013. In March 2013, no formal SMAP agreement was executed, and Canford did not commit nor arrange financing for the proposed property option and joint venture to develop the New Polaris gold project nor for the SMAP to acquire operating gold mines in North America.

*Letter of Intent with Pan American Goldfields Ltd.*

In February 2014, Canarc signed a Letter of Intent (the “LOI”) with Pan American Goldfields Ltd. (“Pan American”) with respect to a business combination whereby Canarc may acquire all of the outstanding common shares of Pan American (the “Transaction”).

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

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

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

Pursuant to the terms of the LOI, Canarc had agreed to pay \$100,000 (the "Funds") to Pan American, following TSX approval. Pan American had agreed to repay the Funds to Canarc in the event that (a) Canarc terminated the LOI or determined not to proceed with the Transaction as a result of its due diligence; or (b) Pan American terminated the LOI or determined not to proceed with the Transaction for any reason.

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

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

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

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

*Others*

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On August 24, 2009, the Company entered into a property option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. (collectively, "Ross River") to acquire up to 100% interest in the Tay-LP gold property, located in Yukon. The Company decided not to proceed with any further expenditure on the Tay-LP property which was written off in November 2013. Item 4.D provides further details.

In April 2011, the Company entered into two property option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia, collectively known as the Windfall Hills property. The Company acquired 100% interests in the Atna and Dunn properties in April 2013. Item 4.D provides further details.

In May 2011, the Company staked three gold properties, Devils' Thumb property, totalling 17,175 hectares northeast of its Windfall Hills properties in central British Columbia, which was written off in September 2012.

On September 28, 2012, the Company closed a brokered private placement for 11.3 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.13 million, with each unit comprised of one common share and one transferrable common share purchase warrant. Canford was the sole subscriber in the private placement and became an insider of the Company by virtue of holding more than 10% of the issued and outstanding share capital of the Company at that time. Item 5.B provides further details.

In 2012, the Company arranged demand loans of \$358,000 from certain directors and an officer of the Company. These loans were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In October and December 2012, the Company repaid all principal and interest in full settlement of outstanding demand loans.

In December 2012 and January 2013, the Company closed a non-brokered private placement in three tranches totalling 6.1 million units at a price of CAD\$0.11 per unit for gross proceeds of CAD\$671,000 with each unit comprised of one common share and one common share purchase warrant. Item 5.B provides further details.

In November 2013, the TSX has advised the Company that the TSX is reviewing the eligibility for continued listing on the TSX of the securities of the Company pursuant to Part VII of the Toronto Stock Exchange Company Manual. The Company is being reviewed under the Remedial Review Process and has been granted 120 days to comply with all requirements for continued listing. Specifically the Company needs to comply with expenditures of CAD\$350,000 on exploration or development work on its mineral resource properties and with adequate working capital. If the Company cannot demonstrate that it satisfies all TSX requirements on or before March 10, 2014, the Company's securities would be delisted 30 days from such date. In February 2014, the Company had provided a submission to the TSX regarding budgeted exploration expenditures of CAD\$350,000 for its Windfall Hills property and in January 2014 closed a non-brokered private placement for CAD\$900,000. In March 2014, the TSX had extended its review of

the eligibility of the common shares of the Company for continued listing for a period of 30 days. In April 2014, the TSX extended its review by another 30 days which was then extended by 60 days in May 2014.

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

On January 31, 2014, the Company closed a non-brokered private placement for 18 million units at a price of CAD\$0.05 per unit for gross proceeds of CAD\$900,000, with each unit comprised of one common share and one-half of a whole common share purchase warrant. Item 5.B provides further details.

In March and April 2014, the Company closed a private placement in two tranches totalling 19.6 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.96 million with each unit comprised of one common share and one-half of a whole common share purchase warrant. Item 5.B provides further details.

#### **4.B Business Overview**

##### *Nature of operations and principal activities*

The Registrant's principal business activities are the acquisition, exploration and development of mineral resource property interests. The Registrant is in the process of exploring and developing its mineral property interests and has not yet determined whether these mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of economically recoverable reserves in its mineral resource properties, the ability of the Registrant to arrange appropriate financing to complete further work on its mineral property interests, confirmation of the Registrant's interest in the underlying properties, the receipt of necessary permitting and upon future profitable activities on the Registrant's mineral property interests or proceeds from the disposition thereof. The Registrant has incurred significant operating losses and currently has no operating revenues. The Registrant has financed its activities principally by the issuance of equity securities. The Registrant's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations to fund its operations.

The Registrant and its management group have in the past been actively involved in the evaluation, acquisition and exploration of mineral properties in Canada, U.S.A., and Central and South America. Starting with grass roots exploration prospects, it progressed to more advanced properties. To date, the Registrant has not received any operating revenues from its mineral property interests. The Registrant plans to continue exploring and developing its mineral property interests and, if appropriate, the Registrant intends to seek partners or buyers to purchase or to assist in further advancement (by way of joint venture or otherwise) of its mineral property interests. The Registrant seeks to



identify properties with significant potential and to acquire those properties on the basis of property option agreements relying on the representations and warranties of the vendor as to the state of title, with limited or no title work being performed by the Registrant. Detailed title work is only undertaken once it has been determined that the property is likely to host a significant body of ore, which may not occur. Consequently, there is a significant risk that adverse claims may arise or be asserted with respect to certain of the Registrant's mineral property interests. Items 3.D and 4.A provide further details.

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Further information and details regarding the Registrant's properties are provided in Item 4.D.

***Sales and revenue distribution, sources and availability of raw materials, and marketing channels***

As of the date of this annual report, the Registrant has not generated any operating revenues from its mineral property interests.

***Competitive conditions***

Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Registrant may be unable to compete for nor acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Registrant will be able to acquire any interest in additional projects that would yield reserves or results for commercial mining operations.

***Government regulations***

The Registrant's operations are subject to governmental regulations in Canada, where the Registrant had interests in mineral properties.

The current and anticipated future operations of the Registrant, including further exploration and/or production activities may require additional permits from governmental authorities. Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. Unfavourable amendments to current laws, regulations and permits governing operations and activities of mineral exploration companies, or more stringent implementation thereof, could have a materially adverse impact on the Registrant and could cause increases in capital expenditures which could result in a cessation of operations by the Registrant. To the best of its knowledge, the Registrant is operating in compliance with applicable laws.

***Trends***

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The cumulative annual average for gold prices did increase from \$1,572 in 2011 to \$1,669 in 2012 and then decreased to \$1,411 in 2013 and closing at \$1,299 on April 28, 2014. Gold prices did not achieve new highs in 2013 relative to 2012. In 2011, prices reached an annual high of \$1,895 but only achieved an annual high of \$1,792 in October 2012 and \$1,694 in January 2013. The high for 2014 was on March 14, 2014 at \$1,385 which is lower than the annual highs in 2013 and 2012.

During the same period from January 2011 to December 2013, the closing market price for the Registrant's shares decreased from CAD\$0.29 to CAD\$0.04 – a decrease of 86%, and the high of CAD\$0.30 was in January 2011. On April 28, 2014, the closing market share price was CAD\$0.10. The lack of financing and a joint venture partner to advance the New Polaris gold project contributed to the ongoing weaknesses in the market price of the Registrant's shares although the liquidity and market price of its shares were heightened during the exclusivity period with Canford from September 2012 to early March 2013. Management continues to foresee opportunities to finance the mineral exploration and development efforts on Canarc's mineral property interests, and also to evaluate and consider new acquisitions in the gold arena.

Risk factors in Item 3.D provides further details regarding competition and government regulations.

#### **4.C Organizational Structure**

The Registrant carries on its business in large part through its subsidiaries. The Registrant has a number of direct or indirect wholly or majority owned subsidiaries of which the active subsidiaries are as follows:

Benzdorp Gold N.V. was incorporated under the laws of Suriname on February 4, 2004 when Suriname presidential assent was received. The Registrant owns 40% of the voting shares of this company.

Canarc (Barbados) Mining Ltd. is a company duly incorporated under the laws of Barbados on July 26, 1993. The Registrant owns 100% of the issued and outstanding shares.

Canarc Suriname (Barbados) Ltd. is a company duly incorporated under the laws of Barbados on January 26, 1994. The Registrant owns 100% of the issued and outstanding shares.

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Canarc van Suriname N.V. is a company duly incorporated under the laws of Suriname on November 10, 1995. The Registrant owns 100% of the issued and outstanding shares.

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New Polaris Gold Mines Ltd. (“New Polaris”) (formerly Golden Angus Mines Ltd. - name change effective April 21, 1997) is a corporation formed through the amalgamation of 2820684 Canada Inc. (“2820684”), a former wholly-owned subsidiary of the Registrant incorporated under the Canada Business Corporation Act on May 13, 1992, and Suntac Minerals Inc. The Registrant owns 100% of the issued and outstanding shares.

#### 4.D Property, Plant and Equipment

##### Description of Properties

Property Summary Chart (as of December 31, 2013):

| Property Name              | Location   | Maximum % Interest Held (or to be earned) <sup>(1)</sup> | Capitalized Acquisition Expenditures <sup>(3)</sup> | Capitalized Exploration Expenditures <sup>(3)</sup> | Total Capitalized Expenditures <sup>(3)</sup> |
|----------------------------|------------|--|---|---|---|
| New Polaris <sup>(2)</sup> | BC, Canada | 100.00%  | \$3,892,000   | \$7,938,000   | \$11,830,000                                  |
| Windfall Hills             | BC, Canada | 100.00%  | \$408,000   | \$92,000  | \$500,000                                     |
| Eskay Creek                | BC, Canada | 33.33%   | \$0   | \$0   | \$0   |

<sup>1</sup> Subject to any royalties or other interests as disclosed below.

<sup>2</sup> Previously known as “Polaris-Taku”.

<sup>3</sup> Net of recoveries and write-downs.

*NOTE: All monetary figures are in terms of U.S.\$ unless otherwise noted. See below for further details on each property.*

The following is a more detailed description of the mineral properties listed above in which the Registrant has an interest.

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**Material Mineral Projects**

***Cautionary Note to U.S. Investors concerning estimates of Measured and Indicated Resources.*** This section and certain related exhibits may use the terms “measured” and “indicated resources”. We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. See “Cautionary Note to U.S. Investors” at the beginning of this annual report.

***Cautionary Note to U.S. Investors concerning estimates of Inferred Resources.*** This section and certain related exhibits may use the term “inferred resources”. We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. “Inferred resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally minable. See “Cautionary Note to U.S. Investors” at the beginning of this annual report.

**New Polaris Gold Project, British Columbia, Canada**

Discovered by prospectors in 1929, the original mine was constructed in 1936 and operated from 1937 to 1942 and again from 1946 to 1951. A total of 232,000 oz. of gold was produced. Flotation concentrates were shipped seasonally for refining to the smelter in Tacoma, Washington. The first barge load in 1951 sank in a storm off the B.C. coast, causing the mine to shut down. Cominco upgraded the mill in 1952 and used it to process the nearby Tulsequah Chief ores from 1953 to 1957. New Polaris was then dormant for 30 years until exploration resumed in 1988. Canarc acquired New Polaris in 1992 and has partially cleaned up the original mill site and infrastructure, which had been previously abandoned. Canarc constructed a new office complex at the New Polaris mine site and the camp is now capable of supporting 35 people. The machinery from the mill was removed from the site by previous owners in the 1970's. No remaining equipment from the mine operation was salvaged as it was all inoperable. The only original buildings remaining are one large shed (the former machine shop) and 3 small houses. These existing buildings have been refurbished and serve as both sleeping quarters and the kitchen facility. The former machine shop has also been maintained as a maintenance facility. Current fixed equipment include 10,000 and 25,000 gallon Terra Tanks, and mobile equipment on the property include a D6 Cat, backhoe, grader, electric Alimak machine, pumping equipment, welding machines and several generators. The existing underground workings are accessible, although dewatering is required to access those workings below the 50 foot level. Power to the site is currently supplied by diesel generators.



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In 2007, Canarc completed a pre-feasibility program for the New Polaris gold mine project, including dewatering of the underground mine workings, mapping and sampling of the lower mine levels, optimizing metallurgical recoveries, continuing site-related environmental studies, developing a conceptual mine plan and completing a preliminary economic assessment for the project. No additional work is being carried out at this time as Canarc is seeking a strategic partner to advance the project to final feasibility and, if positive, to production, subject to financing.

The New Polaris Gold Project consists of 61 contiguous Crown-granted mineral claims and one modified grid claim covering 2,100 acres. All claims are 100% owned and held by New Polaris Gold Mines Ltd., a wholly owned subsidiary of Canarc Resource Corp., subject to a 15% net profit interest held by Rembrandt Gold Mines Ltd. Canarc can reduce this net profit interest to a 10% net profit. A Table of the claims is set out below.

Table 1 - LIST OF CLAIMS

| Claim Name        | Lot No. | Folio # | Claim Name         | Lot No. | Folio # |
|-------------------|---------|---------|--------------------|---------|---------|
| Polaris No.1      | 6109    | 4472    | Snow               | 3497    | 4545    |
| Polaris No.2      | 6140    | 5223    | Snow #2            | 3495    | 5088    |
| Polaris No.3      | 6141    | 5223    | Snow #3            | 3494    | 5495    |
| Polaris No.4      | 3498    | 4545    | Snow #4            | 3499    | 5495    |
| Polaris No.5      | 6143    | 5223    | Snow #5            | 6105    | 4472    |
| Polaris No.6      | 6144    | 5223    | Snow #8            | 6107    | 4472    |
| Polaris No.7      | 6145    | 5223    | Snow #7            | 3500    | 4472    |
| Polaris No.8      | 6146    | 5223    | Snow #6            | 6106    | 4472    |
| Polaris No.9      | 6147    | 5223    | Snow #9            | 6108    | 4472    |
| Polaris No.10     | 6148    | 5290    | Black Diamond      | 3491    | 4472    |
| Polaris No.11     | 6149    | 5290    | Black Diamond No.3 | 6030    | 4944    |
| Polaris No.12 Fr  | 6150    | 5290    | Blue Bird No.1     | 5708    | 4545    |
| Polaris No.13 Fr  | 6151    | 5290    | Blue Bird No.2     | 5707    | 4545    |
| Polaris No.14     | 6152    | 5290    | Lloyd              | 6035    | 5010    |
| Polaris No.15     | 6153    | 5290    | Lloyd No.2         | 6036    | 5010    |
| Silver King No.1  | 5489    | 4804    | Rand No.1          | 6039    | 5010    |
| Silver King No.2  | 5490    | 4804    | Rand No.2          | 6040    | 5010    |
| Silver King No.3  | 5493    | 4804    | Minto No.2         | 6033    | 4944    |
| Silver King No.4  | 5494    | 4804    | Minto No.3         | 6034    | 4944    |
| Silver King No.5  | 5491    | 4804    | Jumbo No.5         | 6031    | 4944    |
| Silver King No.6  | 5492    | 4804    | Ready Bullion      | 6032    | 4944    |
| Silver King No.7  | 5495    | 4804    | Roy                | 6042    | 5088    |
| Silver King No.8  | 5717    | 4545    | Frances            | 6041    | 5010    |
| Sliver Queen No 1 | 6026    | 4545    | Eve Fraction       | 6170    | 5495    |
| Sliver Queen No 2 | 6027    | 4545    | Eve No.1 Fraction  | 6171    | 5495    |
| Sliver Queen No 3 | 6028    | 4944    | P.T. Fraction      | 3493    | 5495    |
| Sliver Queen No 4 | 6029    | 4944    | Ant Fraction       | 3492    | 5088    |
| Silver Strand     | 6037    | 5010    | Atlin Fraction     | 3496    | 5088    |

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|                    |      |      |                 |      |      |
|--------------------|------|------|-----------------|------|------|
| Silver Strand No.2 | 6038 | 5010 | Powder Fraction | 6043 | 5088 |
| F.M Fraction       | 6044 | 5088 | Jay Fraction    | 6045 | 5088 |
| Par Fraction       | 6154 | 5290 |                 |      |      |

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James Moors, P.Geo, who was Vice President Exploration of the Registrant at that time, was the Qualified Person for the purposes of the foregoing technical disclosure on the New Polaris Gold Project. The information in the following summary on the New Polaris Gold Project has been derived in part from and is partially based on the assumptions, qualifications and procedures set out in the Technical Report titled “Resource Potential, New Polaris Project” (the “New Polaris Technical Report”) dated March 14, 2007 and prepared by R.J. Morris, MSc, PGeo, of Moose Mountain Technical Services and G.H. Giroux, MAsC, PEng, of Giroux Consultants Limited, who are independent Qualified Persons as defined by National Instrument 43-101 (“NI 43-101”) and was prepared in compliance with NI 43-101, to the best of the Registrant’s knowledge.

The following extracted from, or are accurate paraphrasing of, the executive summary, or other sections as indicated from the New Polaris Technical Report, the full copy of which is available online at [www.sedar.com](http://www.sedar.com) as filed on March 16, 2007. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the New Polaris Technical Report.

#### Summary

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New Polaris (formerly Polaris-Taku) is an early Tertiary mesothermal gold mineralized body located in northwestern British Columbia about 100 kilometres south of Atlin, BC and 60 kilometres northeast of Juneau, Alaska. The nearest roads in the area terminate twenty kilometers due south of Atlin and 10 kilometres southeast of Juneau. Access at the present time is by aircraft. A short airstrip for light aircraft exists on the property.

The deposit was mined by underground methods from 1938 to 1942, and from 1946 to early 1951, producing a total of 740,000 tonnes of ore at an average grade of 10.3g/t gold.

The property consists of 61 contiguous Crown-granted mineral claims and one modified grid claim covering 2,100 acres. All claims are 100% owned and held by New Polaris Gold Mines Ltd., a wholly owned subsidiary of Canarc Resource Corp., subject to a 15% net profit interest held by Rembrandt Gold Mines Ltd. Canarc can reduce this net profit interest to a 10% net profit.

The deposit is composed of three sets of veins (quartz-carbonate stringers in altered rock), the “AB” veins are northwest striking and southwest dipping, the “Y” veins are north striking and dipping steeply east and finally the “C” veins are east-west striking and dipping to the south to southeast at 65° to vertical. The “C” veins appear to hook around to the north and south into the other two sets of veins so that their junctions form an arc. The gold is refractory and occurs dominantly in finely disseminated arsenopyrite grains that mineralize the altered wallrock and stockwork veins. The next most abundant mineral is pyrite, followed by minor stibnite and a trace of sphalerite. The zones of mineralization range from 15 to 250 metres in length and 0.3 to 14 metres in width.

Canarc explored the “C” vein system between 1988 and 1997, and carried out infill drilling in 2003 through 2006, to better define the continuity and grade of the vein systems.

The total New Polaris database consists of 1,056 diamond drill holes with a total of 31,514 sample intervals.

The geologic continuity of the C vein has been well established through historic mining and diamond drilling. Grade continuity was quantified using a geostatistical method called the semivariogram, which measures distances (ranges) and directions of maximum continuity. The four principle veins in the semivariogram model produced ranges between 50 and 90 metres, along strike and down plunge.

*Sample Method and Approach, Sample Preparation, Analyses and Security, and Data Verification*

Sampling of the vein was done by a wire line diamond drills using NQ-size rods. Drill collar locations were surveyed in by total station surveying method. Drilling azimuth and dip were set using a brunton compass and clinometer. Routine down hole measurements of azimuth and dip were not done on the three holes drilled in 2003 and prior. In 2004, three different down hole survey systems were tried before settling on a Reflex system. The Reflex system was also used in 2005. The down hole surveying was operated by the Hytech's drill crew. This information was entered into a GEMCOM program to plot the location of the collar and the pierce point of the veins.

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Core recovery was very good and ranged from the low 90% to nearly 100% and is a fair sampling of the mineralization at the point where the drill hole pierced the vein.

The vein mineralization has well marked contacts with the wall rock. The transition from mineralized to non mineralized rock occurs over a few centimeters. Free gold is extremely rare and to the end of 2005 had not been recognized in core samples. The majority of the gold occurs in arsenopyrite and to a lesser extent in pyrite and stibnite. Because there is no visible gold and the host sulphides are very fine grained and disseminated there is little nugget effect and gold values even over short intervals rarely exceed 1 opt. Out of 4700 samples with greater than 0.03 opt gold collected from core and the underground workings, only 185 samples had a value greater than 1 opt, the highest being 3.69 opt. For this reason, no cutting of assays has been done in calculating composites nor are there many cases where a composite sample is carried by a single assay.

Determining intervals of core for sampling was done by the geologist during logging of the core. The mineralized vein structures were marked out. Selections of core intervals for sampling were based in the presences of veining and sulphide mineralization particularly arsenopyrite. Within the defined vein structure sample interval ranged from 1 foot to 5 feet. Divisions were based on intensity of mineralization and veining. Sampling of the core for 10s of feet either side of the mineralized vein structures was also done to the point where hydrothermal alteration disappeared. No sampling of core from the unaltered rock was done.

The core was logged and stored in the camp. Access to be core was only available to the geologists and the core sampler. The core was brought from the drill set up to the logging facility by the geologist at the end of each shift. The core was geologically logged, recoveries calculated and samples marked out in intervals of 0.5 to 1 metre. The core was handed to the sample cutter who cut it with a diamond saw. Each sample was individually wrapped in plastic bags for shipment. The sample intervals were easily identified and correlate well with the drill logs.

The 2006 Quality Assurance, Quality Control program was similar to the previous programs in that samples were collected by employees of Canarc on site and shipped to ALS Chemex in Vancouver. For quality control and quality assurance, core samples were regularly mixed with blanks, duplicates, and standards. The program in the field was run in an efficient and proper manner following accepted engineering standards.

Mr. Morris, one of the authors, spent two days on the New Polaris property. While on the property, he examined underground workings to confirm the nature of mineralization, dimensions and extent of the vein system. He also viewed a selection of core from key holes drilled from the early 1990's to the end of 2006 and compared his observations with those documented in the drill logs. In both the case of the underground workings and the core, the author found that his observations confirmed that recorded in logs and sections. He also confirmed that core had been properly cut and stored. In addition to the site visit, a detailed review of the database

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was completed. Forty-one drill holes were selected from the C vein area, and the drill logs and assay sheets were compared with the database. Only minor differences were observed between the hard copy material and the database. As well, the input of the database into the modeling program was also checked. The procedures used in the development of the database follow accepted engineering standards.

*Location Map*

In April 2011, Canarc completed a preliminary economic assessment of the New Polaris property. The report which is dated April 10, 2011 is titled "New Polaris Project - Preliminary Assessment Update". J.H.Gray, P.Eng., R.J. Morris, M.Sc., P.Geo. and G.H. Giroux, M.A.Sc., P. Eng. were the Qualified Persons for that Report. The Qualified Person ("QP") pursuant to NI 43-101 for the updated preliminary economic assessment report is Jim Gray, P. Eng.

Efforts had commenced on the application for an underground development and exploration program at the New Polaris project in 2011 which was halted in February 2012, due to the lack of financial resources.

In July 2012 Canarc significantly reduced the estimated cost of the proposed work program to complete a feasibility study for commercial development of the New Polaris project from CAD\$26 million to approximately CAD\$9 million. Canarc previously planned a CAD\$26 million work program which included underground mine development in order to complete a feasibility study for the project. Under the revised program, the underground mine development work will be deferred to the post-feasibility mine development program. Instead, Canarc plans to carry out an additional 15,000 meters of infill core drilling in approximately 35 holes in order to provide sufficient measured and indicated resources for feasibility. About CAD\$4 million of the CAD\$9 million revised cost is related to drilling and the balance is related to permitting and engineering. The proposed work program to complete a feasibility study is subject to securing a partner for the project and/or financing.

In late September 2012, Canarc granted Canford a 120-day period of exclusivity to complete its due diligence and to execute an option agreement to earn up to a 51% interest in the New Polaris gold project in return for up to a CAD\$30 million investment in exploration and development of the property. Canarc was to be the manager of the project during the option period. Pursuant to an agreement to form a SMAP dated February 1, 2013, Canarc granted Canford a further 60-day period of exclusivity on the date on which Canarc was to close an acquisition opportunity subject to the execution of a formal SMAP agreement on or before March 1, 2013. However, in March 2013, no formal SMAP agreement was executed, and Canford was not able to commit or arrange financing for the proposed option and joint venture to develop the New Polaris gold project. Canarc continues to pursue alternative sources of financing and joint venture partner for the New Polaris project.

### *Other Mineral Projects*

The following projects are considered not material by the Registrant and are not compliant with NI 43-101 unless otherwise stated. There is currently no ongoing or proposed exploration or development programs for the properties set out below, other than as specifically stated.

#### *Tay-LP Property, Yukon, Canada*

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

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

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

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

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

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

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

David St. C. Dunn, P.Geo., and James Moors, P.Geo, who was Vice President Exploration of the Registrant at that time, were the Qualified Persons for the purposes of the technical disclosure on the Tay-LP property as set out in the Technical Report titled “2009 Diamond Drilling Program on the Tay-LP Property” dated March 30, 2010, prepared by David St. C. Dunn, P.Geo., and James G. Moors, PGeo (BC), who was Vice-President, Exploration, of the Registrant at that time (the “Tay-LP Technical Report”).

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The following information was extracted from, or includes accurate paraphrasings of, the executive summary, or other sections as indicated, from the Tay-LP Technical Report, the full copy of which is available online at [www.sedar.com](http://www.sedar.com) as filed on April 1, 2010. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Tay-LP Technical Report.

### *Property Description*

The Tay-LP project of Ross River Gold Ltd. is a gold exploration project, covering an area of approximately 8150 hectares, located in south-central Yukon near the Village of Ross River. The project comprises 413 mineral claims. The Tay-LP area was first staked, following a prospecting discovery in 1984. The property has since been explored intermittently by various companies for intrusion-related gold deposits. Gold is associated with pyrrhotite-dominant, quartz-sulphide veins and replacement zones hosted by folded Paleozoic meta-sedimentary rocks.

The 2009 exploration program was carried out between September 9th and September 25<sup>th</sup> and comprised 1868 metres of diamond drilling. Personnel included: one of the authors, James Moors, P.Geo., who was V.P. Exploration of Canarc Resource Corp. at that time; Robin S. Tolbert, Project Geologist; Lyle Hansen, Assistant Geologist; and core cutters Robert Smallwood and John Dicks of Atlin. Diamond drilling was performed by Hy-Tech Diamond Drilling of Smithers, B.C.

A road accessible tent camp located near the centre of the property was the base of operations.

The cost of field work and analysis on the property in 2009 was \$480,000.

Reserves or resources have not been calculated for the property.

The primary author was part of the 2003 Prospecting and Geochemical surveying program on the Tay-LP claims (Schmidt, U., 2004).

### *Summary*

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The Tay-LP project of Canarc Resource Corp. is a gold exploration project, covering an area of approximately 7575 hectares, located in south-central Yukon, approximately 50 km south of the Village of Ross River and 160 kilometres northeast of Whitehorse. The project comprises 410 contiguous mineral claims. Option agreements give Canarc the right to earn 100% of the property. The property is accessible by road during the summer months via the South Canol Road and a 20 km long dirt branch road.

The region surrounding the property is underlain by variably metamorphosed, folded and faulted Paleozoic miogeoclinal rocks of the Pelly-Cassiar Platform. They range in age from Late Proterozoic to Triassic and include miogeoclinal clastic, carbonate and volcanic rocks. They are considered North American in origin and were deformed during Mesozoic arc continent collision. These rocks have been intruded by mid-Cretaceous intrusions of intermediate composition.

Gold mineralization on the property is hosted by Cambro-Ordovician calcareous phyllite, marble and schist. Mineralization fits the intrusion-related epigenetic gold mineralization model of the "Tintina Gold Belt", based on gold-bismuth-tellurium chemistry, mineralogy, tectonic setting and age of intrusion. Mineralization occurs in structurally controlled veins and in replacement zones which parallel and in some cases cross-cut the dominant foliation. The exploration objective is to define sufficient structurally controlled or skarn style gold mineralization to support a profitable mine.

The 2009 program consisted of 10 drill holes totaling 1868 metres, drilled in 3 target areas. Results confirmed the presence and continuity of gold bearing structures. The total cost of the field program for 2009 was \$480,000.

It is recommended that a first phase of work including an airborne geophysical survey with more advanced systems than those utilized in the 1999 survey should be carried out. This survey will better and more accurately define the geology beneath the glacial overburden that covers the most prospective portions of the property.

Ground Max-Min geophysical surveys should also be carried out to extend the known anomalies and test for mineralization on the peripheries of the known intrusive bodies. This work is estimated to take six weeks to complete at a cost of \$252,328.

Following the interpretation of the surveys recommended in Phase 1, a second phase of work consisting of systematic drilling along strike and down dip of current pierce points that returned significant gold content and along the full range of Max-Min and aerially defined geophysical anomalies. This program should consist of at least 2,500 meters of diamond drilling and is estimated to take eight weeks to complete at a cost of \$504,000.

*Location Map*



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David St. C. Dunn, P.Geo., and James Moors, P.Geo, who was Vice President Exploration of the Registrant at that time, are the Qualified Persons for the Tay-LP Technical Report.

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

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Canarc completed the permitting process for exploration work at the Tay-LP property in 2012.

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

***Windfall Hills properties, British Columbia, Canada***

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

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

Canarc completed a Phase 1 exploration program on its Windfall Hills project which included detailed soil and rock geochemical sampling over known target areas in 2011. A total of 340 geochemical soil samples were collected on a 100 meter by 25 meter grid over the main 2.8 sq. km. prospect area. Two anomalies were delineated on the basis of multi-element geochemistry. Results of this work along with preliminary exploration work over the remainder of the claims will help define targets for drilling. In 2014, Canarc has developed a drilling program for 1,600 metres over 8 drill holes for the Windfall Hills project.

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

In May 2011, Canarc staked three gold properties, known as Devil's Thumb, totalling 17,175 hectares, which was located northeast of its Windfall Hills properties in central British Columbia. Canarc wrote-off the property in the third quarter of 2012.

**Eskay Creek property, British Columbia, Canada**

Canarc has a one-third carried interest in the Eskay Creek property which is located in the Skeena Mining Division, British Columbia, Canada. In fiscal 2005, Canarc elected to write-off the associated property costs, but continues to have a one-third carried interest in the Eskay Creek property.

***Sara Kreek Property, Suriname***

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

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable, except as noted in the Form 20-F.

In November 2013, the TSX has advised the Registrant that the TSX is reviewing the eligibility for continued listing on the TSX of the securities of the Registrant pursuant to Part VII of the Toronto Stock Exchange Company Manual. The Registrant is being reviewed under the Remedial Review Process and has been granted 120 days to comply with

all requirements for continued listing. Specifically the Registrant needs to comply with expenditures of CAD\$350,000 on exploration or development work on its mineral resource properties and with adequate working capital. If the Registrant cannot demonstrate that it satisfies all TSX requirements on or before March 10, 2014, the Registrant's securities will be delisted 30 days from such date. In February 2014, the Registrant had provided a submission to the TSX regarding budgeted exploration expenditures of CAD\$350,000 for its Windfall Hills property and in January 2014 closed a non-brokered private placement for CAD\$900,000. In March 2014, the TSX has extended its review of the eligibility of the common shares of the Registrant for continued listing for a period of 30 days. In April 2014, the TSX extended its review by another 30 days which was then extended by 60 days in May 2014.

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## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

Management's discussion and analysis in this Item 5 are intended to provide the reader with a review of factors that affected the Registrant's performance during the years presented and factors reasonably expected to impact on future operations and results. The following discussion of the financial condition, changes in financial condition and results of operations of the Registrant for the three fiscal years ended December 31, 2013, 2012 and 2011 should be read in conjunction with the consolidated financial statements of the Registrant and related notes included therein.

The Registrant's consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. IFRS 1 has been applied with an adoption date of January 1, 2011 and a transition date of January 1, 2010, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

### **5.A Operating Results**

In accordance with IFRS, 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 expenditures, net of any recoveries and write-downs.

The Registrant's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Registrant's liabilities as they become payable and for settlement of expenditures.

The Registrant is not aware of any seasonality in the business that has a material effect upon its financial condition, results of operations or cash flows. The Registrant is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

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*Fiscal Year 2013 – Year ended December 31, 2013 compared with December 31, 2012*

Canarc incurred a net loss of \$1.38 million for the year ended December 31, 2013 which is slightly higher than the net loss of \$1.21 million for fiscal 2012, whereas operating losses were lower in the current year. Net losses were impacted by different functional expense items.

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

Corporate development expenses were higher in the first quarter of 2013 than the same quarter in 2012. The equity financings in the latter half of fiscal 2012 and in January 2013 allowed some discretionary funds for Canarc to actively assess projects of merit. The impetus was also pre-empted by the SMAP arrangement between Canarc and Canford as Canarc intensified its efforts to identify acquisition opportunities which were to be debt financed by Canford and which arrangement ceased in March 2013. Corporate development expenses were negligible in the remaining quarters of 2013.

Remuneration for employees was lower in each quarterly period in 2013 relative to the comparable periods in 2012 due to reduction in staff personnel and the retirement of one director in the first half of 2013, as Canarc continued to evaluate gold projects for acquisition purposes and to seek possible partners for the New Polaris project. Similar effects occurred on a quarterly comparative basis for 2013. Exploration activities were nominal for Canarc's mineral exploration properties which were subject to financing, resulting in lower employee allocations to its various mineral property interests.

General and administrative expenses were lower in 2013 than in 2012 which were attributed to the reduced level of corporate activity for most of 2013 and for professional fees for audit. On a quarter by quarter basis for 2013, legal fees were higher in the second quarter due to higher legal fees in formalizing the engagement with Canford and the adoption of the advance notice policy for the nomination of directors. Office and sundry and rent reflect the ongoing minimalistic expenditures for ancillary office support facilities. Regulatory fees generally are higher earlier in the fiscal year due to sustaining and annual filing fees and annual general meeting. Canarc has reduced discretionary expenses due to limited cash resources.

Shareholder relations activities were higher in the early part of 2012 so as to promote greater awareness of the profile of Canarc and its portfolio of projects, especially the New Polaris project with its revised preliminary economic assessment which indicated conceptually the project's stronger financial viability due to heightened gold prices, and its other mineral property interests in Tay-LP and Windfall Hills. The focus of the shareholder relations program in 2012 was to expand the market awareness of Canarc and its base of shareholders, so as to allow Canarc to advance its New

Polaris project through a joint venture or strategic partnership. These efforts continued to attract expressions of interests in Canarc's New Polaris project, and would supplement the financial advisory services from Primary Capital in evaluating strategic alternatives to enhance shareholder value for Canarc in 2012. Also such activities provided the catalyst for the brokered private placement for CAD\$1.13 million with Canaccord as agent and with Canford as the single subscriber which became an Insider of Canarc by virtue of holding more than 10% of the issued and outstanding share capital of Canarc at the closing date of the financing in September 2012, and a 120-day period of exclusivity for Canford to complete its due diligence and to execute a property option agreement for Canford to earn up to a 51% interest in the New Polaris gold project in return for up to a CAD\$30 million investment in exploration and development of the property. This relationship between Canarc and Canford transitioned into a SMAP in February 2013 in which such relationship ended in March 2013. Shareholder relations activities subsided during 2013, given the ongoing market weaknesses and trend of gold prices at that time.

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Share-based payments were significantly lower in 2013 than in 2012. Fewer stock options vested or were subject to vesting provisions in the current year than in the prior year. Also the 1,460,000 stock options which were granted in June 2012 with an exercise price of CAD\$0.145 and an expiry date of June 18, 2017 will only vest when Canarc consummates a major transaction or at the discretion of its Board of Directors, and such stock options have not vested as at December 31, 2013. No probable likelihood of a material transaction was attributed to these June 2012 stock option grants, and therefore no share-based payments were recognized. The retirement of a director in June 2012 and June 2013 resulted in the forfeiture of unvested stock options which reduced share-based payments expense.

In 2013, Canarc recognized a gain of \$99,000 from writing off certain payables related to an exploration project which was written off in 2008.

Also in 2013, Canarc recognized a gain from writing off the provision for \$213,000 related to flow-through tax obligations. Canarc determined that it was improbable that the obligation would result in cash outlays.

The higher operating losses in 2012 were offset by the realized gain of \$77,000 from the disposition of available-for-sale securities. The disposition of Cap-Ex shares provided proceeds of CAD\$92,400 for working capital in the first quarter of 2012.

Interest expense was higher in 2012 from the compounding effects of interest accruals for existing and greater demand loans in 2012 and for the estimated flow through indemnity obligation from ineligible Canadian exploration expenditures for flow-through purposes. In fiscal 2012, Canarc arranged demand loans of \$358,000 from certain directors and an officer of Canarc, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. Demand loans which were outstanding in 2012 were settled in full in the fourth quarter of 2012. In fiscal 2013, Canarc received demand loans of \$126,000 from certain directors of Canarc, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. Interest expense in 2013 was accrued for the demand loans and for the estimated flow through indemnity obligation. In January 2014, Canarc repaid all principal and interest in full settlement of outstanding demand loans.

The appreciation of the US\$ relative to the CAD\$ had nominal impact on Canarc's net loss for 2013.

In fiscal 2013, Canarc wrote-down its investment in Aztec Metals Corp. (“Aztec”), a company with two common directors, to a nominal value of CAD\$100 due to the lack of liquidity of the shares of Aztec. There has been no quoted market value for the Aztec shares and such investment has in the past been recorded at cost. Canarc also wrote-off its receivable of \$52,000 from Aztec due to Aztec’s inability to raise adequate financing to repay its debts owed to Canarc.

In 2013, Canarc wrote-off the Tay LP property amounting to \$636,000, which contributed significantly to the higher net loss in comparison to 2012. Canarc wrote-off the Devil’s Thumb property in 2012.

As at December 31, 2013, Canarc has mineral property interests which are comprised of the following:

| (\$000s)                                       | British Columbia (Canada) |                | Devil's Thumb | Yukon (Canada) |          | Total |
|--|---------------------------|----------------|---------------|----------------|----------|-------|
|  | New Polaris               | Windfall Hills |               | Tay-LP         |          |       |
| <b>Acquisition Costs:</b>                      |                           |                |               |                |          |       |
| Balance, December 31, 2011                     | \$ 3,900                  | \$ 67          | \$ 6          | \$ 146         | \$ 4,119 |       |
| Additions                                      | -                         | 141            | -             | 25             | 166      |       |
| Adjustments from change in functional currency | 5                         | 2              | -             | 3              | 10       |       |
| Write-off                                      | -                         | -              | (6)           | -              | (6)      |       |
| Balance, December 31, 2012                     | 3,905                     | 210            | -             | 174            | 4,289    |       |
| Additions                                      | -                         | 212            | -             | -              | 212      |       |
| Foreign currency translation adjustment        | (13)                      | (14)           | -             | (11)           | (38)     |       |
| Write-off                                      | -                         | -              | -             | (163)          | (163)    |       |
| Balance, December 31, 2013                     | \$ 3,892                  | \$ 408         | \$ -          | \$ -           | \$ 4,300 |       |
| <b>Deferred Exploration Expenditures:</b>      |                           |                |               |                |          |       |
| Balance, December 31, 2011                     | \$ 8,285                  | \$ 106         | \$ 15         | \$ 423         | \$ 8,829 |       |
| Additions                                      | 118                       | 9              | 5             | 62             | 194      |       |
| Adjustments from change in functional currency | 240                       | 2              | 1             | -              | 243      |       |
| Write-off                                      | -                         | -              | (21)          | 10             | (11)     |       |
| Balance, December 31, 2012                     | 8,643                     | 117            | -             | 495            | 9,255    |       |
| Additions                                      | 17                        | (18)           | -             | 10             | 9        |       |
| Foreign currency translation adjustment        | (722)                     | (7)            | -             | (32)           | (761)    |       |
| Write-off                                      | -                         | -              | -             | (473)          | (473)    |       |
| Balance, December 31, 2013                     | \$ 7,938                  | \$ 92          | \$ -          | \$ -           | \$ 8,030 |       |

**Mineral property interests:**

|                            |    |        |    |     |    |   |    |     |    |        |
|----------------------------|----|--------|----|-----|----|---|----|-----|----|--------|
| Balance, December 31, 2012 | \$ | 12,548 | \$ | 327 | \$ | - | \$ | 669 | \$ | 13,544 |
| Balance, December 31, 2013 |    | 11,830 |    | 500 |    | - |    | -   |    | 12,330 |

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*Fiscal Year 2012 – Year ended December 31, 2012 compared with December 31, 2011*

Canarc incurred a net loss of \$1.2 million for the year ended December 31, 2012 which is comparable to the net loss of \$1.2 million in fiscal 2011, although operating losses were higher in the current year and net losses were impacted by different functional expense items.

Canarc has no sources of operating revenues. Operating losses continued to be incurred for ongoing activities of Canarc in seeking an appropriate joint venture partner for the New Polaris property and in pursuing new projects of merit.

Corporate development expenses were negligible in first three quarters of 2012 as cash constraints curtailed such efforts. The closing of the equity financing in September 2012 allowed Canarc to actively pursue due diligence efforts in a gold operating project in the fourth quarter, including site visits to the prospective project and to the New Polaris project with Canford. However these expenses were higher in 2011 which were attributable to the Relief Canyon project and the acquisition of an assay laboratory which was later disposed for full recovery of all out-of-pocket expenses. Corporate development activities in 2011 were successful in the acquisition of option interests in the Windfall Hills properties and the staking of additional properties nearby, as Canarc expanded its portfolio of strategic exploration projects in Canada during 2011.

Remuneration for employees was higher in 2012 as Canarc continued to evaluate gold projects for acquisition purposes and to seek possible partners for the New Polaris project. Exploration activities were lower in 2012 than in 2011 resulting in lower employee allocations to Canarc's various mineral exploration projects or conversely employee remuneration in operations would be higher. Increases in executive management compensation were in effect in mid-2011 to ensure key personnel retention which were determined to be competitive with comparable companies involved in mineral exploration in terms of relative size and status of projects.

General and administrative expenses were marginally lower in 2012 than 2011 as Canarc reduced discretionary expenses due to limited cash for most of 2012. In the first quarter of fiscal 2011, legal fees were incurred in Canarc's bid for the Relief Canyon project, its acquisition of the assay laboratory in February 2011 including all title and permitting issues and to its subsequent sale in May 2011, and due to the convertible debenture with Effisolar in February 2011 which was converted into common shares in March 2011. Certain of these costs in the first quarter of 2011 were later recovered when Canarc disposed of the assay laboratory in May 2011. As included in general and administrative expenses, legal services rendered were lower in 2012 as Canarc reduced in level of corporate activity which would necessitate legal services while regulatory expenses were higher from filing fees.

Shareholder relations activities increased in 2012 so as to promote greater awareness of the profile of Canarc and its portfolio of projects, especially the New Polaris project with its revised preliminary economic assessment which indicated conceptually the project's stronger financial viability due to heightened gold prices, and its other mineral property interests in Tay-LP and Windfall Hills. The focus of the shareholder relations program in 2012 was to expand the market awareness of Canarc and its base of shareholders, so as to allow Canarc to advance its New Polaris project through a joint venture or strategic partnership. These efforts continue to attract expressions of interests in Canarc's New Polaris project, and would supplement the financial advisory services from Primary Capital in evaluating strategic alternatives to enhance shareholder value for Canarc. Also such activities provided the catalyst for the brokered private placement for CAD\$1.13 million with Canaccord as agent and with Canford as the single subscriber which became an Insider of Canarc by virtue of holding more than 10% of the issued and outstanding share capital of Canarc at the closing date of the financing in September 2012, and a 120-day period of exclusivity for Canford to complete its due diligence and to execute a property option agreement for Canford to earn up to a 51% interest in the New Polaris gold project in return for up to a CAD\$30 million investment in exploration and development of the property. This relationship between Canarc and Canford transitioned into a SMAP in February 2013 in which such relationship ended in March 2013.

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Share-based payments were lower in 2012 than in 2011, mainly due to the 1,460,000 stock options which were granted in June 2012 with an exercise price of CAD\$0.145 and an expiry date of June 18, 2017. These stock options will only vest when Canarc consummates a major transaction or at the discretion of its Board of Directors, and such stock options have not vested as at December 31, 2012. No probable likelihood of a material transaction was attributed to these June 2012 stock option grants, and therefore no share-based payments were recognized. Also forfeiture of unvested stock options in June 2012 was from the retirement of a director which further reduced share-based payments.

The higher operating losses in 2012 were offset by the realized gain of \$77,000 from the disposition of available-for-sale securities. The disposition of Cap-Ex shares provided proceeds of CAD\$92,400 for working capital in the first quarter.

Interest expense was higher in 2012 than in 2011 from the compounding effects of interest accruals for existing and additional demand loans and for the estimated flow through indemnity obligation from ineligible Canadian exploration expenditures for flow-through purposes. During year ended December 31, 2012, the total principal of demand loans increased by \$358,000 thereby increasing interest expense for the current year as the demand loans bore the same interest rate. All demand loans were settled in full in the fourth quarter of 2012.

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

Canarc wrote-off its interest in the Devil's Thumb property in the third quarter of 2012.

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



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On February 22, 2011, Canarc renounced CAD\$4,761 in exploration expenditures for flow-through purposes, resulting in a deferred income tax recovery of \$1,200.

As at December 31, 2012, Canarc has mineral property interests which are comprised of the following:

| (\$000s)                                       | British Columbia (Canada) |                | Devil's Thumb | Yukon (Canada) |           | Total |
|--|---------------------------|----------------|---------------|----------------|-----------|-------|
|  | New Polaris               | Windfall Hills |               | Tay-LP         |           |       |
| <b>Acquisition Costs:</b>                      |                           |                |               |                |           |       |
| Balance, December 31, 2010                     | \$ 3,605                  | \$ -           | \$ -          | \$ 74          | \$ 3,679  |       |
| Additions                                      | -                         | 67             | 6             | 72             | 145       |       |
| Adjustments from change in functional currency | 295                       | -              | -             | -              | 295       |       |
| Balance, December 31, 2011                     | 3,900                     | 67             | 6             | 146            | 4,119     |       |
| Additions                                      | -                         | 141            | -             | 25             | 166       |       |
| Foreign currency translation adjustment        | 5                         | 2              | -             | 3              | 10        |       |
| Write-off                                      | -                         | -              | (6)           | -              | (6)       |       |
| Balance, December 31, 2012                     | \$ 3,905                  | \$ 210         | \$ -          | \$ 174         | \$ 4,289  |       |
| <b>Deferred Exploration Expenditures:</b>      |                           |                |               |                |           |       |
| Balance, December 31, 2010                     | \$ 8,660                  | \$ -           | \$ -          | \$ 385         | \$ 9,045  |       |
| Additions                                      | 166                       | 106            | 15            | 48             | 335       |       |
| Adjustments from change in functional currency | (541)                     | -              | -             | (10)           | (551)     |       |
| Balance, December 31, 2011                     | 8,285                     | 106            | 15            | 423            | 8,829     |       |
| Additions                                      | 118                       | 9              | 5             | 62             | 194       |       |
| Foreign currency translation adjustment        | 240                       | 2              | 1             | 10             | 253       |       |
| Write-off                                      | -                         | -              | (21)          | -              | (21)      |       |
| Balance, December 31, 2012                     | \$ 8,643                  | \$ 117         | \$ -          | \$ 495         | \$ 9,255  |       |
| <b>Mineral property interests:</b>             |                           |                |               |                |           |       |
| Balance, December 31, 2011                     | \$ 12,185                 | \$ 173         | \$ 21         | \$ 569         | \$ 12,948 |       |
| Balance, December 31, 2012                     | 12,548                    | 327            | -             | 669            | 13,544    |       |

**Environmental Liabilities**

The Registrant's policy is to maintain all operations at North American standards, notwithstanding that certain of the countries within which it may operate may not yet have fully developed such standards in respect to environmental concerns. In accordance with government requirements in Canada, refundable deposits of CAD\$250,000 have been placed with regulatory agencies in respect to the Registrant's New Polaris gold property in British Columbia. There are no known environmental contingencies in respect to these or any of the other Registrant's mineral property interests.

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### *Critical Accounting Policies*

For the Registrant's exploration activities, there is no product, sales or inventory in the conventional sense. The recoverability of costs capitalized to mineral property interests and the Registrant's future financial success are dependent upon the extent to which it can discover mineralization and the economic viability of advancing such mineral property interests beyond the exploration stage. Such activities may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors are outside of the Registrant's control. The sales value of any mineralization discovered by the Registrant is largely dependent upon factors beyond the Registrant's control such as the market value of the metals.

As the carrying value and amortization of mineral property interests and capital assets are, in part, related to the Registrant's mineral reserves, the estimation of such reserves is significant to the Registrant's position and results of operations. As of the date of this annual report, the Registrant has not established any reserves on its mineral property interests.

In accordance with an acceptable accounting policy under IFRS, 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 interest 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 mineral property interest being carried out by the Registrant or its partners or when a property interest is abandoned or when the capitalized costs are not considered to be economically recoverable, the related mineral property costs are written down to the amount recoverable. The amounts for mineral property interests as shown in the Registrant's consolidated financial statements represent costs incurred to date, less write-downs and any recoveries, and are not intended to reflect present or future values.

The Registrant accounts for share-based payments using a fair value-based method with respect to all stock-based payments to directors, employees and non-employees. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from reserve for share-based payments to deficit.

*Canarc Resource Corp.* 54 ***Form  
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## 5.B Liquidity and Capital Resources

The Registrant is in the exploration 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 Registrant to obtain the necessary financing to complete the development and upon future profitable production. The Registrant knows of no trends, demands, commitments, events or uncertainties that may result in the Registrant's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Registrant's liquidity are substantially determined by the success or failure of the Registrant's exploration programs and overall market conditions for smaller mineral exploration companies. Since its incorporation in 1987, the Registrant has endeavoured to secure mineral property interests that in due course could be brought into production to provide the Registrant with cash flow which would be used to undertake work programs on other projects. To that end, the Registrant 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 Registrant 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 Canarc's liquidity:

| (in \$000s)                  | December 31,<br>2013 | 2012     |
|------------------------------|----------------------|----------|
| Cash                         | \$ 50                | \$ 170   |
| Working capital (deficiency) | \$ (921)             | \$ (589) |

Canarc has no sources of operating revenues, and ongoing operating expenses continue to reduce its cash resources and working capital. Operating losses continued to be incurred for ongoing activities of Canarc in seeking an appropriate joint venture partner for the New Polaris property and in pursuing new projects of merit.

In January and February 2012, Canarc disposed its interest in Cap-Ex shares which provided proceeds of CAD\$92,400 for working capital.

On September 28, 2012, Canarc closed a brokered private placement with Canaccord acting as the agent for 11.3 million units at a price of CAD\$0.10 per unit for gross proceeds of CAD\$1.13 million, with each unit comprised of one common share and one transferrable common share purchase warrant. Each whole warrant is exercisable for a

period of 36 months at a price of CAD\$0.15 per share during the initial period of 24 months until September 28, 2014, and at CAD\$0.20 per share for the remaining 12 months until September 28, 2015. The warrants are subject to an accelerated expiry whereby if after January 29, 2013, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading days, Canarc will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice. Agent's fees are comprised of a cash commission of CAD\$90,400 plus 904,000 agent's warrants with the identical terms as the underlying warrants in the unit private placement and a corporate finance fee of CAD\$37,500. Canarc is the sole subscriber in the private placement and had become an insider of Canarc by virtue of holding more than 10% of the issued and outstanding share capital of Canarc at that time.

*Canarc Resource Corp.* 55 *Form*  
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In fiscal 2012, Canarc received proceeds of CAD\$35,600 from the exercise of stock options for 346,000 common shares.

In fiscal 2012, Canarc arranged demand loans of \$358,000 from certain directors and an officer of the Company. These loans were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In October and December 2012, the Company repaid all principal and interest in full settlement of outstanding demand loans.

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

In 2013, stock options for 769,000 common shares were exercised for proceeds of CAD\$77,800. Also stock options for 700,000 common shares were cancelled for the exercise of share appreciation rights for 207,024 common shares.

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

The working capital deficiency of \$921,000 at December 31, 2013 includes demand loans of \$131,000 which were fully settled in January 2014.

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At December 31, 2013, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

|  | Number of<br>Shares |
|--|---------------------|
| New Polaris:                             |                     |
| Net profit interest reduction or buydown | 150,000             |
|  | 150,000             |

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

Canarc has entered into a number of option agreements for mineral property interests that involve payments in the form of cash and/or shares of Canarc as well as minimum exploration expenditure requirements. Under Item 5.F, further details of contractual obligations are provided as at December 31, 2013.

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

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

Canarc's ability to continue as a going concern is dependent on the ability of Canarc to raise debt or equity financings, and the attainment of profitable operations. Management would need to raise the necessary capital to meet its planned

business objectives.

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Canarc will continue to rely upon equity financing as its principal source of financing its projects and its ongoing working capital needs.

### **5.C Research and Development, Patents and Licenses, etc.**

The Registrant does not currently carry out research and development activities.

Items 4.A, 4.D, 5.A and 5.F provide details of the Registrant's mineral property interests, exploration activities, acquisitions and write-downs.

### **5.D Trend Information**

The Registrant knows of no trends, demand, commitments, events or uncertainties that are reasonably likely to have a material effect on the Registrant's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources or that would cause financial information not necessarily to be indicative of future operating results or financial condition, other than disclosed or inferred in this Form 20-F.

The Registrant currently has no active business operations that would be affected by recent trends in productions, sales, etc. The Registrant has no material net sales or revenues that would be affected by recent trends other than the general effect of mineral prices on its ability to raise capital and those other general economic items as set out in Item 3.D.

### **5.E Off-Balance Sheet Arrangements**

There are no known significant or material off-balance sheet arrangements other than those disclosed in this Form 20-F and in the Registrant's audited consolidated financial statements for the years ended December 31, 2013, 2012 and 2011.

*Shareholder Rights Plan*

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On May 31, 2005, the shareholders of the Registrant approved a shareholder rights plan (the “Plan”), that became effective on April 30, 2005. The Plan is intended to ensure that any entity seeking to acquire control of the Registrant makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan’s adoption was issued one Right for each common share of the Registrant held. Each Right entitles the registered holder thereof, except for certain “Acquiring Persons” (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Registrant. The Rights expire on April 30, 2015. Item 10.B provides further details.

*Share Appreciation Rights*

At the discretion of the Board, certain stock option grants provide the stock 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.

**5.F Tabular Disclosure of Contractual Obligations**

As the Registrant performs exploration on its mineral property interests, it decides which ones to proceed with and which ones to abandon. Accordingly, the minimum expenditure commitments are reduced as the Registrant narrows its interests. To fully exercise the options under various agreements for the acquisition of interests in properties located in Canada, the Registrant must incur exploration expenditures on the properties and make payments to the optionors as follows as at December 31, 2013:

|                 | Payments due by Period<br>(CAD\$000s) |                        |           |           |                         | Payments due by Period<br>(US\$000s) |                        |           |           |                         | A<br>C<br>(\$ |      |
|-----------------|---------------------------------------|------------------------|-----------|-----------|-------------------------|--------------------------------------|------------------------|-----------|-----------|-------------------------|---------------|------|
|                 | Total                                 | Less<br>than<br>1 year | 1-3 years | 3-5 years | More<br>than<br>5 years | Total                                | Less<br>than<br>1 year | 1-3 years | 3-5 years | More<br>than<br>5 years |               |      |
| New<br>Polaris: | \$                                    | - \$                   | - \$      | - \$      | - \$                    | - \$                                 | - \$                   | - \$      | - \$      | - \$                    | - \$          | - \$ |

Net profit  
interest  
reduction  
or  
buydown

Total      \$      - \$      - \$      - \$      - \$      - \$      - \$      - \$      - \$      - \$      - \$

These amounts may be reduced in the future as the Registrant determines which properties continue to be of merit and abandons those with which it does not intend to proceed.

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Pursuant to the terms of the LOI, Canarc and Pan American would negotiate an interim loan facility whereby Canarc would lend Pan American up to a total of \$250,000 prior to closing of the Transaction. In May 2014, as a result of its due diligence, Canarc terminated the LOI with Pan American. Item 4.A provides further details.

## 5.G Safe Harbor

This document may contain forward-looking statements. See “Caution – Forward-Looking Statements” at the beginning of this annual report. The Registrant desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all forward-looking statements. Several important factors, in addition to the specific factors discussed in connection with such forward-looking statements individually, could affect the future results of the Registrant and could cause those results to differ materially from those expressed in the forward-looking statements contained herein.

The Registrant’s estimated or anticipated future results or other non-historical facts are forward-looking and reflect the Registrant’s current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified, and consequently actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others:

- risks related to our exploration and development activities;
- risks related to the ongoing financing of our planned operations;
- risks related estimates of mineral deposits;
- risks related to fluctuations in mineral prices;
- risks related to the title of our properties;
- risks related to the highly competitive mineral exploration and mining industry;
- risks related to potential conflicts of interest with our officers and directors;
- risks related to environmental and regulatory requirements;
- risks related to foreign currency fluctuations;
- risks related to the Registrant’s possible status as a passive foreign investment company;
- risks related to the volatility of the Registrant’s common stock; and
- risks related to the possible dilution of the Registrant’s common stock,

as well as other risks and uncertainties detailed in this report and from time to time in the Registrant's other SEC filings.

Therefore, the Registrant cautions each reader of this document to consider carefully these factors as well as the specific factors that may be discussed with each forward-looking statement in this document or disclosed in the Registrant's filings with the SEC as such factors, in some cases, could affect the ability of the Registrant to implement its business strategy and may cause actual results to differ materially from those contemplated by the statements expressed therein. Forward-looking statements are subject to a variety of risks and uncertainties including, but not limited to, the risks referred under the section "Risk Factors" under Item 3.D above.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.A Directors and Senior Management

In accordance with the provisions of the *Business Corporations Act (British Columbia)* the overall control of the business and affairs of the Registrant is vested in its board of directors. The board of directors of the Registrant currently consists of four members elected by the shareholders of the Registrant at each annual meeting of shareholders of the Registrant.

The directors and senior management of Canarc as of April 28, 2014 are:

| <i>Name and</i>                                |   | <i>Current Position with the Registrant and Period of Service</i> |
|--|---|---|
| <i>Province/State and Country of Residence</i> | <i>Principal Occupation and Occupation during the Past 5 Years <sup>(1)</sup></i> |   |
| COOKE, Bradford                                | Chairman and Director of Canarc Resource Corp.                                    | Chairman and Director of Canarc Resource Corp.                    |
| British Columbia, Canada                       | (since January 22, 1987);<br>Chief Executive Officer                              | (since January 22, 1987)  |



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(from January 22, 1987 to January 13, 2014);

President of Canarc Resource Corp.

(from January 22, 1987 to January 1, 2006);

Chief Executive Officer and Director of Endeavour Silver Corp.

(since July 25, 2002).

President and Chief Operating Officer of Canarc Resource Corp.

**BRIED, Bruce** <sup>(2)</sup>

(from February 15, 2007 to May 31, 2008);

Director

British Columbia, Canada

Vice-President, Mining, for Endeavour Silver Corp.

(since June 1, 2008)

(from March 2005 to February 2007)

Chief Financial Officer of Cap-Ex Iron Ore Ltd.

(since July 11, 2013);

Director and Chief Financial Officer of Tinkerine Studio Ltd.

(since Feb. 2014);

**BURIAN, Martin** <sup>(2)</sup>

Director of Alberta Star Development Corp.

Director

British Columbia, Canada

(since June 14, 2013);

(since November 1, 2013)

Managing Director of Investment Banking for Haywood Securities Inc.

(from Nov. 2010 to May 2013);

President (from July 2009 to Oct. 2010) and Vice-President (from July 2005 to July 2009) Corporate Finance of Bolder Investment Partners

**HARRIS, Leonard** <sup>(2)</sup>

Retired

Director

Colorado, U.S.A.

**CHILOFLISCHI,  
Catalin**

Director of Corporate Communications for Aurcana Corporation

(since June 5, 2001)

Chief Executive Officer

(since January 13, 2014)

British Columbia, Canada

(from September 2012 to December 2013);

Manager/Director of Investor Communications for Selwyn Resources Corp.

(from July 2010 to September 2012);

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Senior Analyst for Northwest & Ethical Investments

(from August 2004 to July 2010)

Vice-President, Mining, of Canarc Resource Corp.

**BILES, Garry**

(from March 1, 2007 to May 31, 2008);

President and Chief Operating Officer

British Columbia, Canada General Manager of Glencairn Gold Corp.

(since June 1, 2008)

(from April 2005 to January 2007)

**LOCKWOOD, Stewart**

Secretary

British Columbia, Canada

Barrister & Solicitor, Vector Corporate Finance Lawyers

(since 1994)

Manager (Investor Relations) of Canarc Resource Corp.

**WILSON, Gregg**<sup>(3)</sup>

(from January 2000 to May 2011);

Vice-President (Investor Relations)

British Columbia, Canada

Vice-President and/or Manager of Investor Relations of Caza Gold Corp.

(since June 2011)

(since June 2008)

Chief Financial Officer, Vice-President (Finance) and Director of Caza Gold Corp.

(since November 2007);

Chief Financial Officer and Vice-President (Finance) of Parallel Resources Ltd.

**YEE, Philip**

(since November 2009 to October 2011);

Chief Financial Officer and Vice-President (Finance)

British Columbia, Canada Finance Manager and/or Controller for Canarc Resource Corp.

(since June 2005)

(from May 2003 to June 2005);

Chief Financial Officer, Finance Manager and/or Controller for Endeavour Silver Corp.

(from May 2003 to February 2007)

<sup>(1)</sup> Unless otherwise stated above, each of the above-named persons has held the principal occupation or employment indicated for at least five years.

<sup>(2)</sup>

Members of the Audit Committee.

<sup>(3)</sup> Mr. Gregg Wilson retired as Vice-President (Investor Relations) effective April 30, 2014.

No director or officer has any family relationship with any other director or officer. The term of office of each of the directors will continue until the next annual general meeting, or until his successor is duly elected, unless his office is vacated in accordance with the articles of the Registrant. Officers hold office at the pleasure of the directors.

To the best of the Registrant's knowledge, there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of the Registrant's officers or directors was selected as an officer or director of the Registrant.

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**6.B Compensation**

**Statement of Executive Compensation**

The Registrant is required, under applicable securities legislation in Canada, to disclose to its shareholders details of compensation paid to its directors and officers. The following fairly reflects all material information regarding compensation paid to the Registrant's directors and officers that has been disclosed to the Registrant's shareholders under applicable Canadian law.

During the fiscal period ended December 31, 2013, the aggregate compensation incurred by the Registrant to all individuals who were directors and officers, at the time of their remuneration, in all capacities as a group was CAD\$535,539.

The table below discloses information with respect to executive compensation paid by the Registrant to its directors and officers for the fiscal year ended December 31, 2013. The following table sets forth, for the periods indicated, the compensation of the directors and officers.

**SUMMARY OF COMPENSATION**

**PAID TO DIRECTORS AND OFFICERS**

(in terms of Canadian dollars)

| <b>Name and principal position</b> | <b>Year Salary<sup>(1)</sup></b><br>(\$) | <b>Share-based awards<sup>(2)</sup></b><br>(\$) | <b>Option-based awards<sup>(2)</sup></b><br>(\$) | <b>Non-equity incentive plan compensation<sup>(3)</sup></b><br>(\$) | <b>Pension value<sup>(5)</sup></b><br>(\$) | <b>All other compensation<sup>(6)</sup></b><br>(\$) | <b>Total compensation<sup>(7)</sup></b><br>(\$) |
|------------------------------------|--|---|--|---|--|---|---|
|                                    |  |   |  | <b>Annual Incentive plans<sup>(3)</sup></b>                         |  |   |   |
|                                    |  |   |  | <b>Long-term Incentive plans<sup>(4)</sup></b>                      |  |   |   |

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|  |      |           |     |          |     |     |     |                          |           |
|--|------|-----------|-----|----------|-----|-----|-----|--------------------------|-----------|
| <b>Bradford J. Cooke</b> <sup>(8)</sup>                      | 2013 | \$18,511  | Nil | \$31,639 | Nil | Nil | Nil | \$8,000                  | \$58,150  |
|  | 2012 | \$35,290  | Nil | \$3,860  | Nil | Nil | Nil | \$8,000                  | \$47,150  |
| Director,<br>Chairman and<br>former CEO                      | 2011 | \$35,843  | Nil | \$40,466 | Nil | Nil | Nil | \$8,000                  | \$84,309  |
| <b>Leonard Harris</b>  | 2013 | Nil       | Nil | \$12,656 | Nil | Nil | Nil | \$8,000                  | \$20,656  |
|  | 2012 | Nil       | Nil | \$3,860  | Nil | Nil | Nil | \$8,000                  | \$11,860  |
| Director   | 2011 | Nil       | Nil | \$18,321 | Nil | Nil | Nil | \$8,000                  | \$26,321  |
| <b>Martin Burian</b> <sup>(9)</sup>                          | 2013 | Nil       | Nil | Nil      | Nil | Nil | Nil | \$1,326                  | \$1,326   |
|  | 2012 | N/A       | N/A | N/A      | N/A | N/A | N/A | N/A                      | N/A       |
| Director   | 2011 | N/A       | N/A | N/A      | N/A | N/A | N/A | N/A                      | N/A       |
| <b>Bruce Bried</b>   | 2013 | Nil       | Nil | \$12,656 | Nil | Nil | Nil | \$8,000                  | \$20,656  |
|  | 2012 | Nil       | Nil | \$3,860  | Nil | Nil | Nil | \$8,000                  | \$11,860  |
| Director   | 2011 | Nil       | Nil | \$18,321 | Nil | Nil | Nil | \$8,000                  | \$26,321  |
| <b>Garry D. Biles</b>  | 2013 | \$201,095 | Nil | \$25,311 | Nil | Nil | Nil | Nil                      | \$226,406 |
|  | 2012 | \$210,953 | Nil | \$3,860  | Nil | Nil | Nil | Nil                      | \$214,813 |
| President and<br>COO   | 2011 | \$199,480 | Nil | \$30,186 | Nil | Nil | Nil | Nil                      | \$229,666 |
| <b>James Moors</b> <sup>(10)</sup>                           | 2013 | \$40,117  | Nil | \$6,328  | Nil | Nil | Nil | Nil                      | \$46,445  |
|  | 2012 | \$130,241 | Nil | Nil      | Nil | Nil | Nil | Nil                      | \$130,241 |
| Former<br>Vice-President,<br>Exploration                     | 2011 | \$103,734 | Nil | \$22,030 | Nil | Nil | Nil | Nil                      | \$125,764 |
| <b>Gregg Wilson</b> <sup>(11)</sup>                          | 2013 | \$90,178  | Nil | \$6,328  | Nil | Nil | Nil | Nil                      | \$96,506  |
|  | 2012 | \$90,391  | Nil | Nil      | Nil | Nil | Nil | Nil                      | \$90,391  |
| Former<br>Vice-President,<br>Investor<br>Relations           | 2011 | \$36,958  | Nil | \$18,533 | Nil | Nil | Nil | Nil                      | \$55,491  |
| <b>Stewart Lockwood</b>                                      | 2013 | Nil       | Nil | \$6,328  | Nil | Nil | Nil | \$69,435 <sup>(12)</sup> | \$75,763  |
|  | 2012 | Nil       | Nil | Nil      | Nil | Nil | Nil | \$82,264 <sup>(12)</sup> | \$82,264  |
| Secretary  | 2011 | Nil       | Nil | \$12,665 | Nil | Nil | Nil | \$71,375 <sup>(12)</sup> | \$84,040  |
| <b>Philip Yee</b>  | 2013 | \$90,877  | Nil | \$18,984 | Nil | Nil | Nil | Nil                      | \$109,861 |
|  | 2012 | \$124,709 | Nil | Nil      | Nil | Nil | Nil | Nil                      | \$124,709 |
| Chief Financial<br>Officer and<br>Vice-President,<br>Finance | 2011 | \$91,339  | Nil | \$25,316 | Nil | Nil | Nil | Nil                      | \$116,655 |

Notes:

- (1) Includes the dollar value of cash and non-cash base salary earned during a financial year covered. The amount represents the fair value, on the date of grant and on each vesting date, as applicable, of awards made under the Company's Stock Option Plan. The grant date fair value has been calculated using the Black Scholes Option Pricing Model in accordance with IFRS.
- (2) These amounts include annual non-equity incentive plan compensation, such as bonuses and discretionary amounts for the year ended December 31, 2013.
- (3) (4) N/A.  
(5) N/A.
- (6) These amounts cover all compensation other than amounts already set out in the table for the year ended December 31, 2013 and include directors fees, as applicable, and annual bonuses for prior year's performance, if any.
- (7) These amounts include dollar value of total compensation for the covered year. This is the sum of all amounts reported in columns with footnotes 1 to 6 above for each director and officer.
- (8) Mr. Bradford Cooke resigned as Chief Executive Officer effective January 13, 2014 but remain Chairman and Director.
- (9) Mr. Martin Burian was nominated to the Board of Directors effective November 1, 2013.
- (10) Mr. James Moors retired as Vice-President of Exploration effective January 31, 2014.
- (11) Mr. Gregg Wilson retired as Vice-President of Investor Relations effective April 30, 2014.

- (12) Legal fees charged to Canarc by a law firm in which Mr. Stewart Lockwood is a partner.

Item 10.C provides further details of employment contracts and agreements with current and former senior officers of the Registrant.

The following table sets forth information concerning outstanding stock options under the Registrant's Stock Option Plan as at December 31, 2013 to each director and officer of the Registrant. No SARs were outstanding.

***Options and Stock Appreciation Rights ("SARs")***

The following table discloses incentive stock options which were granted to directors and officers during the fiscal year ended December 31, 2013:

**SUMMARY OF STOCK OPTIONS**

**GRANTED TO DIRECTORS AND OFFICERS**

**From January 1, 2013 to December 31, 2013**

| <i>Name and<br/>Principal Position</i>   | <i>Date of<br/>Grant</i> | <i>Title of Underlying<br/>Security</i> | <i>Number of<br/>Underlying<br/>Security</i> | <i>Exercise Price per<br/>Share<br/>(CAD\$)</i> | <i>Expiry<br/>Date</i> |
|--|--------------------------|---|--|---|------------------------|
| <b>Bradford J. Cooke</b> <sup>(1)</sup><br>Chief Executive Officer, Chairman<br>and Director | June 26,<br>2013         | Common shares                           | 500,000                                      | \$0.08  | June 26,<br>2018       |
| <b>Leonard Harris</b><br>Director  | June 26,<br>2013         | Common shares                           | 200,000                                      | \$0.08  | June 26,<br>2018       |

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|  |                  |               |         |        |                  |
|--|------------------|---------------|---------|--------|------------------|
| <b>Bruce Bried</b><br>Director   | June 26,<br>2013 | Common shares | 200,000 | \$0.08 | June 26,<br>2018 |
| <b>Garry Biles</b><br>President and Chief Operating Officer                  | June 26,<br>2013 | Common shares | 400,000 | \$0.08 | June 26,<br>2018 |
| <b>James Moors</b> <sup>(2)</sup><br>Vice-President, Exploration             | June 26,<br>2013 | Common shares | 100,000 | \$0.08 | June 26,<br>2018 |
| <b>Stewart Lockwood</b><br>Secretary   | June 26,<br>2013 | Common shares | 100,000 | \$0.08 | June 26,<br>2018 |
| <b>Gregg Wilson</b> <sup>(3)</sup><br>Vice-President (Investor Relations)    | June 26,<br>2013 | Common shares | 100,000 | \$0.08 | June 26,<br>2018 |
| <b>Philip Yee</b><br>Chief Financial Officer and<br>Vice-President (Finance) | June 26,<br>2013 | Common shares | 300,000 | \$0.08 | June 26,<br>2018 |

Notes: (1) Mr. Bradford Cooke resigned as Chief Executive Officer effective January 13, 2014 but remains Chairman and Director.

(2) Mr. James Moors retired as Vice-President of Exploration effective January 31, 2014.

(3) Mr. Gregg Wilson retired as Vice-President of Investor Relations effective April 30, 2014.



At the discretion of the directors, certain option grants provide the holder with 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.

For the 2013 fiscal year, stock options for 200,000 common shares were cancelled for the exercise of share appreciation rights for 51,852 common shares which were exercised by stock option holders who were a director or an officer of the Registrant at the time of exercise.

### ***Pension Plan***

The Registrant does not have any pension plan arrangements in place.

### ***Report on Executive Compensation***

The Registrant's executive compensation program is administered by the Compensation Committee on behalf the board of directors (the "Board").

#### Compensation of Directors

Bradford J. Cooke, the former Chief Executive Officer and a Director of Canarc, received compensation as consideration for his duties as an operating officer of Canarc as disclosed in the Summary Compensation Table above; Mr. Cooke resigned as Chief Executive Officer on January 13, 2014 but remains Chairman and a Director.

At a Compensation Committee meeting held on March 22, 2013, it was resolved that each director shall earn a remuneration of CAD\$2,000 per quarter as compensation in his capacity as a director for fiscal 2013 and such remuneration shall continue to be accrued.

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During the fiscal year ended December 31, 2013, Canarc granted stock options to directors, including a director who was a senior officer at the time of grant, for up to 900,000 common shares. These stock options have an exercise price of CAD\$0.08 and an expiry date of June 26, 2018, and are subject to vesting provisions in which 20% of the stock options vest on grant date and 20% vest every six months thereafter.

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### *Executive Compensation Program*

The Registrant's executive compensation program is based on a pay for performance philosophy. The executive compensation program is designed to encourage, compensate and reward employees on the basis of individual and corporate performance, both in the short and the long term. Base salaries are set at levels which are competitive with the base salaries paid by companies within the mining industry having comparable capitalization to that of the Registrant, thereby enabling the Registrant to compete for and retain executives critical to the Registrant's long term success. Incentive compensation is directly tied to corporate and individual performance. Share ownership opportunities are provided to align the interests of executive officers with the longer term interests of shareholders.

Compensation for directors and officers, as well as for executive officers as a whole, consists of a base salary, along with annual incentive compensation in the form of an annual bonus, and a longer term incentive in the form of stock options. As an executive officer's level of responsibility increases, a greater percentage of total compensation is based on performance (as opposed to base salary and standard employee benefits) and the mix of total compensation shifts towards stock options, thereby increasing the mutuality of interest between executive officers and shareholders.

No funds were set aside or accrued by the Registrant or its subsidiaries during the year ended December 31, 2013 to provide pension, retirement or similar benefits for directors or officers of the Registrant pursuant to any existing plan provided or contributed to by the Registrant or its subsidiaries under applicable Canadian laws.

### *Base Salary*

The Board approves ranges for base salaries for employees at all levels of the Registrant based on reviews of market data from peer groups and industry in general. The level of base salary for each employee within a specified range is determined by the level of past performance, as well as by the level of responsibility and the importance of the position to the Registrant.

The Registrant's Chief Executive Officer prepares recommendations for the Compensation Committee which are then presented to the Board with respect to the base salary to be paid to the CEO and other senior executive officers. The CEO's recommendations for base salaries for the senior executive officers, including the Chief Executive Officer, President and Chief Operating Officer, Vice-President of Exploration, Vice-President of Investor Relations, and the Chief Financial Officer, are then submitted for approval by the Board by the Compensation Committee.

### *Bonus*

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The Board annually evaluates performance and allocates an amount for payment of bonuses to executive officers and senior management. The aggregate amount for bonuses to be paid will vary with the degree to which targeted corporate performance was achieved for the year. The individual performance factor allows the Registrant effectively to recognize and reward those individuals whose efforts have assisted the Registrant to attain its corporate performance objective.

The CEO prepares recommendations for the Board with respect to the bonuses to be paid to the executive officers and to senior management.

No bonuses were distributed nor paid to executive officers and senior management of Canarc in the 2011, 2012 and 2013 fiscal years.

#### *Stock Options*

A Stock Option Plan is administered by the Board. The Stock Option Plan is designed to give each option holder an interest in preserving and maximizing shareholder value in the longer term, to enable the Registrant to attract and retain individuals with experience and ability, and to reward individuals for current performance and expected future performance. The Board considers stock option grants when reviewing executive officer compensation packages as a whole.

During the fiscal year ended December 31, 2013, Canarc granted stock options to senior officers, excluding senior officers who are directors and including those who were senior officers at the time of grant, for up to 1,000,000 common shares. These stock options have an exercise price of CAD\$0.08 and an expiry date of June 26, 2018, and are subject to vesting provisions in which 20% of the stock options vest on grant date and 20% vest every six months thereafter.

#### *Other Compensation*

Bradford J. Cooke, formerly CEO and who remains Chairman and Director of Canarc, is a party to an employment arrangement with Endeavour Silver Corp., a company in which Mr. Cooke is a Director, ("Endeavour") whereby Endeavour is reimbursed by Canarc for time spent by Mr. Cooke on a cost recovery basis. There are no specific terms relating to severance or notice beyond what may be provided by statute or common law. During the financial year ended December 31, 2013, Canarc incurred CAD\$18,511 (2012 - CAD\$35,290 and 2011 - CAD\$35,843) in salary paid or payable to Endeavour for services rendered by Mr. Cooke to Canarc. Mr. Bradford Cooke resigned as Chief Executive Officer of Canarc effective January 13, 2014 but remain its Chairman and Director.

Directors' and Officers' Liability Insurance

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In fiscal 2013, Canarc acquired an insurance policy for itself and its directors and officers against liability incurred by them in the performance of their duties as directors and officers of the Registrant. The policy has a CAD\$1,000,000 limit of liability, retentions ranging from CAD\$nil to CAD\$50,000, and a policy period from January 1, 2013 to January 1, 2014 for a premium of CAD\$16,500. The insurance was renewed for a term from January 1, 2014 to January 1, 2015 for a premium of CAD\$14,000.

### ***Performance Graph***

#### *Shareholder Return Performance Graph*

The graph below compares the yearly percentage change in the cumulative total shareholder return on the Registrant's common shares against the cumulative total shareholder return of the TSX 300 Total Return Index for the period commencing December 31, 2008 and ending December 31, 2013.

Comparison of Total Shareholder Return on Common Shares

of the Registrant and the Toronto Stock Exchange Index

(based on Canadian Funds)

The graphs assume that the initial value of the investment on the TSX in the Registrant's common shares and in the indice was \$100 on the initial date.

## 6.C Board Practices

### *Statement of Corporate Governance Practices*

The Registrant is required to report annually to its shareholders on its corporate governance practices and policies with reference to National Policy 58-201, *Corporate Governance Guidelines* (the “Policy”) and National Instrument 58-101, *Disclosure of Corporate Governance Practices*, as adopted by the Canadian Securities Administrators, and effective June 30, 2005.

#### The Board of Directors

The Board currently consists of four directors, of which three directors (Martin Burian, Bruce Bried and Leonard Harris) are currently “independent” in the context of the Policy. Bradford J. Cooke is not an independent director because he was the Chief Executive Officer of Canarc until his resignation on January 13, 2014 but remains its Chairman and Director.

Certain directors of the Registrant are presently directors of other issuers that are reporting issuers (or the equivalent) in any jurisdiction including foreign jurisdictions, as follows:

#### **Director**

Bradford Cooke

Martin Burian

Leonard Harris

Bruce Bried

#### **Other Reporting Issuers**

Endeavour Silver Corp.

Tinkerine Studios Ltd.  
Cap-Ex Iron Ore Ltd.  
Alberta Star Development Corp.

Coronet Metals Inc.  
Cardero Resource Corp.  
Abzu Gold Ltd.  
Standard Tolling Corp.  
Solitario Exploration & Royalty Corp.  
Wealth Minerals Ltd.

International Montoro Resources Inc.



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The independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. However, during the course of a directors' meeting, if a matter is more effectively dealt with without the presence of members of management, the independent directors ask members of management to leave the meeting, and the independent directors then meet.

Bradford J. Cooke is the Chairman of the Board of Directors of Canarc. Martin Burian, as an independent director, was appointed the Lead Director of the Board, with the mandate to ensure that the Board's Agenda will enable it to successfully carry out its duties and to do so without interference from the Chairman of the Board that could result from potential conflicts from his status as a non-independent Board member given that Mr. Cooke as Chairman was the Chief Executive Officer until his resignation on January 13, 2014.

Since January 1, 2007, the Registrant has held board meetings at least quarterly and at which the majority, if not all, Board members have attended, either in person or by telephone conference call, during the time in which they were directors of the Registrant.

### **Board Mandate**

The Board of Directors is responsible for supervising management in carrying on the business and affairs of the Registrant. Directors are required to act and exercise their powers with reasonable prudence in the best interests of the Registrant. The Board agrees with and confirms its responsibility for overseeing management's performance in the following particular areas:

- the strategic planning process of the Registrant;
- identification and management of the principal risks associated with the business of the Registrant;
- planning for succession of management;
- the Registrant's policies regarding communications with its shareholders and others; and
- the integrity of the internal controls and management information systems of the Registrant.

In carrying out its mandate, the Board relies primarily on management to provide it with regular detailed reports on the operations of the Registrant and its financial position. The Board reviews and assesses these reports and other information provided to it at meetings of the Board and/or of its committees. The CEO reports directly to the Board, giving the Board direct access to information in his areas of responsibility. Other management personnel regularly attend Board meetings to provide information and answer questions. Directors also consult from time to time with management and have, on occasion, visited the properties of the Registrant. The reports and information provided to the Board include details concerning the monitoring and management of the risks associated with the Registrant's activities, such as compliance with safety standards and legal requirements, environmental issues and the financial position and liquidity of the Registrant. At least annually, the Board reviews management's report on its business and strategic plan and any changes with respect to risk management and succession planning.

### Position Descriptions

The Board of Directors has not yet developed written position descriptions for the Chairman, the chairman of any Board committees, the CEO, the President or the CFO. The Board is of the view that given the size of the Registrant, the relatively frequent discussions between Board members, the CEO, the President and the CFO and the experience of the individual members of the Board, the responsibilities of such individuals are known and understood without position descriptions being reduced to writing. The Board will evaluate this position from time to time, and if written position descriptions appear to be justified, they will be prepared.

### Orientation and Continuing Education

The Board does not have a formal policy relating to the orientation of new directors and continuing education for directors. The appointment of a new director is a relatively infrequent event in the Registrant's affairs, and each situation is addressed on its merits on a case-by-case basis. The Registrant has a relatively restricted scope of operations, and most candidates for Board positions will likely have past experience in the mining business; they will likely be familiar therefore with the operations of a resource company of the size and complexity of the Registrant. The Board, with the assistance of counsel, keeps itself apprised of changes in the duties and responsibilities of directors and deals with material changes of those duties and responsibilities as and when the circumstances warrant. The Board will evaluate these positions, and if changes appear to be justified, formal policies will be developed and followed.

### Ethical Business Conduct

The Registrant has adopted a whistle blower policy, which is set out in its Charter of the Audit Committee which is available for viewing on SEDAR as a schedule to the Registrant's Annual Information Form dated March 21, 2014.

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## Nomination of Directors

The Board has neither a formal policy for identifying new candidates for Board nomination. If and when the Board determines that its size should be increased or if a director needs to be replaced, the nomination committee meeting shall be convened. The terms of reference of such a committee will be determined, but are expected to include the determination of the independence of the candidate, his or her experience in the mining business and compatibility with the other directors.

## Compensation

Taking into account the Registrant's present status as an exploration-stage enterprise, the Board of Directors reviews the adequacy and form of compensation provided to Directors on a periodic basis to ensure that the compensation is commensurate with the responsibilities and risks undertaken by an effective director.

At a Compensation Committee meeting held on March 22, 2013 which was ratified by a Board of Directors meeting on that same day, it was resolved that each director shall earn a remuneration of CAD\$2,000 per quarter as compensation in his capacity as a director for fiscal 2013 and such remuneration shall continue to be accrued.

No remuneration is paid or payable to Board committee members.

## Other Board Committees

Aside from the Audit Committee which has previously been established, the Board has established committees for Compensation and Nomination and Technical, Environmental, Social and Safety in 2011 comprised of the following Board members and their respective mandates:

| <b>Committee</b> | <b>Members</b>                                 | <b>Mandate</b>  |
|------------------|--|---|
| Nomination       | Leonard<br>Harris<br>(Chairman)<br>Bruce Bried | The function of the Nominating Committee is to identify individuals qualified to become board members and to select, or to recommend that the Board of Directors select the director nominees for the next annual meeting of stockholders, to oversee the selection and composition of committees of the Board of Directors, and to oversee management continuity planning processes. |

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|  |                           |   |
|--|---------------------------|---|
| Compensation                                   | Bruce Bried<br>(Chairman) | The Compensation Committee shall advise and make recommendations to the Board of Directors in its oversight role with respect to the Company's strategy, policies and programs on the compensation and development of senior management and directors.        |
|  | Martin Burian             |   |
| Technical,<br>Environmental,<br>Social, Safety | Bruce Bried               | The Technical, Environmental, Social and Safety Committee shall advise and make recommendations in its oversight role with respect to technical, environmental, social and safety issues affecting the Company and its advanced mineral exploration projects. |

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The Board has also a Disclosure Committee comprised of the following management persons and its mandate:

**Members**

Chief Executive Officer or President, and

**Mandate**

A Disclosure Policy Committee oversees corporate disclosure practices and ensures implementation and adherence to this policy. The Disclosure Policy Committee's responsibilities include:

- maintaining an awareness and understanding of governing disclosure rules and guidelines, including any new or pending developments;
- developing and implementing procedures to regularly review;
- update and correct corporate disclosure information, including information on the Internet website;
- bringing this policy to the attention of directors, management and staff;
- monitoring compliance with this policy and undertaking reviews of any violations, including assessment and implementation of appropriate consequences and remedial actions;
- reviewing this policy and updating as necessary and appropriate to ensure compliance with prevailing rules and guidelines; and
- ascertaining whether corporate developments constitute material information and, if so, ensuring compliance with the procedures outlined in this policy.

Vice-President or Manager of Investor Relations

Assessments

The Board has no formal process for the assessment of the effectiveness and contribution of the individual directors. Each director has extensive public company experience and is familiar with what is required of him. Frequency of attendance at Board and committee meetings and the quality of participation in such meetings are two of the criteria by which the performance of a director will be assessed.

#### 6.D Employees

The Registrant's business is administered principally from its head office in Vancouver, British Columbia, Canada. As of April 28, 2014, the Registrant had a staff of two full time and six part time employees based in Vancouver, BC, Canada.

#### 6.E Share Ownership

As at April 28, 2014, the share ownership and number of stock options of the directors and officers of the Registrant are as follows:

| Name and<br>Principal Position             | Share Ownership     |                   | Number of Stock Options              |                                      |                      |
|--|---------------------|-------------------|--------------------------------------|--------------------------------------|----------------------|
|  | Number of<br>Shares | Percentage<br>(1) | Number of Underlying<br>Security (2) | Exercise Prices per<br>Share (CAD\$) | Expiry Dates         |
| Bradford J. Cooke<br>Chairman and Director | 4,922,480           | 3.23%             | 300,000                              | \$0.11                               | July 15, 2014        |
|  |                     |                   | 500,000                              | \$0.10                               | September 8,<br>2015 |
|  |                     |                   | 350,000                              | \$0.135                              | July 6, 2016         |



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|  |           |       |         |         |                   |
|--|-----------|-------|---------|---------|-------------------|
|  |           |       | 250,000 | \$0.145 | June 18, 2017     |
|  |           |       | 500,000 | \$0.08  | June 26, 2018     |
| <b>Martin Burian</b>                                 |           |       |         |         |                   |
| Director   | Nil       | Nil   | Nil     | Nil     | Nil               |
| <b>Bruce Bried</b>                                   |           |       | 40,000  | \$0.10  | September 8, 2015 |
| Director   | 1,080,426 | 0.71% | 175,000 | \$0.135 | July 6, 2016      |
|  |           |       | 125,000 | \$0.145 | June 18, 2017     |
|  |           |       | 200,000 | \$0.08  | June 26, 2018     |
| <b>Leonard Harris</b>                                |           |       | 80,000  | \$0.10  | September 8, 2015 |
| Director   | 1,276,000 | 0.84% | 140,000 | \$0.135 | July 6, 2016      |
|  |           |       | 125,000 | \$0.145 | June 18, 2017     |
|  |           |       | 200,000 | \$0.08  | June 26, 2018     |
| <b>Catalin Chiloflisci</b>                           |           |       |         |         |                   |
| Chief Executive Officer                              | 100,000   | 0.06% | 500,000 | \$0.08  | Jan 14, 2019      |
| <b>Garry Biles</b>                                   |           |       | 200,000 | \$0.11  | July 15, 2014     |
| President and Chief Operating Officer                | 770,926   | 0.51% | 350,000 | \$0.10  | September 8, 2015 |
|  |           |       | 275,000 | \$0.135 | July 6, 2016      |
|  |           |       | 225,000 | \$0.145 | June 18, 2017     |
|  |           |       | 400,000 | \$0.08  | June 26, 2018     |
|  |           |       | 75,000  | \$0.11  | July 15, 2014     |
| <b>Stewart Lockwood</b>                              |           |       | 130,000 | \$0.10  | September 8, 2015 |
| Secretary  | 736,674   | 0.48% | 125,000 | \$0.135 | July 6, 2016      |
|  |           |       | 75,000  | \$0.145 | June 18, 2017     |
|  |           |       | 100,000 | \$0.08  | June 26, 2018     |
| <b>Gregg Wilson</b> <sup>(3)</sup>                   |           |       | 150,000 | \$0.11  | July 15, 2014     |
| Vice-President (Investor Relations)                  | 234,241   | 0.15% | 200,000 | \$0.10  | September 8, 2015 |
|  |           |       | 175,000 | \$0.135 | July 6, 2016      |
|  |           |       | 100,000 | \$0.08  | June 26, 2018     |
|  |           |       | 200,000 | \$0.11  | July 15, 2014     |
| <b>Philip Yee</b>                                    |           |       | 300,000 | \$0.10  | September 8, 2015 |
| Chief Financial Officer and Vice-President (Finance) | Nil       | Nil   | 225,000 | \$0.135 | July 6, 2016      |
|  |           |       | 200,000 | \$0.145 | June 18, 2017     |
|  |           |       | 300,000 | \$0.08  | June 26, 2018     |

(1) As at April 28, 2014, Canarc had 152,436,305 common shares issued and outstanding.

(2) Common shares.

(3) Mr. Gregg Wilson retired as Vice-President of Investor Relations effective April 30, 2014.

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All of the Registrant's shareholders have the same voting rights.

Details of all total outstanding options, warrants and other rights to purchase securities of the Registrant and its subsidiaries as at April 28, 2014 unless otherwise stated, are set forth below:

***Stock Option Summary***

Stock options which are outstanding as of April 28, 2014 are as follows:

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| <b>Amount Outstanding</b> | <b>Exercise Prices<br/>(CAD\$)</b> | <b>Dates Granted</b> | <b>Expiry Dates</b> |
|---------------------------|------------------------------------|----------------------|---------------------|
| 945,000                   | \$0.11                             | July 15, 2009        | July 15, 2014       |
| 1,645,000                 | \$0.10                             | September 8, 2010    | September 8, 2015   |
| 1,565,000                 | \$0.135                            | July 6, 2011         | July 6, 2016        |
| 1,120,000                 | \$0.145                            | June 18, 2012        | June 18, 2017       |
| 1,900,000                 | \$0.08                             | June 26, 2013        | June 26, 2018       |
| 500,000                   | \$0.05                             | January 14, 2014     | January 14, 2019    |
| <b>7,675,000</b>          | <b>TOTAL</b>                       |                      |                     |

Of the 7,675,000 outstanding stock options, only 5,015,000 stock options are exercisable as at April 28, 2014.

#### *Warrant Summary Chart*

Warrants which are outstanding as of April 28, 2014 are as follows:

| <b>Amount Outstanding</b> | <b>Exercise Prices<br/>(CAD\$)</b> | <b>Date Issued</b> | <b>Expiry Dates</b>                                   |
|---------------------------|------------------------------------|--------------------|---|
| 11,300,000 <sup>(1)</sup> | \$0.15 and<br>\$0.20               | September 28, 2012 | Until September 28, 2014<br>Expiry September 28, 2015 |
| 904,000 <sup>(1)</sup>    | \$0.15 and<br>\$0.20               | September 28, 2012 | Until September 28, 2014<br>Expiry September 28, 2015 |
| 4,500,000 <sup>(2)</sup>  | \$0.15 and<br>\$0.20               | December 19, 2012  | Until December 19, 2014<br>Expiry December 19, 2015   |
| 600,000 <sup>(3)</sup>    | \$0.15 and<br>\$0.20               | January 11, 2013   | Until January 11, 2105<br>Expiry January 11, 2016     |
| 1,000,000 <sup>(4)</sup>  | \$0.15 and<br>\$0.20               | January 18, 2013   | Until January 18, 2105<br>Expiry January 18, 2016     |
| 9,000,000                 | \$0.10                             | January 31, 2014   | January 31, 2016                                      |
| 5,309,055                 | \$0.15                             | March 18, 2014     | March 18, 2017  |
| 661,718                   | \$0.15                             | March 18, 2014     | March 18, 2017  |
| 4,500,000                 | \$0.15                             | April 3, 2014      | April 3, 2017   |
| 60,725                    | \$0.15                             | April 3, 2014      | April 3, 2017   |

**37,835,498**

**TOTAL**

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

These warrants are subject to an accelerated expiry whereby if after April 20, 2013, the volume weighted average trading price as traded on the TSX equals or exceeds CAD\$0.30 per share for a period of 10 consecutive trading (2) days, Canarc will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

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These warrants are subject to an accelerated expiry whereby if after May 12, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange equals or exceeds CAD\$0.30 per share for a period of 10 (3) consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

These warrants are subject to an accelerated expiry whereby if after May 19, 2013, the volume weighted average trading price as traded on the Toronto Stock Exchange equals or exceeds CAD\$0.30 per share for a period of 10 (4) consecutive trading days, the Company will have the right, within five business days, to accelerate the expiry date of the warrants by giving not fewer than 30 days written notice to the warrant holder whereby the warrants shall expire 30 days after such date of the notice.

### *Stock Option/Share Incentive Plan*

The Registrant's directors and shareholders have approved a Share Incentive Plan (the "Plan"). The Plan was initially approved by the TSX in 1996. The principal purposes of the Plan are to promote a proprietary interest in the Registrant among its directors, officers and employees; to retain, attract and motivate the qualified managers of the Registrant; to provide a long-term incentive element in overall compensation; and to promote the long-term profitability of the Registrant.

Incentives to participate under the Plan may be provided by the granting of share options or share appreciation rights (SARs). The share appreciation right entitles the participant in the Plan to elect, subject to approval by the Board of Directors, in lieu of exercising an outstanding share option, to receive the number of common shares of the Registrant equivalent in value to the difference between the option exercise price and the net existing market price of the Registrant's common shares multiplied by the number of common shares over which he could otherwise exercise his stock option.

Under the Plan, the Board of Directors of the Registrant or its Executive Committee may from time to time grant to directors, officers, consultants and full and part time employees of the Registrant and its associated, affiliated, controlled and subsidiary companies, as the Board or its Executive Committee shall designate, the stock option to purchase from the Registrant such number of its common shares as the Board or its Executive Committee may designate. The Registrant's Plan allows it to grant stock options to its employees, directors and consultants to acquire up to 18,888,434 common shares, of which stock options for 8,325,000 common shares are outstanding as at December 31, 2013, provided that the total number of common shares to be optioned to any one optionee shall not exceed 5% of the issued common shares of the Registrant at the time of grant. The exercise price of each option cannot be lower than the last recorded sale of a board lot on the TSX during the trading day immediately preceding the date of granting or, if there was no such sale, 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. Pursuant to the Plan, stock options shall be granted pursuant to a stock option agreement in a form that complies with the rules and policies of the TSX, which provide as follows:

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- (a) all stock options granted shall be non-assignable;
- (b) a stock option must be exercisable during a period not extending beyond 10 years from the time of grant; and
- (c) no financial assistance will be provided with respect to the exercise of stock options.

At the Registrant's annual general meeting held on June 5, 2012, shareholder approval was provided for the increase in the maximum aggregate number of common shares which may be reserved for issuance under the Plan from 16,335,000 shares to 18,888,434 shares at that time.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **7.A Major Shareholders**

To the best of the Registrant's knowledge, the Registrant is not directly or indirectly owned or controlled by another company or by any foreign government or by any other natural or legal person(s) severally or jointly. There are no arrangements, known to the Registrant, the operation of which may at a subsequent date result in a change in its control.

As at April 28, 2014, the only persons or groups known to the Registrant to beneficially own 5% or more of the Registrant's issued and outstanding common shares and the number of common shares owned, directly or indirectly, by officers and directors of the Registrant as a group are as follows:

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| <b>Title of Class</b> | <b>Identity of Person or Group</b>                             | <b>Shares Owned <sup>(1)</sup></b> | <b>Percentage of Class <sup>(2)</sup></b> |
|-----------------------|--|------------------------------------|---|
| Common Shares         | CDS & Co.<br>Toronto, Ontario, Canada<br>CEDE & Co.            | 59,114,625 <sup>(3), (4)</sup>     | 38.78%                                    |
| Common Shares         | New York, New York, USA<br>Canford Capital Inc. <sup>(5)</sup> | 33,627,790 <sup>(3), (4)</sup>     | 22.06%                                    |
| Common Shares         | Vancouver, BC, Canada<br>Chaim Ben-Ami                         | 11,300,000                         | 7.41%                                     |
| Common Shares         | Tel Aviv, Israel   | 9,000,000 <sup>(6)</sup>           | 5.90%                                     |
| Common Shares         | Officers and Directors as a group                              | 9,120,747 <sup>(7)</sup>           | 5.98%                                     |

(1)

Common shares.

(2) As at April 28, 2014, Canarc had 152,436,305 common shares issued and outstanding.

Owners of record only. CDS & Co. is a clearing agency through which Canadian brokers and dealers hold their securities. CEDE & Co. is a U.S. clearing agency. The Registrant believes that all of these shares are held by the registered holder in a fiduciary, trustee, or nominee capacity, and the identities of the beneficial owners of such <sup>(3)</sup> shares are not known to the Registrant and, except for named individuals and the officers and directors as a group, the Registrant is not aware of any person or group of persons which beneficially owns more than 5% of the Registrant's outstanding common shares.

<sup>(4)</sup> Certain of these shares may be held in "street form" and may be included in the shares registered in the name of CDS & Co. or CEDE & Co.

As at April 28, 2014, Canford owned 11,300,000 common shares of Canarc representing a 7.41% interest in Canarc. Canford does not exert control over Canarc nor over its Board of Directors, is not actively involved in the <sup>(5)</sup> operations of Canarc, and does not have any material interest, directly or indirectly, in any transaction that has materially affected or will materially affect Canarc, to the best of Canarc's knowledge, except as disclosed in this Form 20-F. Items 4.A and 5.B provide further details regarding Canford and its relationship with Canarc.

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As at April 28, 2014, Mr. Chaim Ben-Ami owned 9,000,000 common shares of Canarc representing a 5.90% interest in Canarc. Mr. Ben-Ami does not exert control over Canarc nor over its Board of Directors, is not actively involved in the operations of Canarc, and does not have any material interest, directly or indirectly, in any transaction that has materially affected or will materially affect Canarc, to the best of Canarc's knowledge, except as disclosed in this Form 20-F.

All shares of Canarc, including all those held by any major shareholders, are common shares with similar voting rights. As of April 28, 2014 there were 152,436,305 common shares of Canarc which were issued and outstanding. Based on the records of Canarc's registrar and transfer agent, Computershare Investor Services Inc., of 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada, as at such date there were 452 registered holders of Canarc's common shares resident in the United States (68.8% of all registered holders) holding 63,479,911 common shares. This number represents approximately 41.6% of the total issued and outstanding common shares of Canarc at that date.

#### ***Control by Another Corporation, Foreign Government or Other Persons***

To the best of the Registrant's knowledge, the Registrant is not directly or indirectly owned or controlled by another corporation(s), by any foreign government or by any other natural or legal person(s) severally or jointly.

#### ***Change of Control***

As of the date of this Form 20-F being April 28, 2014, there is no arrangement known to the Registrant which may at a subsequent date result in a change of control of the Registrant.

#### **7.B Related Party Transactions**

For the fiscal year ended December 31, 2013, the Registrant had transactions with related parties.

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

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Except as may be disclosed elsewhere in the Form 20-F, general and administrative costs during 2013, 2012 and 2011 include:

| (\$000s)   | Years ended December 31, |        |        | Net balance receivable<br>(payable)<br>as at December 31, |          |
|--|--------------------------|--------|--------|---|----------|
|  | 2013                     | 2012   | 2011   | 2013  | 2012     |
| Key management compensation:   |                          |        |        |   |          |
| Executive salaries and remuneration <sup>(1)</sup>   | \$ 428                   | \$ 592 | \$ 473 | \$ (222)  | \$ -     |
| Directors fees   | 29                       | 35     | 40     | (201)   | (185)    |
| Share-based payments   | 76                       | 89     | 212    | -   | -        |
|  | \$ 533                   | \$ 716 | \$ 725 | \$ (423)  | \$ (185) |
| Legal fees incurred to a law firm in<br>which a senior officer of the Company is<br>a partner <sup>(2)</sup>   |                          |        |        |   |          |
|  | \$ 67                    | \$ 82  | \$ 72  | \$ (158)  | \$ (107) |
| Net office, sundry, rent and salary<br>allocations recovered from (incurred to)<br>company(ies) sharing certain common<br>director(s) <sup>(3)</sup> |                          |        |        |   |          |
|  | 59                       | 36     | 55     | (108)   | (11)     |
| Write-down of long-term investments <sup>(4)</sup>   |                          |        |        |   |          |
|  | 91                       | -      | -      | -   | -        |
| Write-off of receivables <sup>(5)</sup>  |                          |        |        |   |          |
|  | 54                       | -      | -      | -   | -        |

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

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

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

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

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

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The above transactions were incurred in the normal course of business and are recorded at the exchange amount, being the amount agreed upon by the related parties.

Canarc shares common office facilities, employee and administrative support, and office sundry amongst companies with certain common director(s), and such allocations to Canarc are on a full cost recovery basis. Any balances due to related parties are payable on demand.

In May 2009, Canarc received \$53,490 in demand loans from certain directors and an officer of Canarc. The loans were repayable on demand and bore an interest rate of 9% per annum, which was increased to 12% effective September 1, 2010, and were previously secured by Canarc's shareholdings in Caza Gold Corp. ("Caza"), a company with one common director at that time, at CAD\$0.25 per share of Caza which has been replaced by a loan bonus of 12% payable upon repayment effective September 1, 2010.

In fiscal 2012, Canarc arranged demand loans of \$358,000 from certain directors and an officer of Canarc, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In 2012, Canarc repaid all principal, bonus and interest in full settlement of outstanding demand loans.

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

Items 4.A, 4.D, 5.B and 7.A provide further details of transactions with Canford.

In each case the transactions described below were, in the Registrant's view, completed on terms no less favourable to the Registrant than if they had been entered into with unaffiliated parties.

#### **Compensation to Directors and Senior Officers and Options to Purchase Securities**

Item 6 provides further details of compensation paid to, and options granted to and held by, directors and senior officers of the Registrant.

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### **Indebtedness of Directors and Senior Officers**

At any time during the Registrant's last completed financial year, no director, executive officer or senior officer of the Registrant, proposed management nominee for election as a director of the Registrant or each associate or affiliate of any such director, executive or senior officer or proposed nominee is or has been indebted to the Registrant or any of its subsidiaries or is and has been indebted to another entity where such indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Registrant or any of its subsidiaries, other than routine indebtedness and other than as disclosed in the Registrant's audited financial statements and in the Form 20-F.

### **Interest of Insiders in Material Transactions**

Other than as set forth below and in the Form 20-F and in the Registrant's audited financial statements and other than transactions carried out in the ordinary course of business of the Registrant or any of its subsidiaries, none of the directors or senior officers of the Registrant, a proposed management nominee for election as a director of the Registrant, any member beneficially owning shares carrying more than 5% of the voting rights attached to the shares of the Registrant nor an associate or affiliate of any of the foregoing persons had since January 1, 2013 (being the commencement of the Registrant's last audited fiscal period) any material interest, direct or indirect, in any transactions which materially affected or would materially affect the Registrant or any of its subsidiaries.

The Registrant'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 Registrant may participate, the directors of the Registrant may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Also, certain directors and officers of Canarc are directors, officers and / or employees of Aztec, Caza and Endeavour. The interests of these companies may differ from time to time. Item 6.C provide further details.

### **7.C Interests of Experts and Counsel**

Not applicable.



**ITEM 8. FINANCIAL INFORMATION**

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## 8.A Consolidated Statements and Other Financial Information

Canarc's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. IFRS 1 has been applied with an adoption date of January 1, 2011 and a transition date of January 1, 2010, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

Consolidated financial statements audited by an independent registered public accounting firm and accompanied by an audit report are comprised of the following, which are attached hereto and form a part hereof.

- (a) Consolidated Statements of Financial Position as of December 31, 2013 and 2012;
- (b) Consolidated Statements of Comprehensive Loss for each of the years ended December 31, 2013, 2012 and 2011;
- (c) Consolidated Statements of Shareholders' Equity for each of the years ended December 31, 2013, 2012 and 2011;
- (d) Consolidated Statements of Cash Flows for each of the years ended December 31, 2013, 2012 and 2011; and
- (e) Notes to the consolidated financial statements.

The Registrant is not involved and has not been involved in the recent past in any legal or arbitration proceedings which may have, or had in the recent past, significant effects on the Registrant's financial position or profitability, including governmental proceedings pending or known to be contemplated other than as disclosed in the Company's continuous disclosure documents, regulatory filings, Form 20-F and consolidated financial statements for the years then ended.

### *Dividend Policy*

During its last three completed financial years, the Registrant has not declared or paid any cash dividends on its common shares and does not currently intend to pay cash dividends. Management intends for earnings, if any, to be retained to finance further growth and activities relating to the business of the Registrant.

The Directors of the Registrant may from time to time declare and authorize payment of such dividends, if any, as they may deem advisable and need not give notice of such declaration to any shareholder. No dividend shall be paid otherwise than out of funds and/or assets properly available for the payment of dividends and a declaration by the Directors as to the amount of such funds or assets available for dividends shall be conclusive. The Registrant may pay any such dividend wholly or in part by the distribution of specific assets and in particular by paid up shares, bonds, debentures or other securities of the Registrant or any other corporation or in any one or more such ways as may be authorized by the Registrant or the Directors and where any difficulty arises with regard to such a distribution the

Directors may settle the same as they think expedient, and in particular may fix the value for distribution of such specific assets or any part thereof, and may determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled shall be made to any shareholders on the basis of other value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees for the persons entitled to the dividend as may seem expedient to the Directors.

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Any dividend declared on shares of any class by the Directors may be made payable on such date as is fixed by the Directors.

Subject to the rights of shareholders (if any) holding shares with special rights as to dividends, all dividends on shares of any class shall be declared and paid according to the number of such shares held.

The Directors may, before declaring any dividend, set aside out of the funds properly available for the payment of dividends such sums as they think proper as a reserve or reserves, which shall, at the discretion of the Directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which such funds of the Registrant may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Registrant or be invested in such investments as the Directors may from time to time think fit. The Directors may also, without placing the same in reserve, carry forward such funds, which they think prudent not to divide.

If several persons are registered as joint holders of any share, any one of them may give an effective receipt for any dividend, bonuses or other moneys payable in respect of the share.

No dividend shall bear interest against the Registrant. Where the dividend to which a shareholder is entitled includes a fraction of a cent, such fraction shall be disregarded in making payment thereof and such payment shall be deemed to be payment in full.

Any dividend, bonuses or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder, or in the case of joint holders, to the registered address of that one of the joint holders who is first named in the register, or to such person and to such address as the holder or joint holders may direct in writing. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. The mailing of such cheque or warrant shall, to the extent of the sum represented thereby (plus the amount of any tax required by law to be deducted) discharge all liability for the dividend, unless such cheque or warrant shall not be paid on presentation or the amount of tax so deducted shall not be paid to the appropriate taxing authority.

Notwithstanding anything contained in the Registrant's Articles of Incorporation, the Directors may from time to time capitalize any undistributed surplus on hand of the Registrant and may from time to time issue as fully paid and non-assessable any unissued shares, or any bonds, debentures or debt obligations of the Registrant as a dividend representing such undistributed surplus on hand or any part thereof.

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### *Legal Proceedings*

The Registrant is not involved in any legal or arbitration proceedings which have, or may have had in the recent past, significant effects on the Registrant's financial position or profitability other than as disclosed in the Registrant's continuous disclosure documents, regulatory filings, Form 20-F and consolidated financial statements for the years then ended.

### **8.B Significant Changes**

There has been no significant change in the financial condition of the Registrant since December 31, 2013 other than as disclosed in this Form 20-F and in the Registrant's continuous disclosure documents.

## **ITEM 9. THE OFFER AND LISTING**

### **9.A Offer and Listing Details**

This Form 20-F is being filed as an annual report under the Exchange Act and does not relate to a new offer of securities, and accordingly, the information called for is not required other than the price history information below.

The Registrant's common shares are traded on the TSX in Canada under the symbol "CCM". The following prices are stated in terms of Canadian dollars.

The following tables set forth the high and low prices of the common shares for the periods indicated.

(Stated in terms of Canadian dollars)

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| <b>Fiscal Year</b> | <b>High (CAD\$)</b> | <b>Low (CAD\$)</b> |
|--------------------|---------------------|--------------------|
| 2013               | \$0.24              | \$0.04             |
| 2012               | \$0.22              | \$0.09             |
| 2011               | \$0.30              | \$0.09             |
| 2010               | \$0.29              | \$0.07             |
| 2009               | \$0.21              | \$0.06             |

| <b>Quarter</b> | <b>High (CAD\$)</b> | <b>Low (CAD\$)</b> |
|----------------|---------------------|--------------------|
| 2014           |                     |                    |
| 1st Quarter    | \$0.13              | \$0.04             |
| 2013           |                     |                    |
| 4th Quarter    | \$0.07              | \$0.04             |
| 3rd Quarter    | \$0.12              | \$0.07             |
| 2nd Quarter    | \$0.15              | \$0.08             |
| 1st Quarter    | \$0.24              | \$0.12             |
| 2012           |                     |                    |
| 4th Quarter    | \$0.19              | \$0.12             |
| 3rd Quarter    | \$0.17              | \$0.16             |
| 2nd Quarter    | \$0.22              | \$0.19             |
| 1st Quarter    | \$0.19              | \$0.14             |



| <b>Month</b> | <b>High (CAD\$)</b> | <b>Low (CAD\$)</b> |
|--------------|---------------------|--------------------|
| 2014         |                     |                    |
| March        | \$0.12              | \$0.09             |
| February     | \$0.13              | \$0.07             |
| January      | \$0.08              | \$0.04             |
| 2013         |                     |                    |
| December     | \$0.06              | \$0.04             |
| November     | \$0.06              | \$0.05             |
| October      | \$0.07              | \$0.05             |

### **9.B Plan of Distribution**

Not applicable.

### **9.C Markets**

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Since November 2, 1994, the Registrant's common shares have traded on the TSX. From March 16, 1988 to June 2, 1995 and from September 1996 to February 12, 1999, the Registrant's common shares traded on the Vancouver Stock Exchange ("VSE") (the VSE merged with the Alberta Stock Exchange in 2000, which became known as the Canadian Venture Exchange, and then the TSX acquired the Canadian Venture Exchange to form the TSX Venture Exchange). In February 1997, the Registrant was listed for trading on the Berlin Stock Exchanges and has since voluntarily delisted from the exchange. On August 3, 1998, the Registrant was listed on the Frankfurt Exchange. Management of the Registrant is not aware of any trading market for the Registrant's common shares in the United States apart from the United States OTC Bulletin Board, on which the Registrant trades under the symbol CRCUF.

#### **9.D Selling Shareholders**

Not applicable.

#### **9.E Dilution**

Not applicable.

#### **9.F Expenses of the Issue**

Not applicable.

### **ITEM 10. ADDITIONAL INFORMATION**

#### **10.A Share Capital**

Not applicable.

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## 10.B Notice of Articles and Articles of Association

The Registrant's Notice of Articles and articles of association, and related matters, are summarized below.

1. The Registrant was incorporated under the laws of British Columbia on January 22, 1987 under the name, "Canarc Resource Corp." by registration of its Memorandum and Articles with the British Columbia Registrar of Companies. At the Registrant's annual and extraordinary general meeting held in May 2005, the shareholders approved the Notice of Articles be altered to remove the application of the "Pre-Existing Company Provisions" as set forth in Table 3 of the Business Corporations Regulations under the B.C. *Business Corporations Act*, S.B.C. 2002 (the "BCBCA") and the replacement of the Articles with a new set of Articles which comply with the BCBCA. The Registrant no longer has a Memorandum, which has been replaced by, in part, its Notice of Articles.

The Registrant's Memorandum and Articles do not provide for any specific objects or purposes.

2. Set forth below is a summary of provisions contained in the Registrant's Articles with respect to:

(a) Director's power to vote on a proposal, arrangement or contract in which the director is materially interested: A director who holds a disclosable interest in a contract or transaction into which the Registrant has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

(b) Directors' power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body:

See (a), above. A director does not hold a disclosable interest in a contract or transaction merely because the contract or transaction relates to the remuneration of the director in that person's capacity as director, officer, employee or agent of the Registrant or of an affiliate of the Registrant.

(c) Borrowing powers exercisable by the directors and how such borrowing powers can be varied: The Registrant, if authorized by the directors, may:

- (i) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;
- issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the
- (ii) Registrant or any other person and at such discounts or premiums and on such other terms as they consider appropriate;

- (iii) guarantee the repayment of money by any other person or the performance of any obligation of any other person;  
and
- (iv) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Registrant.
  - (d) Retirement or non-retirement of directors under an age limit requirement:  
The directors are not required to retire upon reaching a specific age.
  - (e) Number of shares, if any, required for director's qualification:  
A director is not required to hold any shares of the Registrant.

3. All common shares of the Registrant rank equally as to dividends, voting powers and participation in assets (in the event of liquidation) and in all other respects. Dividend entitlement is set by way of the shareholders status as a shareholder on the chosen record date and does not lapse over time. Each share carries one vote per share at meetings of the shareholders of the Registrant. Directors do not stand for re-election on staggered terms at present. There are no indentures or agreements limiting the payment of dividends and there are no conversion rights, special liquidation rights, pre-emptive rights or subscription rights attached to the common shares. The shares presently issued are not subject to any calls or assessments. There is a Shareholders Right Plan as detailed in Item 10.B under Summary of Shareholders Rights Plan.

4. The rights of holders of common shares may not be modified other than by vote of 2/3 of the common shares voting on such modification. The quorum for the transaction of business at a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting. Due to the quorum requirements, the rights of holders of common shares may be modified by the votes of less than a majority of the issued common shares of the Registrant.

5. The directors of the Registrant call all annual general meetings and extraordinary general meetings. The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any solicitor for the Registrant, the auditor of the Registrant and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

6. There are no limitations on the rights to own securities.

7. There are no provisions in the Registrant's Articles that would have an effect on delaying, deferring or preventing a change of control other than that the Registrant may remove any director before the expiration of his or her term of office only by way of special resolution. In addition, there is a Shareholders Right Plan as detailed in Item 10.B under Summary of Shareholders Rights Plan.

8. There are no by-law provisions governing the ownership threshold above which shareholder ownership must be disclosed.
9. The law of British Columbia, Canada, relating to Items 2-8 is not significantly different from the law of the United States.
10. There are no conditions in the Memorandum and Articles governing changes in capital that are more stringent than is required by law.
11. The BCBCA permits an unlimited authorized share capital, and shares may be created with or without par value.
12. There are no residency requirements for directors under the BCBCA.
13. Special Resolutions of shareholders can be passed by a minimum of a two-thirds majority at a meeting of shareholders.
14. General meetings can be held outside British Columbia if the location is approved by resolution of the directors.
15. The BCBCA provides for shareholder proposals to be made at general meetings. Generally, shareholders holding at least 1% of the voting shares may submit proposals to the Registrant three months prior to the anniversary of the last annual general meeting of shareholders of the Registrant.
16. Under the BCBCA, dividends may be declared out of profits, capital or otherwise. As well, the BCBCA does not automatically make directors liable to the Registrant for the declaration of dividends while the Registrant is insolvent.
17. The BCBCA does not require that a company's offer to purchase or redeem its own shares be made on a pro-rata basis to all shareholders.

18. The BCBCA permits a company to indemnify its directors without court approval, and may also require reimbursement of expenses in certain cases for claims that are successfully defended. Defense costs may also be advanced by a company in certain cases.

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19. All filings with the Registrar under the BCBCA must be made electronically.
  
20. Directors' and shareholders' meetings may be held by any form of communications medium permitted under the Articles, including internet chat lines and telephones. In addition, directors' consent resolutions may be passed in the manner provided under the Articles, including e-mail.
  
21. A company may provide financial assistance in connection with the purchase of its shares under the BCBCA.
  
22. A company may, in limited circumstances, amalgamate with a foreign company under the BCBCA, without the requirement to first continue the second company into British Columbia. Amalgamations do not require court approval, although court approval may still be requested.
  
23. The requisite majority to pass a special resolution at a meeting of shareholders is a two-thirds majority.
  
24. General meetings of shareholders may, if the location is approved by directors' resolution, be held outside British Columbia.
  
25. General Meetings of shareholders of the Registrant are required to be held each calendar year and not more than 15 months after the holding of the last preceding annual general meeting.
  
26. Any offer by the Registrant to purchase or redeem its own shares, need not be made pro-rata to all the shareholders.
  
27. Changes to the Registrant's capital structure may be effected by ordinary resolution, including the following changes:
  - creation or cancellation of one or more classes or series of shares;
  - creation or removal of special rights and restrictions attaching to any class or series of shares;
  - changing the authorized capital;
  - consolidating or subdividing all or any of the Registrant's issued or unissued shares; and



- other alterations to the share capital and authorized capital, where permitted under the BCBCA.

28. The Registrant's name may be changed by ordinary resolution or resolution of the directors.

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29. The removal of court approval of any agreement to indemnify a director or officer in most cases, as well as mandatory indemnification on certain eligible cases.

30. The remuneration of the auditor of the Registrant may be set by the directors, without the need of seeking a resolution of the shareholders authorizing the directors to set such remuneration.

31. A director of the Registrant may be removed as a director of the Registrant before the expiration of the director's term of office pursuant to an ordinary resolution of the shareholders.

*For further information, refer to the full text of the Notice of Articles and Articles of the Registrant, which are available online at [www.sedar.com](http://www.sedar.com) as part of the Registrant's publicly available filings under the heading "Other", as filed on November 10, 2005.*

### **Summary of the Shareholder Rights Plan**

The following is a summary of the terms of the Shareholder Rights Plan which was approved at the Registrant's annual and extraordinary meeting held in May 2005, and ratified and confirmed at the Registrant's annual general meetings in April 2008 and again in June 2011.

#### *General*

The rights will be issued pursuant to a shareholder rights plan agreement dated and effective April 30, 2005, between the Registrant and Computershare Trust Company of Canada as the rights agent. Each right will entitle the holder to purchase from the Registrant one common share at the exercise price of CAD\$50.00 per share, subject to adjustments, at any time after the separation time (defined below). However, if a flip-in event (defined below) occurs, each right will entitle the holder to receive, upon payment of the exercise price, common shares having a market value equal to two-times the exercise price. The rights are non-exercisable until the separation time.

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Until the separation time, the rights will be evidenced by the outstanding certificates for common shares and the rights will be transferred with, and only with, the common shares. As soon as practicable following the separation time, separate certificates evidencing the rights will be mailed to holders of record of common shares as of the close of business at the separation time and the separate rights certificates will thereafter evidence the rights.

#### *Separation Time and Acquiring Person*

The rights will separate and trade apart from the common shares and become exercisable at the separation time. “Separation time” generally means the close of business on the 10th trading day following the commencement or announcement of the intent of any person to commence a take-over bid, other than a permitted bid or a competing bid, but under certain circumstances can mean the eighth trading day after a person becomes an “acquiring person” by acquiring 20% or more of the voting shares of any class.

#### *Flip-in Event*

A “flip-in event” will, in general terms, occur when a person becomes an acquiring person. Upon the occurrence of a flip-in event, each right will entitle the holder to acquire, on payment of the exercise price, that number of common shares having a market value equal to two-times the exercise price. However, any rights beneficially owned by an acquiring person or by any direct or indirect transferees of such person, will be void. The term “beneficial ownership” is defined to include, under certain circumstances, shares owned indirectly through affiliates, associates, trusts and partnerships, other situations of ownership deemed by operation of law, shares subject to acquisition or voting agreements and shares owned by persons acting jointly or in concert. There are several exceptions, including exceptions directed towards investment managers, trust companies, and independent managers of pension plans who are not participating in a take-over bid.

#### *Permitted Bids*

Permitted bids are exempted from the operation of the Shareholder Rights Plan. In summary, a permitted bid is a take-over bid made by way of take-over bid circular which complies with the following provisions:

- (a) It is made to all holders of voting shares of the Registrant of a particular class and for all those voting shares. No voting shares can be taken up and paid for before the close of business on the “Permitted Bid Expiry Date”, as
- (b) described below, and unless more than 50% of voting shares held by shareholders independent of the offeror are tendered and not withdrawn.

(c) Voting shares may be tendered at any time until the Permitted Bid Expiry Date and may be withdrawn until taken up and paid for.

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(d) If the condition described in (b) above is met, there will be a public announcement and the take-over bid will be open for a further period of 10 business days.

The Shareholder Rights Plan contains provisions designed to ensure that, if considered appropriate, the time for tendering to two or more competing permitted bids will occur on the same date.

#### *Permitted Bid Expiry Date*

The Permitted Bid provisions require that for a Take-Over to be a Permitted Bid it must be left open until the Permitted Bid Expiry Date. The “Permitted Bid Expiry Date” means 60 days following the date of the Take-Over Bid.

#### *Exchange Option*

Under certain circumstances, the board of directors of the Registrant can, on exercise of a right and payment of the exercise price, issue other securities or assets of the Registrant in lieu of common shares. The board of directors of the Registrant can also determine to issue in exchange for the rights, but without payment of the exercise price, common shares having a value equal to the exercise price or other securities or assets of the Registrant having the same value.

#### *Adjustments*

The exercise price, the number and kind of shares subject to purchase upon exercise of each right and the number of rights outstanding are subject to adjustment from time to time to prevent dilution in the event that the Registrant takes certain actions involving the Registrant's share capital which would otherwise have a dilutive effect.

#### *Redemption*

At any time before the occurrence of a flip-in event, the board of directors may elect to redeem the rights in whole at a redemption price of \$0.0001 per right.

#### *Waiver*

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The board of directors may waive the application of the Shareholder Rights Plan to any flip-in event if it determines that a person became an acquiring person by inadvertence, conditional upon such person having, within 10 days after the determination by the board of directors, reduced its beneficial ownership of shares such that it is no longer an acquiring person. The board of directors may also, until a flip-in event has occurred, waive the application of the Shareholder Rights Plan to any particular flip-in event, but in that event, the board of directors shall be deemed to have waived the application of the Shareholder Rights Plan to any other flip-in event which may arise under any take-over bid then in effect.

#### *Amendments*

The board of directors may amend the Shareholder Rights Plan to correct clerical or typographical errors, to maintain the validity of the plan as a result of any changes in any applicable legislation or to increase or decrease the exercise price. Any amendments required to maintain the validity of the Shareholder Rights Plan must be submitted to the shareholders of the Registrant or, after the separation time, to the holders of the rights for confirmation.

Other amendments can only be made with the approval of the shareholders of the Registrant or, after the separation time, the holders of the rights. Any supplements or amendments to the Shareholder Rights Plan require the prior written consent of the TSX.

#### *Term*

The Shareholder Rights Plan has a term of 10 years; however, it is subject to ratification at the Meeting, and also at each of the shareholder meetings following the third and sixth anniversaries of the effective date of the Shareholder Rights Plan. If the Shareholder Rights Plan is not so ratified at any meeting, the Shareholder Rights Plan shall terminate forthwith.

The text of the ordinary resolution, in substantially the form which was presented to the shareholders, subject to such changes not affecting the general intent of the said resolution as may be required by the regulatory authorities or by counsel for the Registrant, is set forth below:

“BE IT RESOLVED, with or without amendment, as an ordinary resolution, that the Shareholder Rights Plan Agreement, dated for reference April 30, 2005, between the Company and Computershare Trust Company of Canada, as described in the Information Circular of the Company dated as at April 26, 2005, be and it is hereby approved, ratified and confirmed.”



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## 10.C Material Contracts

The following executive employment agreements were signed in 2013 and 2012:

An Executive Employment Agreement between Canarc and Mr. Garry Biles was signed on January 23, 2007, as amended on June 1, 2011 and January 1, 2012, in respect of Mr. Biles' capacity as Chief Operating Officer and -President for Canarc. The employment agreement provides that Mr. Biles' base remuneration is CAD\$200,000 per annum plus a bonus based upon the achievement of performance targets as determined by the Compensation Committee of Canarc.

An Executive Employment Agreement between Canarc and Mr. James Moors was signed on June 1, 2011, as amended on January 1, 2102, in respect of Mr. Moors' capacity as Vice-President of Exploration for Canarc. The employment agreement provided that Mr. Moors' base remuneration was CAD\$120,000 per annum plus a bonus -based upon the achievement of performance targets as determined by the Compensation Committee of Canarc. On January 31, 2014, Canarc and Mr. Moors entered into a Settlement Agreement and General Release whereby Mr. Moors received a final settlement and severance of CAD\$60,000 payable over a 12 month period ending January 31, 2015 upon his retirement as Vice-President of Exploration for Canarc.

An Executive Employment Agreement between Canarc and Mr. Gregg Wilson was signed on January 1, 2012, in respect of Mr. Wilson's capacity as Vice-President of Investor Relations for both Canarc and Caza. The employment agreement provided that Mr. Wilson's base remuneration is CAD\$90,000 per annum plus a bonus based upon the -achievement of performance targets as determined by the Compensation Committee of Caza. Mr. Wilson's remuneration was allocated between Canarc and Caza. On March 31, 2014, Canarc and Mr. Wilson entered into a Settlement Agreement and General Release whereby Mr. Wilson received a final settlement and severance of CAD\$90,000 (paid) upon his retirement as Vice-President of Investor Relations for Canarc effective April 30, 2014.

An Executive Employment Agreement between Caza and Mr. Philip Yee was signed on June 1, 2011 in respect of Mr. Yee's capacity as Chief Financial Officer and Vice-President of Finance for both Canarc and Caza. The employment agreement provides that Mr. Yee's base remuneration is CAD\$180,000 per annum plus a bonus based upon the achievement of performance targets as determined by the Compensation Committee of Caza. Effective January 1, 2012, Mr. Yee's base remuneration was increased to CAD\$193,500 per annum. Mr. Yee's remuneration is allocated between Canarc and Caza.

On January 10, 2014, an Executive Employment Agreement between Canarc and Mr. Catalin Chiloflischii was signed in respect of Mr. Chiloflischii's capacity as Chief Executive Officer for Canarc. The employment agreement provides that Mr. Chiloflischii's base remuneration is CAD\$150,000 per annum plus a bonus based upon the achievement of performance targets as determined by the Compensation Committee of Canarc.

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For the two years immediately preceding April 28, 2014, there were no other material contracts entered into, other than contracts entered into in the ordinary course of business, to which the Registrant or any member of the group was a party, and other than as disclosed in this Form 20-F. For a description of those contracts entered into in the ordinary course of business refer to Items 4.A and 4.D.

## **10.D Exchange Controls**

There are no governmental laws, decrees or regulations in Canada relating to restrictions on the export or import of capital, or affecting the remittance of interest, dividends or other payments to non-resident holders of the Registrant's common shares. Any remittances of dividends to United States residents are, however, subject to a 15% withholding tax (10% if the shareholder is a corporation owning at least 10% of the outstanding common shares of the Registrant) pursuant to Article X of the reciprocal tax treaty between Canada and the United States.

Except as provided in the Investment Canada Act (the "Act"), there are no limitations under the laws of Canada, the Province of British Columbia or in the charter or any other constituent documents of the Registrant on the right of foreigners to hold or vote the common shares of the Registrant.

Management of the Registrant considers that the following general summary is materially complete and fairly describes those provisions of the Investment Canada Act pertinent to an investment by an American investor in the Registrant.

The following discussion summarizes the principal features of the Investment Canada Act for a non-resident who proposes to acquire the common shares.

The Investment Canada Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture (each an "entity") that is not a "Canadian" as defined in the Investment Canada Act (a "non-Canadian"), unless after review, the Director of Investments appointed by the minister responsible for the Investment Canada Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in the common shares by a non-Canadian other than a "WTO Investor" (as that term is defined by the Investment Canada Act, and which term includes entities which are nationals of or are controlled by nationals of member states of the World Trade Organization) when the Company was not controlled by a WTO Investor, would be reviewable under the Investment Canada Act if it was an investment to acquire control of the Registrant and the value of the assets of the Registrant, as determined in accordance with the regulations promulgated under the Investment Canada Act, equals or exceeds \$5 million for direct acquisition and over \$50 million for indirect acquisition, or if an order for review was made by the federal cabinet on the grounds that the investment related to Canada's cultural heritage or national identity, regardless of the value of the assets of the Registrant. An investment in the common shares by a WTO Investor, or by a non-Canadian when the Registrant was controlled by a WTO Investor,

would be reviewable under the Investment Canada Act if it was an investment to acquire control of the Registrant and the value of the assets of the Registrant, as determined in accordance with the regulations promulgated under the Investment Canada Act was not less than a specified amount. A non-Canadian would acquire control of the Registrant for the purposes of the Investment Canada Act if the non-Canadian acquired a majority of the common shares. The acquisition of one third or more, but less than a majority of the common shares would be presumed to be an acquisition of control of the Registrant unless it could be established that, on the acquisition, the Registrant was not controlled in fact by the acquirer through the ownership of the common shares.

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Certain transactions relating to the common shares would be exempt from the Investment Canada Act, including: (a) an acquisition of the common shares by a person in the ordinary course of that person's business as a trader or dealer in securities; (b) an acquisition of control of the Registrant in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provisions of the Investment Canada Act; and (c) an acquisition of control of the Registrant by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of the Registrant, through the ownership of the common shares, remained unchanged.

## **10.E Taxation**

ALL SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE INCOME AND OTHER TAX CONSEQUENCES ARISING IN THEIR PARTICULAR CIRCUMSTANCES. THE FOLLOWING IS A SUMMARY ONLY AND OF A GENERAL NATURE AND IS NOT INTENDED, NOR SHOULD IT BE CONSTRUED, TO BE LEGAL OR TAX ADVISE TO ANY PARTICULAR SHAREHOLDER.

### **United States Federal Income Tax Consequences**

The following is a discussion of material United States federal income tax consequences, under current law, applicable to a US Holder (as hereinafter defined) of common shares of the Registrant. This discussion does not address consequences peculiar to persons subject to special provisions of federal income tax law, such as those described below as excluded from the definition of a US Holder. In addition, this discussion does not cover any state, local or foreign tax consequences. (Refer to "Certain Canadian Federal Income Tax Considerations" for material Canadian federal income tax consequences).

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, published Internal Revenue Service ("IRS") rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time and which are subject to differing interpretations. This discussion does not consider the potential effects, both adverse and beneficial, of any proposed legislation that, if enacted, could be applied, possibly on a retroactive basis, at any time. This discussion is for general information only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of common shares of the Registrant and no opinion or representation with respect to the United States federal income tax

consequences to any such holder or prospective holder is made. Accordingly, holders and prospective holders of common shares of the Registrant should consult their own tax advisors about the federal, state, local, and foreign tax consequences of purchasing, owning and disposing of common shares of the Registrant.

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## U.S. Holders

As used herein, a “U.S. Holder” means a holder of common shares of the Registrant who is (i) a citizen or individual resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate whose income is taxable in the United States irrespective of source or (iv) a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to specific provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, persons or entities that have a “functional currency” other than the U.S. dollar, shareholders subject to the alternative minimum tax, shareholders who hold common shares as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own common shares as capital assets within the meaning of Section 1221 of the Code. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares.

## Distribution on Common Shares of the Company

U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares of the Registrant are required to include in gross income for United States federal income tax purposes the gross amount of such distributions, equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that the Registrant has current or accumulated earnings and profits, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder’s federal income tax liability or, alternatively, may be deducted in computing the U.S. Holder's federal taxable income by those who itemize deductions. (The section, “Foreign Tax Credit”, below provides more details). To the extent that distributions exceed current or accumulated earnings and profits of the Registrant, they will be treated first as a return of capital up to the U.S. Holder’s adjusted basis in the common shares and thereafter as gain from the sale or exchange of the common shares. Preferential tax rates for long-term capital gains are applicable to a U.S. Holder that is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder that is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss. However, an individual whose realized gain does not exceed \$200 will not recognize that gain, to the extent that there are no expenses associated with the



transaction that meet the requirements for deductibility as a trade or business expense (other than travel expenses in connection with a business trip) or as an expense for the production of income.

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Dividends paid on the common shares of the Registrant generally will not be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations. A U.S. Holder which is a corporation and which owns shares representing at least 10% of the voting power and value of the Registrant may, under certain circumstances, be entitled to a 70% (or 80% if the U.S. Holder owns shares representing at least 20% of the voting power and value of the Registrant) deduction of the United States source portion of dividends received from the Registrant (unless the Registrant qualifies as a “passive foreign investment company,” as defined below). The availability of this deduction is subject to several complex limitations that are beyond the scope of this discussion.

Certain information reporting and backup withholding rules may apply with respect to the Registrant’s common shares. In particular, a payor or middleman within the U.S., or in certain cases outside the U.S., will be required to withhold 31% of any payments to a holder of the Registrant’s common shares of dividends on, or proceeds from the sale of, such common shares within the U.S., unless the holder is an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding tax requirements. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder’s U.S. federal income tax liability, provided the required information is furnished to the IRS. U.S. Holders are urged to consult their own tax counsel regarding the information reporting and backup withholding rules applicable to the Registrant’s common shares.

#### Foreign Tax Credit

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of common shares of the Registrant may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer’s income subject to tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations that apply to the credit among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder’s United States income tax liability that the U.S. Holder’s foreign source income bears to his or its worldwide taxable income. In the determination of the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as “passive income”, “high withholding tax interest,” “financial services income,” “shipping income,” and certain other classifications of income. Dividends distributed by the Registrant will generally constitute “passive income” or, in the case of certain U.S. Holders, “financial services income” for these purposes. In addition, U.S. Holders which are corporations that own 10% or more of the voting stock of the Registrant may be entitled to an “indirect” foreign tax credit under Section 902 with respect to the payment of dividends by the Registrant under certain circumstances and subject to complex rules and limitations. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific, and U.S. Holders of common shares of the Registrant should consult their own tax advisors regarding their particular circumstances.

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## Disposition of Common Shares of the Company

A U.S. Holder will recognize gain or loss upon the sale of common shares of the Registrant equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder's tax basis in the common shares of the Registrant. Preferential tax rates apply to long-term capital gains of U.S. Holders that are individuals, estates or trusts. This gain or loss will be capital gain or loss if the common shares are a capital asset in the hands of the U.S. Holder, which will be long-term capital gain or loss if the common shares of the Registrant are held for more than one year. Deductions for net capital losses are subject to significant limitations. For U.S. Holders which are not corporations, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted. For U.S. Holders that are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

## Other Considerations

In the following circumstances, the above sections of this discussion may not describe the United States federal income tax consequences resulting from the holding and disposition of common shares:

### Foreign Investment Company

If 50% or more of the combined voting power or total value of the Registrant's outstanding shares is held, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships or companies, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), and the Registrant is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that the Registrant may be treated as a "foreign investment company" as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging common shares to be treated as ordinary income rather than capital gain. The Registrant does not believe that it currently qualifies as a foreign investment company. However, there can be no assurance that the Registrant will not be considered a foreign investment company for the current or any future taxable year.

### *Passive Foreign Investment Company*

As a foreign corporation with U.S. Holders, the Registrant could potentially be treated as a passive foreign investment company ("PFIC"), as defined in Section 1297 of the Code, depending upon the percentage of the Registrant's income which is passive, or the percentage of the Registrant's assets which produce or are held for the production of passive

income. U.S. Holders owning common shares of a PFIC are subject to the highest rate of tax on ordinary income in effect for the applicable taxable year and to an interest charge based on the value of deferral of tax for the period during which the common shares of the PFIC are owned with respect to certain “excess distributions” on and dispositions of PFIC stock. However, if the U.S. Holder makes a timely election to treat a PFIC as a qualified electing fund (“QEF”) with respect to such shareholder's interest therein, the above-described rules generally will not apply. Instead, the electing U.S. Holder would include annually in his gross income his pro rata share of the PFIC's ordinary earnings and net capital gain regardless of whether such income or gain was actually distributed. A U.S. Holder of a QEF can, however, elect to defer the payment of United States federal income tax on such income inclusions. Special rules apply to U.S. Holders who own their interests in a PFIC through intermediate entities or persons. In addition, subject to certain limitations, U.S. Holders owning, actually or constructively, marketable (as specifically defined) stock in a PFIC will be permitted to elect to mark that stock to market annually, rather than be subject to the excess distribution regime of section 1291 described above. Amounts included in or deducted from income under this alternative (and actual gains and losses realized upon disposition, subject to certain limitations) will be treated as ordinary gains or losses. This alternative will apply to taxable years of U.S. Holders beginning after 1997 and taxable years of foreign corporations ending with or within such taxable years of U.S. Holders.

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Because the PFIC determination is made annually on the basis of income and assets, there can be no assurance that the Registrant will not be classified a PFIC in the current or in a subsequent year. In addition, there can be no assurance that the Registrant's determination concerning its PFIC status will not be challenged by the IRS, or that it will be able to satisfy record keeping requirements which will be imposed on QEFs in the event that it qualifies as a PFIC.

### ***Controlled Foreign Registrant***

If more than 50% of the total combined voting power of all classes of shares entitled to vote or the total value of the shares of the Registrant is owned, actually or constructively, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), each of which own, actually or constructively, 10% or more of the total combined voting power of all classes of shares entitled to vote of the Registrant ("United States Shareholder"), the Registrant could be treated as a controlled foreign corporation ("CFC") under Subpart F of the Code. This classification would affect many complex results, one of which is the inclusion of certain income of a CFC which is subject to current U.S. tax. The United States generally taxes United States shareholders of a CFC currently on their pro rata shares of the Subpart F income of the CFC. Such United States shareholders are generally treated as having received a current distribution out of the CFC's Subpart F income and are also subject to current U.S. tax on their pro rata shares of the CFC's earnings invested in U.S. property. The foreign tax credit described above may reduce the U.S. tax on these amounts. In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Holder of common shares of the Registrant which is or was a United States Shareholder at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of earnings and profits of the Registrant attributable to the shares sold or exchanged. If a foreign corporation is both a PFIC and a CFC, the foreign corporation generally will not be treated as a PFIC with respect to United States Shareholders of the CFC. This rule generally will be effective for taxable years of United States Shareholders beginning after 1997 and for taxable years of foreign Registrants ending with or within such taxable years of United States Shareholders. Special rules apply to United States Shareholders who are subject to the special taxation rules under Section 1291 discussed above with respect to a PFIC. Because of the complexity of Subpart F, a more detailed review of these rules is outside of the scope of this discussion. The Registrant does not believe that it currently qualifies as a CFC. However, there can be no assurance that the Registrant will not be considered a CFC for the current or any future taxable year.

### **Certain Canadian Federal Income Tax Considerations**

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A brief description of certain provisions of the tax treaty between Canada and the United States is included below, together with a brief outline of certain taxes, including withholding provisions, to which United States security holders are subject under existing laws and regulations of Canada. The consequences, if any, of provincial, state and local taxes are not considered.

The following information is general, and security holders should seek the advice of their own tax advisors, tax counsel or accountants with respect to the applicability or effect on their own individual circumstances of the matters referred to herein and of any provincial, state, or local taxes.

The discussion under this heading summarizes the principal Canadian federal income tax consequences of acquiring, holding and disposing of shares of common stock of the Registrant for a shareholder of the Registrant who is not a resident of Canada but is a resident of the United States and who will acquire and hold shares of common stock of the Registrant as capital property for the purposes of the *Income Tax Act* (Canada) (the “Canadian Tax Act”). This summary does not apply to a shareholder who carries on business in Canada through a “permanent establishment” situated in Canada or performs independent personal services in Canada through a fixed base in Canada if the shareholder’s holding in the Registrant is effectively connected with such permanent establishment or fixed base. This summary is based on the provisions of the Canadian Income Tax Act and the regulations thereunder and on an understanding of the administrative practices of Canada Revenue Agency, and takes into account all specific proposals to amend the Canadian Tax Act or regulations made by the Minister of Finance of Canada as of the date hereof. It has been assumed that there will be no other relevant amendment of any governing law although no assurance can be given in this respect. This discussion is general only and is not a substitute for independent advice from a shareholder’s own Canadian and U.S. tax advisors.

The provisions of the Canadian Tax Act are subject to income tax treaties to which Canada is a party, including the Canada-United States Income Tax Convention (1980), as amended (the “Convention”).

#### Dividends on Common Shares and Other Income

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25 percent on dividends paid or deemed to have been paid to him or her by a corporation resident in Canada. The Convention limits the rate to 15 percent if the shareholder is a resident of the United States and the dividends are beneficially owned by and paid to such shareholder, and to 5 percent if the shareholder is also a corporation that beneficially owns at least 10 percent of the voting stock of the payor corporation.

The amount of a stock dividend (for tax purposes) would generally be equal to the amount by which the paid up or stated capital of the Registrant had increased by reason of the payment of such dividend. The Registrant will furnish

additional tax information to shareholders in the event of such a dividend. Interest paid or deemed to be paid on the Registrant's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities and any applicable tax treaty.

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The Convention generally exempts from Canadian income tax dividends paid to a religious, scientific, literary, educational or charitable organization or to an organization operated exclusively to administer or provide pension, retirement or employee benefit fund, if the organization is a resident of the United States and is generally exempt from income tax under the laws of the United States provided it is not carrying on a trade or business.

### **Dispositions of Common Shares**

Under the Canadian Tax Act, subject to certain restrictions, a taxpayer's capital gain or capital loss from a disposition of a share of common stock of the Registrant is the amount, if any, by which his or her proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of his or her adjusted cost base of the share and reasonable expenses of disposition. The capital gain or loss must be computed in Canadian currency using a weighted average adjusted cost base for identical properties. Fifty percent of the capital gains net of losses are included in income. The amount by which a shareholder's capital loss exceeds the capital gain in a year may be deducted from a capital gain realized by the shareholder in the three previous years or any subsequent year, subject to certain restrictions in the case of a corporate shareholder.

Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian tax on taxable capital gains, and may deduct allowable capital losses, realized on a disposition of "taxable Canadian property". Shares of common stock of the Registrant will constitute taxable Canadian property of a shareholder at a particular time if the shareholder used the shares in carrying on business in Canada, or if at any time in the five years immediately preceding the disposition 25% or more of the issued shares of any class or series in the capital stock of the Registrant belonged to one or more persons in a group comprising the shareholder and persons with whom the shareholder and persons with whom the shareholder did not deal at arm's length and in certain other circumstances.

The Convention relieves United States residents from liability for Canadian tax on capital gains derived on a disposition of shares unless:

- (a) the value of the shares is derived principally from "real property" in Canada, including the right to explore for or exploit natural resources and rights to amounts computed by reference to production;
- (b) the shareholder was resident in Canada for 120 months during any period of 20 consecutive years preceding the disposition, and at any time during the 10 years immediately preceding, the disposition and the shares were owned by him or her when he or she ceased to be resident in Canada; or

(c) the shares formed part of the business property of a “permanent establishment” that the holder has or had in Canada within the 12 months preceding the disposition.

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**10.F Dividends and Paying Agents**

Not applicable.

**10.G Statement by Experts**

Not applicable.

**10.H Documents on Display**

Copies of documents referred to in this Form 20-F may be inspected at the Registrant's corporate office at Suite #301 - 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8. The Registrant may require the payment of a reasonable fee in respect of a request made by a person who is not a security holder of the Registrant.

The Registrant's documents publicly filed with the Securities and Exchange Commission may also be viewed and inspected at the SEC's Public Reference Room located at 100 F St. NE, Washington, DC, USA, 20549. Copies may also be obtained from the SEC at prescribed rates.

**10.I Subsidiary Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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Canarc's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. IFRS 1 has been applied with an adoption date of January 1, 2011 and a transition date of January 1, 2010, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

Quantitative and qualitative disclosures about market risk are provided in Canarc's audited consolidated financial statements for the year ended December 31, 2013 and the notes thereto.

Item 3.D provides information concerning risk factors.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

PART II

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**14.A - D**

None.

**14.E Proceeds**

Not Applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

At the end of the period covered by this report, an evaluation was carried out under the supervision of and with the participation of the Registrant's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a – 15(e) and Rule 15d – 15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that as of the end of the period covered by this report, the Registrant's disclosure controls and procedures were adequately designed and effective at the reasonable assurance level to ensure that: (i) information required to be disclosed by the Registrant in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms; and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to the Registrant's management, including its CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

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## Management's Report on Internal Control over Financial Reporting

The Registrant's management, including the CEO and CFO, does not expect that its disclosure controls and procedures or internal controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Registrant have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Registrant's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Registrant;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Registrant's assets that could have a material effect on the annual financial statements or interim financial statements.

Management conducted an evaluation of the design and operation of the Registrant's internal control over financial reporting as of December 31, 2013 based on the criteria in a framework developed by the Registrant's management pursuant to and in compliance with the SEC's *Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*, Release No. 33-8810 and based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO 1992 framework). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based upon its assessment, management, including the Registrant's Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2013, the Registrant's internal control over financial reporting was effective.



On January 1, 2014, the Company adopted the Committee of Sponsoring Organizations new internal control framework (“COSO 2013”), which is not expected to have a material impact on the Company’s disclosure controls and procedures and internal controls over financial reporting.

The Registrant has insufficient resources to appropriately review increasingly complex areas of accounting within the accounting function such as those in relation to new accounting standards, financial instruments and future income tax. The Registrant shall engage the services of an external accounting firm, which is independent of the Registrant’s current auditors, to assist in applying complex areas of accounting as needed. In December 2007, the Registrant has hired a consultant to design and implement internal controls over financial reporting. Management concluded that the financial statements for the year ended December 31, 2013 fairly present the Registrant’s financial position and the results of its operations for the year then ended, and that no material misstatements were identified. Ongoing staff training and development in complex accounting issues and engagement of services of external consultants with knowledge and skills in complex areas of accounting, when needed, shall contribute to reduce the risk of a material weakness in the Registrant’s internal control over financial reporting and assist in providing reasonable assurance that its internal control over financial reporting is effective.

The Registrant’s independent registered public accounting firm is not required to provide an attestation on management’s report on internal control over financial reporting, because the Registrant was not an accelerated filer or large accelerated filer and exempt under the JOBS Act. Therefore, this report does not include an attestation report of the Registrant’s independent registered public accounting firm regarding internal controls over financial reporting pursuant to rules of the Securities and Exchange Commission that permit the Registrant to provide only management’s report in this annual report.

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

There were no changes in the Registrant’s internal controls over financial reporting identified in connection with the evaluation described above that occurred during the period covered by this annual report that has materially affected or is reasonably likely to materially affect the Registrant’s internal control over financial reporting.

### **ITEM 16. AUDIT COMMITTEE FINANCIAL EXPERT, CODE OF ETHICS AND PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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## 16.A Audit Committee Financial Expert

The Registrant's audit committee is comprised of three directors, all of whom are independent, as set forth below:

Martin Burian

Bruce Bried

Leonard Harris

Mr. Martin Burian, Chairman of the Audit Committee, would be considered a financial expert, and the other audit committee members are financially literate, meaning that they are able to read and understand financial statements. The Board of Directors has determined that its members of the Audit Committee have sufficient skills to satisfy its duties given the stage and size of the Registrant.

### *Relevant Education and Experience*

*Martin Burian* – Mr. Burian is a Chartered Professional Accountant and Chartered Business Valuator with over eighteen years of investment banking experience. He has a wealth of knowledge and expertise in corporate finance and advisory services, including mergers and acquisition in mineral exploration and mining. He is currently the CFO of Cap-Ex Iron Ore Ltd., CFO and a director of Tinkerine Studio Ltd., and a director of Alberta Star Development Corp. Mr. Burian was most recently Managing Director of Investment Banking at Haywood Securities Inc. from 2010 until mid-2013, prior to which he served as President of Bolder Investment Partners from 2009 until its merger with Haywood Securities in 2010. Mr. Burian obtained his CPA and CBV designations while at KPMG and obtained his Bachelor of Commerce from the University of British Columbia in 1986.

*Bruce Bried* – Mr. Bried is a professional engineer with over 30 years of management experience in the mining industry in various capacities in Engineering, Operations and Reclamation, specializing in underground vein gold and silver mines. He has a B.Sc. Mining Engineering, Colorado School of Mines, Golden, CO. His significant experience in the last ten years has been VP Operations for Endeavour Silver Corp. and General Manager for Kinross Gold USA Inc., at the Lupin Mine, General Manager of the Lead Mine in South Dakota and the Snip Mine in British Columbia for Homestake Mining Company.

*Leonard Harris* - Mr. Harris is a professional engineer with a metallurgy diploma and 50 years of experience in all aspects of mineral processing and mining operations world-wide, including the construction of the Yanacocha gold mine in Peru. Mr. Harris is currently a director for other small cap mining and exploration public companies.

**16.B Code of Ethics**

The Registrant has not adopted a formal written code of ethics given its relatively small size.

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Directors, including the director/employee of the Registrant, are subject to the laws of the Province of British Columbia, Canada, whereby they are required to act honestly, in good faith and in the best interests of the Registrant. Also, the corporate secretary who is a securities lawyer is available to the management of the Registrant to provide a high standard of due care in the activities of the Registrant and to provide guidance when needed.

The Registrant expects all directors, officers and employees to abide by the following code of ethics which have been communicated to them:

- act with honesty and integrity and in an ethical manner resolve any actual or apparent conflicts of interest between personal and professional relationships;
- ensure that any public filings or announcements, whether they are statutory or regulatory filings or other documents submitted for public disclosure and communication, are accurate, complete, fair, timely and understandable in all material respects, taking into consideration applicable standards and regulations;
- compliance with applicable laws, rules and regulations; and
- prompt internal reporting of any violations, whether actual or potential, in the code of ethics.

#### 16.C Principal Accountant Fees and Services

The following table discloses accounting fees and services of the Registrant:

(Stated in terms of Canadian dollars)

| <u>Type of Services Rendered</u> | <u>2013</u><br><u>Fiscal Year</u><br>(CAD\$) | <u>2012</u><br><u>Fiscal Year</u><br>(CAD\$) |
|----------------------------------|--|--|
| (a) Audit Fees                   | \$45,000                                     | \$50,000                                     |
| (b) Audit-Related Fees           | Nil  | Nil  |
| (c) Tax Fees                     | Nil  | Nil  |
| (d) All Other Fees               | Nil  | Nil  |

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At an Audit Committee meeting held in March 2014, the Audit Committee pre-approved all services to be performed by the auditors including certain non-audit services requested by management for the 2014 fiscal year until the next Audit Committee meeting concerning the financial statements for the year ended December 31, 2014, which services are not prohibited services under the independence requirements of the Securities and Exchange Commission or professional standards in Canada or the United States.

**16.D Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**16.E Purchases of Equity Securities by the Registrant and Affiliated Purchasers**

None.

**16.F Change in Registrant's Certifying Accountant**

In the two most recent fiscal years 2012 and 2013, there was no change in the Registrant's certifying accountant.

**16.G Corporate Governance**

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The Registrant is listed on the TSX and, under Canadian security laws and regulations, is required to report annually to its shareholders on its corporate governance practices and policies with reference to National Policy 58-201, *Corporate Governance Guidelines* and National Instrument 58-101, *Disclosure of Corporate Governance Practices*. The Registrant's corporate governance practices meet all mandated requirements and are not, in the opinion of management, materially different from other junior resource companies listed on the TSX. Item 6.C provides further details.

#### **16.H Mine Safety Disclosure**

The Registrant currently does not have any operating mines.



PART III

**ITEM 17. FINANCIAL STATEMENTS**

Not Applicable

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the IASB. IFRS 1 has been applied with an adoption date of January 1, 2011 and a transition date of January 1, 2010, and all dollar amounts are expressed in United States dollars unless otherwise indicated. Previously the Company's consolidated financial statements were prepared in accordance with Canadian GAAP. Material measurement differences between Canadian GAAP and the accounting principles in the United States, as applicable to the Company, were described in the Company's previous consolidated financial statements.

The following financial statements and related schedules are included in this Item:

| <b>Financial Statements</b>   | <b>Page # in<br/>Sequential<br/>Numbering<br/>System</b> |
|---|--|
| 1.1 Report of Independent Registered Public Accounting Firm dated March 27, 2014  | 84   |
| 1.2 Consolidated statements of financial position as at December 31, 2013 and 2012 together with the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2013, 2012 and 2011. | 85-89  |

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**ITEM 19. EXHIBITS**

| <b>Exhibit #</b> | <b>Exhibits Description</b>  | <b>Page # in Sequential Numbering System</b>                                   |
|------------------|--|--|
| 1-1              | Notice of Articles and Articles (Business Corporations Act of British Columbia)  | Previously filed as Exhibit 2.1 in the Form 20-F with the SEC on July 12, 2005 |
| 1-2              | Shareholders Right Plan dated April 30, 2005   | Previously filed as Exhibit 2.2 in the Form 20-F with the SEC on July 12, 2005 |
| 8-1              | List of Material Subsidiaries  | 125  |
| 12-1             | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Catalin Chiloflischi)   | 81   |
| 12-2             | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Philip Yee)   | 82   |
| 13-1.            | Certification pursuant to Title 18, United States Code, Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Catalin Chiloflischi) | 126  |
| 13-2             | Certification pursuant to Title 18, United States Code, Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Philip Yee)           | 126  |
| 15-1             | Resource Potential, New Polaris Project<br>(dated March 14, 2007)  | Previously filed on Form 6-K with the SEC in July 2008                         |
| 15-2             | New Polaris Project, Preliminary Assessment<br>(dated December 23, 2009)   | Previously filed on Form 6-K with the SEC in July 2010                         |
| 15-3             | New Polaris Project, Preliminary Assessment<br>(dated April 10, 2011)  | Previously filed on Form 6-K with the SEC in July 2011                         |
| 15-4             | 2009 Diamond Drilling Program on the Tay-LP Property<br>(dated March 30, 2010)   | Previously filed on Form 6-K with the SEC in July 2010                         |

**SIGNATURE**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

DATED at Vancouver, British Columbia, Canada, as of April 28, 2014.

**CANARC RESOURCE CORP.**

Per:

*/s/ Catalin Chiloflisch*

Catalin Chiloflisch, Chief Executive Officer

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**EXHIBIT 12.1**

**CERTIFICATIONS**

I, Catalin Chiloflisci, certify that:

1. I have reviewed this annual report on Form 20-F of Canarc Resource Corp.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a  
2. material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly  
3. present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls  
4. and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed  
a. under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be  
b. designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our  
c. conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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Disclosed in this report any change in the Company's internal control over financial reporting that occurred during d. the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal 5. control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial a. reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

DATED at Vancouver, British Columbia, Canada, as of April 28, 2014.

*/s/ Catalin Chiloflisch*

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Catalin Chiloflisch, Chief Executive Officer

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**EXHIBIT 12.2**

**CERTIFICATIONS**

I, Philip Yee, certify that:

1. I have reviewed this annual report on Form 20-F of Canarc Resource Corp.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a  
2. material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly  
3. present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls  
4. and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed  
a. under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be  
b. designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our  
c. conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

DATED at Vancouver, British Columbia, Canada, as of April 28, 2014.

*/s/ Philip Yee*

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Philip Yee, Chief Financial Officer

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Consolidated Financial Statements of

**CANARC RESOURCE CORP.**

**(expressed in thousands of United States dollars)**

**Years ended December 31, 2013 and 2012**



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## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF CANARC RESOURCE CORP.**

We have audited the accompanying consolidated financial statements of Canarc Resource Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2013, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canarc Resource Corp. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years ended December 31, 2013, 2012 and 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Emphasis of Matter*

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

*"SmytheRatcliffe LLP" (signed)*

Chartered Accountants

Vancouver, Canada

March 27, 2014

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**CANARC RESOURCE CORP.**

## Consolidated Statements of Financial Position

(expressed in thousands of United States dollars)

|   | Notes | 2013      | December 31, | 2012     |
|---|-------|-----------|--------------|----------|
| <b>ASSETS</b>                                 |       |           |              |          |
| <b>CURRENT ASSETS</b>                         |       |           |              |          |
| Cash  |       | \$ 50     | \$           | 170      |
| Receivables and prepaids                      | 14    | 105       |              | 170      |
| Total Current Assets                          |       | 155       |              | 340      |
| <b>NON-CURRENT ASSETS</b>                     |       |           |              |          |
| Mineral property interests                    | 7     | 12,330    |              | 13,544   |
| Equipment                                     | 8     | 3         |              | 5        |
| Long-term investments                         | 9     | -         |              | 94       |
| Total Non-Current Assets                      |       | 12,333    |              | 13,643   |
| Total Assets                                  |       | \$ 12,488 | \$           | 13,983   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |       |           |              |          |
| <b>CURRENT LIABILITIES</b>                    |       |           |              |          |
| Accounts payable and accrued liabilities      | 14    | \$ 945    | \$           | 720      |
| Notes payable                                 | 10    | 131       |              | -        |
| Flow-through obligations                      | 11    | -         |              | 209      |
| Total Liabilities                             |       | 1,076     |              | 929      |
| <b>SHAREHOLDERS' EQUITY</b>                   |       |           |              |          |
| Share capital                                 | 12    | 60,178    |              | 59,682   |
| Reserve for share-based payments              |       | 590       |              | 836      |
| Accumulated other comprehensive (loss) income |       | (702)     |              | 62       |
| Deficit                                       |       | (48,654)  |              | (47,526) |
| Total Shareholders' Equity                    |       | 11,412    |              | 13,054   |
| Total Liabilities and Shareholders' Equity    |       | \$ 12,488 | \$           | 13,983   |

Refer to the accompanying notes to the consolidated financial statements.

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Approved on behalf of the Board:

/s/

*Bradford Cooke*

Director

/s/

*Martin Burian*

Director

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**CANARC RESOURCE CORP.**

## Consolidated Statements of Comprehensive Loss

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

|   | Notes        | 2013              | Years ended December 31, |           |
|---|--------------|-------------------|--------------------------|-----------|
|   |              |                   | 2012                     | 2011      |
| <b>Expenses:</b>  |              |                   |                          |           |
| Amortization  |              | \$ 1              | \$ 2                     | \$        |
| Corporate development   |              | 19                | 26                       |           |
| Employee and director remuneration                              | 14           | 452               | 521                      |           |
| General and administrative                                      | 13 and 14    | 223               | 289                      |           |
| Shareholder relations   |              | 111               | 227                      |           |
| Share-based payments  | 12(c) and 14 | 72                | 168                      |           |
| <b>Loss before the undernoted</b>                               |              | <b>(878)</b>      | <b>(1,233)</b>           |           |
| Derecognition of accounts payable                               | 11           | 99                | -                        |           |
| Derecognition of flow-through obligations                       | 11           | 213               | -                        |           |
| Gain from disposition of available-for-sale securities          | 6            | -                 | 77                       |           |
| Interest and finance charges                                    | 10 and 11    | (17)              | (56)                     |           |
| Foreign exchange gain (loss)                                    |              | 4                 | 33                       |           |
| Due diligence costs on asset acquisition                        |              | -                 | -                        |           |
| Write-down of long term investments                             |              | (91)              | -                        |           |
| Write-off of receivable and tax recoveries                      | 14           | (54)              | -                        |           |
| Write-off of mineral property interests, net of recoveries      | 7            | (653)             | (27)                     |           |
| <b>Loss before income tax</b>                                   |              | <b>(1,377)</b>    | <b>(1,206)</b>           |           |
| Deferred income tax recovery                                    | 12(b)(iv)    | -                 | -                        |           |
| <b>Net loss for the year</b>                                    |              | <b>(1,377)</b>    | <b>(1,206)</b>           |           |
| Other comprehensive (loss) income:                              |              |                   |                          |           |
| Items that may be reclassified into profit or loss:             |              |                   |                          |           |
| Unrealized (loss) gain on available-for-sale securities         | 6            | -                 | (4)                      |           |
| Realized gain from disposition of available-for-sale securities |              | -                 | (77)                     |           |
| Items that will not be reclassified into profit or loss:        |              |                   |                          |           |
| Foreign currency translation adjustment                         |              | (764)             | 197                      |           |
| <b>Comprehensive loss for the year</b>                          |              | <b>\$ (2,141)</b> | <b>\$ (1,090)</b>        | <b>\$</b> |
| <b>Basic and diluted loss per share</b>                         |              | <b>\$ (0.01)</b>  | <b>\$ (0.01)</b>         | <b>\$</b> |



|  |                    |            |
|--|--------------------|------------|
| Weighted average number of common shares outstanding | <b>113,830,108</b> | 97,408,679 |
|--|--------------------|------------|

Refer to the accompanying notes to the consolidated financial statements.

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**CANARC RESOURCE CORP.**

## Consolidated Statements of Changes in Shareholders' Equity

(expressed in thousands of United States dollars)

|  | Number of<br>Shares | Share Capital<br>Amount | Reserve for<br>Share-Based<br>Payments | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Deficit     |
|--|---------------------|-------------------------|--|--|-------------|
| Balance,<br>December 31,<br>2010   | 90,985,890          | \$ 57,685               | \$ 1,259                               | \$ 10  | \$ (46,975) |
| Conversion of<br>convertible<br>debenture  | 1,282,051           | 291                     | -                                      | -  | -           |
| Property<br>acquisition  | 215,580             | 24                      | -                                      | -  | -           |
| Exercise of stock<br>options   | 299,000             | 54                      | (22)                                   | -  | -           |
| Exercise of<br>warrants  | 1,313,650           | 205                     | -                                      | -  | -           |
| Renunciation of<br>flow-through<br>expenditures  | -                   | (1)                     | -                                      | -  | -           |
| Share-based<br>payments  | -                   | -                       | 241                                    | -  | -           |
| Expiry of stock<br>options   | -                   | -                       | (397)                                  | -  | 397         |
| Effect from<br>change in<br>functional<br>currency   | -                   | -                       | -                                      | -  | (110)       |
| Other<br>comprehensive<br>income:<br>Unrealized gain<br>on<br>available-for-sale<br>securities | -                   | -                       | -                                      | 71   | -           |
| Foreign currency<br>translation<br>adjustment  | -                   | -                       | -                                      | (135)  | -           |
| Elimination of<br>derivative<br>liability  | -                   | -                       | -                                      | -  | 1,082       |

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|  |             |        |       |      |          |
|--|-------------|--------|-------|------|----------|
| Net loss for the year                            | -           | -      | -     | -    | (1,209)  |
| Balance, December 31, 2011                       | 94,096,171  | 58,258 | 1,081 | (54) | (46,815) |
| Private placement, net of share issue costs      | 15,800,000  | 1,460  | -     | -    | -        |
| Exercise of stock options                        | 346,000     | 61     | (25)  | -    | -        |
| Share-based payments                             | -           | -      | 168   | -    | -        |
| Expiry of stock options                          | -           | -      | (489) | -    | 489      |
| Finders fee warrants                             | -           | (97)   | 97    | -    | -        |
| Other comprehensive income:                      |             |        |       |      |          |
| Unrealized loss on available-for-sale securities | -           | -      | -     | (4)  | -        |
| Realized gain on available-for-sale securities   | -           | -      | -     | (77) | -        |
| Foreign currency translation adjustment          | -           | -      | 4     | 197  | 6        |
| Net loss for the year                            | -           | -      | -     | -    | (1,206)  |
| Balance, December 31, 2012                       | 110,242,171 | 59,682 | 836   | 62   | (47,526) |
| Private placement, net of share issue costs      | 1,600,000   | 155    | -     | -    | -        |
| Property acquisition                             | 2,000,000   | 196    | -     | -    | -        |
| Exercise of stock options                        | 769,000     | 116    | (40)  | -    | -        |
| Exercise of share appreciation rights            | 207,024     | 29     | (34)  | -    | 5        |
| Share-based payments                             | -           | -      | 72    | -    | -        |
| Expiry of stock options                          | -           | -      | (236) | -    | 236      |
| Other comprehensive                              |             |        |       |      |          |

income:

Foreign currency  
translation  
adjustment

- - (8) (764)

Net loss for the  
year

- - - - (1,377)

Balance,

December 31, 2013 114,818,195 \$ 60,178 \$ 590 \$ (702) \$ (48,654)

Refer to the accompanying notes to the consolidated financial statements.

**CANARC RESOURCE CORP.**

## Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

|  | <b>2013</b>  | <b>Years ended December 31,</b> |              |
|--|--------------|---------------------------------|--------------|
|  |              | 2012                            | 2011         |
| <b>Cash provided from (used by):</b>                       |              |                                 |              |
| <b>Operations:</b>   |              |                                 |              |
| Net loss for the year                                      | \$ (1,377)   | \$ (1,206)                      | \$ (1,209)   |
| Items not involving cash:                                  |              |                                 |              |
| Accrued interest   | 17           | 10                              | 10           |
| Amortization   | 1            | 2                               | 3            |
| Share-based payments                                       | 72           | 168                             | 241          |
| Derecognition of accounts payable                          | (99)         | -                               | -            |
| Derecognition of flow-through obligations                  | (213)        | -                               | -            |
| Gain on disposition of available-for-sale securities       | -            | (77)                            | -            |
| Deferred income tax recovery                               | -            | -                               | (1)          |
| Unrealized currency translation gain                       | -            | (53)                            | -            |
| Write-down of long term investment                         | 91           | -                               | -            |
| Write-off of mineral property interest                     | 653          | 27                              | -            |
| Write-off of receivable and tax recoveries                 | 54           | -                               | 25           |
|  | (801)        | (1,129)                         | (931)        |
| Changes in non-cash working capital items:                 |              |                                 |              |
| Receivables and prepaids                                   | 11           | (78)                            | (12)         |
| Accounts payable and accrued liabilities                   | 322          | 196                             | (8)          |
| Flow-through obligations                                   | -            | -                               | (39)         |
| Cash used by operating activities                          | (468)        | (1,011)                         | (990)        |
| <b>Financing:</b>  |              |                                 |              |
| Issuance of common shares, net of share issuance costs     | 231          | 1,496                           | 528          |
| Proceeds from demand loans                                 | 126          | 358                             | -            |
| Repayment of demand loans                                  | -            | (450)                           | -            |
| Cash provided from financing activities                    | 357          | 1,404                           | 528          |
| <b>Investing:</b>  |              |                                 |              |
| Proceeds from royalty receivable                           | -            | -                               | 50           |
| Proceeds from disposition of available-for-sale securities | -            | 92                              | -            |
| Mineral property interests, net of recoveries              | (9)          | (360)                           | (435)        |
| Disposition of asset held for sale, net of acquisition     | -            | -                               | 300          |
| Cash used by investing activities                          | (9)          | (268)                           | (85)         |
| <b>(Decrease) increase in cash</b>                         | <b>(120)</b> | <b>125</b>                      | <b>(547)</b> |
| Cash, beginning of year                                    | 170          | 45                              | 592          |

|                          |    |           |    |     |    |    |
|--------------------------|----|-----------|----|-----|----|----|
| <b>Cash, end of year</b> | \$ | <b>50</b> | \$ | 170 | \$ | 45 |
|--------------------------|----|-----------|----|-----|----|----|

Refer to the accompanying notes to the consolidated financial statements.

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**CANARC RESOURCE CORP.**

## Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

|  | Notes     | 2013   | Years ended December 31, |       |
|--|-----------|--------|--------------------------|-------|
|  |           |        | 2012                     | 2011  |
| <b>Non-cash financing and investing activities:</b>          |           |        |                          |       |
| Issuance of shares for mineral property interests            | 7(a)(iii) | \$ 196 | \$ -                     | \$ 24 |
| Fair value allocated to common shares issued on exercise of: |           |        |                          |       |
| Stock options  |           | 40     | 25                       | 22    |
| Share appreciation rights                                    |           | 29     | -                        | -     |
| Expiration of stock options                                  |           | 236    | 489                      | 397   |
| Fair value of finder's fee warrants                          |           | -      | 97                       | -     |
| <b>Income taxes paid</b>                                     |           | -      | -                        | -     |
| <b>Interest paid</b>   |           | -      | 51                       | 9     |

Refer to the accompanying notes to the consolidated financial statements.

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

**1. Nature of Operations and Going Concern**

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

The Company has no operating revenues, has incurred significant net losses of \$1,377,000 (2012 - \$1,206,000 and 2011 - \$1,209,000), and has a deficit of \$48.7 million as at December 31, 2013 (December 31, 2012 - \$47.5 million). Furthermore, the Company has working capital deficiency of \$921,000 as at December 31, 2013 (December 31, 2012 - \$589,000). These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management would need to raise the necessary capital to meet its planned business objectives and continues to seek financing opportunities. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

**2. Basis of Presentation**

(a) Statement of compliance:



**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

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

(b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company’s Board of Directors on March 25, 2014.

(c) Basis of presentation:

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

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

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

(d) Functional currency and presentation currency:

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

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

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

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

(e) Critical accounting estimates and judgements:

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

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

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

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

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

(f) New accounting standards and recent pronouncements:

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

The Company has reviewed new and amended accounting pronouncements that have been issued by the IASB but are not yet effective. All of the new and revised standards described below may be early adopted.

(i) IFRS 9 *Financial Instruments* (2011) (“IFRS 9”)

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

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances);
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss; and
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss.

The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

(ii) IFRS 9 *Financial Instruments* (2010) (“IFRS 9”)

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

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

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

The IASB has indefinitely postponed the mandatory adoption date of this standard.

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

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

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

(iii) *IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (2013) (“IFRS 9”)*

A revised version of IFRS 9 which:

introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is -designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures;  
permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss; and  
removes the mandatory effective date of IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending -the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

This standard has no stated effective date.

(iv) *IFRIC 21 Levies (“IFRIC 21”)*

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

- The liability is recognized progressively if the obligating event occurs over a period of time; and  
If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

IFRIC 12 applies to annual periods beginning on January 1, 2014.

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

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

(v) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2013, 2012 and 2011

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

Amendments to IAS 32 Financial Instruments: *Presentation* clarify certain aspects because of diversity in application of the requirements on offsetting and focus on four main areas:

- the meaning of “currently has a legally enforceable right of set-off”,
- the application of simultaneous realization and settlement,
- the offsetting of collateral amounts, and
- the unit of account for applying the offsetting requirements.

Amendments to IAS 32 are applicable to annual periods beginning on January 1, 2014.

(vi) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amendments to IAS 36 *Impairment of Assets* are to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, to clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The amendments are applicable to annual periods beginning on January 1, 2014.

(vii) Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amendments to IAS 39 Financial Instruments: *Recognition and Measurement* are to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

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A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

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

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

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(viii) Annual Improvements 2010-2012 Cycle

These annual improvements make amendments to the following standards:

IFRS 2 — Amends the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”;

IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date;

IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly;

IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only);

IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; and

- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

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

(ix) Annual Improvements 2011-2013 Cycle

These annual improvements make amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)

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IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself

- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52

IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

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

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

**3. Significant Accounting Policies**

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

(a) Basis of consolidation:

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

(b) Financial instruments:

(i) Financial assets:

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

*Financial assets at FVTPL*

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

*Loans and receivables*

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

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*Held to maturity*

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. HTM investments are initially recognized on their trade-date at fair value, and subsequently are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss. The Company does not have any assets classified as HTM investments.

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

(b) Financial instruments: (continued)

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(i) Financial assets: (continued)

*Available-for-sale financial assets*

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

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

(ii) Financial liabilities:

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

*Financial liabilities at FVTPL*

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

*Other financial liabilities*



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

Other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable, note payables, other payables, advances from non-controlling interest, deferred credits, and loans.

*Derivative financial liabilities*

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

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

(b) Financial instruments: (continued)

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(iii) Fair value hierarchy:

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

(iv) Impairment of financial assets:

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

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

(v) Derecognition of financial assets and liabilities:

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

(c) Mineral property interests:

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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.

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

(c) Mineral property interests: (continued)

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

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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)Equipment:

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

(e)Proceeds on unit offerings:

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

(f)Non-monetary transactions:

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

(g)Flow-through common shares:

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

to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

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

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

(g) Flow-through common shares: (continued)

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

(h) Share-based payments:

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The Company has a stock option plan that is described in Note 12(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from reserve for share-based payments to deficit.

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

(i) Environmental rehabilitation:

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

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

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



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

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

(i) Environmental rehabilitation: (continued)

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

(j) Earnings (loss) per share:

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

(k) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events

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where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

(1) Income taxes:

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

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**4. Management of Capital**

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

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2013.

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**5. Management of Financial Risk**

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

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

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

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

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

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(a) Credit risk:

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

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

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

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company will require significant additional funding to meet its short-term liabilities, flow-through obligations and administrative overhead costs, and to maintain its mineral property interests in 2014.

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:

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

(i) Foreign currency risk:

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

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

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(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

At December 31, 2013, the Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

|  | Held in Canadian dollars |
|--|--------------------------|
| Cash                                     | \$ 48                    |
| Accounts payable and accrued liabilities | (852)                    |
| Net assets (liabilities)                 | \$ (804)                 |

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

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

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest 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 year-end and the notes payable are stated at a fixed interest rate.

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(iii) Other price risk:

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

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

**6. Marketable Securities**

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|   | 2013 | December 31,<br>2012 |
|---|------|----------------------|
| Balance, begin of year  | \$ - | \$ 93                |
| Realized gain from disposition of available-for-sale securities | -    | (77)                 |
| Disposition of available-for-sale securities at cost            | -    | (14)                 |
| Foreign currency translation adjustment                         | -    | (2)                  |
| Balance, end of year  | \$ - | \$ -                 |

The quoted market value of shares of a company was \$Nil at December 31, 2013 (December 31, 2012 - \$Nil), as these shares were disposed in January and February 2012 for gross proceeds of \$92,000.

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**7. Mineral Property Interests**

|   | British Columbia (Canada)     |                                    | Yukon (Canada)                   |                           | Total     |
|---|-------------------------------|------------------------------------|----------------------------------|---------------------------|-----------|
|   | New Polaris<br>(Note 7(a)(i)) | Windfall Hills<br>(Note 7(a)(iii)) | Devil's Thumb<br>(Note 7(a)(iv)) | Tay-LP<br>(Note 7(a)(ii)) |           |
| <b>Acquisition Costs:</b>                 |                               |                                    |                                  |                           |           |
| Balance, December 31, 2011                | \$ 3,900                      | \$ 67                              | \$ 6                             | \$ 146                    | \$ 4,119  |
| Additions                                 | -                             | 141                                | -                                | 25                        | 166       |
| Foreign currency translation adjustment   | 5                             | 2                                  | -                                | 3                         | 10        |
| Write-off                                 | -                             | -                                  | (6)                              | -                         | (6)       |
| Balance, December 31, 2012                | 3,905                         | 210                                | -                                | 174                       | 4,289     |
| Additions                                 | -                             | 212                                | -                                | -                         | 212       |
| Foreign currency translation adjustment   | (13)                          | (14)                               | -                                | (11)                      | (38)      |
| Write-off                                 | -                             | -                                  | -                                | (163)                     | (163)     |
| Balance, December 31, 2013                | \$ 3,892                      | \$ 408                             | \$ -                             | \$ -                      | \$ 4,300  |
| <b>Deferred Exploration Expenditures:</b> |                               |                                    |                                  |                           |           |
| Balance, December 31, 2011                | \$ 8,285                      | \$ 106                             | \$ 15                            | \$ 423                    | \$ 8,829  |
| Additions                                 | 118                           | 9                                  | 5                                | 62                        | 194       |
| Foreign currency translation adjustment   | 240                           | 2                                  | 1                                | -                         | 243       |
| Write-off                                 | -                             | -                                  | (21)                             | 10                        | (11)      |
| Balance, December 31, 2012                | 8,643                         | 117                                | -                                | 495                       | 9,255     |
| Additions (recoveries), net of recoveries | 17                            | (18)                               | -                                | 10                        | 9         |
| Foreign currency translation adjustment   | (722)                         | (7)                                | -                                | (32)                      | (761)     |
| Write-off                                 | -                             | -                                  | -                                | (473)                     | (473)     |
| Balance, December 31, 2013                | \$ 7,938                      | \$ 92                              | \$ -                             | \$ -                      | \$ 8,030  |
| <b>Mineral property interests:</b>        |                               |                                    |                                  |                           |           |
| Balance, December 31, 2012                | \$ 12,548                     | \$ 327                             | \$ -                             | \$ 669                    | \$ 13,544 |

|                            |        |     |   |   |        |
|----------------------------|--------|-----|---|---|--------|
| Balance, December 31, 2013 | 11,830 | 500 | - | - | 12,330 |
|----------------------------|--------|-----|---|---|--------|

(a) Canada:

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(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2013 include a reclamation bond for \$237,000 (December 31, 2012 - \$253,000).

**7. Mineral Property Interests** (continued)

(a) Canada: (continued)

(ii) Tay-LP:

On August 24, 2009, the Company entered into a property option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. (collectively, "Ross River") to acquire up to 100% interest in the Tay-LP gold property, located in Yukon, by paying CAD\$1 million in cash and/or shares and spending CAD\$1.5 million on exploration over a three-year period which can occur in two stages. In the first stage, the Company can earn a 51% interest by paying CAD\$150,000 in cash and spending CAD\$900,000 on exploration on or before October 31, 2011. In the second stage, the Company can earn an additional 49%, thereby totalling a 100% interest, by paying CAD\$850,000 in cash or common shares at the Company's discretion and spending CAD\$600,000 on exploration on or before October 31, 2012. If the Company did not proceed with the second stage, then a joint venture would be formed. The Company shall pay to the optionors a gold bonus equal to CAD\$1 per ounce ("oz") of gold for all proven and probable gold reserves and measured and indicated gold resources to a maximum of 1 million oz gold. The property option agreement is subject to a NSR totalling 3% which can be reduced to 1.5% by payments totalling US\$1.95 million. Commencing on or before October 31, 2009 and continuing on or before October 31 of each subsequent year until the property is put into commercial production, the Company shall pay to the NSR holders an annual advance NSR

royalty payments totalling CAD\$25,000 or that number of common shares of the Company and which shall be deducted from NSR obligations. The NSR of 3% shall be subject to maximum total payments based on one million payable ounces of gold being mined by commercial production but will be reduced to 500,000 payable ounces of gold if the NSR is reduced to 1.5%.

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

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

Cash payments of CAD\$25,000 were paid in 2012 (2011 - CAD\$75,000) for property option payments. In 2012, the Company paid CAD\$25,000 in cash as the annual advance NSR royalty for the Tay-LP property, whereas in 2011 the Company issued 215,580 common shares at a value of CAD\$0.116 per common share for CAD\$25,000.

**7. Mineral Property Interests (continued)**

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(a) Canada: (continued)

(ii) Tay-LP: (continued)

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

The Company decided not to proceed with any further expenditure on the Tay LP property which was written off on December 31, 2013.

(iii) Windfall Hills:

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

In April 2011, the Company entered into a property option agreement whereby the Company can acquire a 100% interest in the Dunn properties by making CAD\$250,000 in cash payments over a four year period, and a final bonus

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

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**7. Mineral Property Interests** (continued)

(a) Canada: (continued)

(iv) Devil's Thumb:

In May 2011, the Company staked three gold properties northeast of its Windfall Hills properties in central British Columbia. The Company wrote-off its mineral property interest in Devil's Thumb in the third quarter of fiscal 2012.

(b) Expenditure options:

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As at December 31, 2013, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

|  | Number of<br>Shares |
|--|---------------------|
| New Polaris (Note 7(a)(i)):              |                     |
| Net profit interest reduction or buydown | 150,000             |
|  | 150,000             |

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

(c) Title to mineral property interests:

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

(d) Realization of assets:

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

and upon future profitable production or proceeds from the disposition thereof.

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**7. Mineral Property Interests** (continued)

(e) Environmental:

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

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

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

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**8. Equipment**

|   | Cost  | Accumulated<br>Amortization | Net Book<br>Value |
|---|-------|-----------------------------|-------------------|
| Balance, December 31, 2011              | \$ 10 | \$ 3                        | \$ 7              |
| Additions                               | -     | 2                           | (2)               |
| Balance, December 31, 2012              | 10    | 5                           | 5                 |
| Additions                               | -     | 1                           | (1)               |
| Foreign currency translation adjustment | (1)   | -                           | (1)               |
| Balance, December 31, 2013              | \$ 9  | \$ 6                        | \$ 3              |

**9. Long-Term Investments**

As at December 31, 2013, the Company had an interest of 7% in Aztec (December 31, 2012 – 9%).

There is no separately quoted market value for the Aztec shares and the fair value cannot be reliably determined. Therefore they were recorded at cost in 2012.

In 2013, the Company wrote-down its investment in Aztec to a nominal value of CAD\$100.

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**10. Notes Payable**

|   | 2013   | December 31, | 2012  |
|---|--------|--------------|-------|
| Balance, begin of year                  | \$ -   |              | \$ 88 |
| Add:                                    |        |              |       |
| Proceeds from demand loans              | 126    |              | 358   |
| Accrued interest during the period      | 6      |              | 32    |
| Foreign currency translation adjustment | (1)    |              | 4     |
|   | 131    |              | 394   |
| Less:                                   |        |              |       |
| Repayment of:                           |        |              |       |
| Principal                               | -      |              | 424   |
| Loan bonus                              | -      |              | 7     |
| Interest                                | -      |              | 51    |
|   | -      |              | 482   |
| Balance, end of year                    | \$ 131 |              | \$ -  |

In May 2009, the Company received \$53,490 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bore an interest rate of 9% per annum, which was increased to 12% effective September 1, 2010, and were previously secured by the Company's shareholdings in Caza Gold Corp. ("Caza"), a company with one common director at that time, at CAD\$0.25 per share of Caza which has been replaced by a loan bonus of 12% payable upon repayment effective September 1, 2010.

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In fiscal 2012, the Company arranged demand loans of \$358,000 from certain directors and an officer of the Company, which were repayable on demand and bore an interest rate of 12% compounded monthly with interest payable semi-annually. In 2012, the Company repaid all principal, bonus and interest in full settlement of outstanding demand loans.

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

**11. Derecognition of Liabilities**

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Pursuant to an audit by the Canada Revenue Agency (the “CRA”), which was completed in June 2010, CRA disallowed approximately CAD\$1.01 million in exploration expenditures incurred in 2007 as Canadian exploration expenditures (“CEE”) of which approximately CAD\$795,000 was disqualified as CEE for flow-through purposes. At December 31, 2012, the Company accrued liabilities of approximately CAD\$146,300 for estimated indemnities related to the disqualified CEE for flow-through purposes and CAD\$62,100 in accrued interests related to the indemnities. In 2011, the Company paid CAD\$37,900 including interest for indemnities relating to ineligible CEE for flow-through purposes. In 2013, the Company determined that it was improbable that any further cash outlays would be required, and therefore the Company derecognized the provision for flow through indemnification.

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

**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:

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

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In February 2014, the Company announced a private placement for up to 21 million units at CAD\$0.10 per unit for gross proceeds of up to CAD\$2.1 million, subject to regulatory approval. Each unit is comprised of one common share and one-half of a whole common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.15 per share for a three year period. A portion of the private placement may be brokered. Finders' fees of up to 7% in cash or warrants may be payable on portions of the private placement. In March 2014, the Company closed the first tranche for 10.6 million units for CAD\$1.06 million of the financing, and paid \$66,200 in cash and issued 661,700 in warrants as finders' fees.

(ii) In May 2013, the Company issued 2 million shares at a value of CAD\$0.10 per share for the acquisition of 100% interests in the Windfall Hills properties. Note 7(a)(iii) provides further details.

**12. Share Capital** (continued)

(b) Issued: (continued)

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

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

(iv) In February 2011, the Company issued a convertible debenture for CAD\$300,000 with an interest-free loan, which was then converted into 1,282,051 common shares of the Company on March 2, 2011.



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

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

**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 18,888,434 common shares, of which stock options for 8,325,000 common shares are outstanding as at December 31, 2013. The exercise price of each stock option cannot be lower than the last recorded sale of a board lot on the TSX during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the TSX based on the last five trading days before the date of the grant. Stock options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the board at the time the options are granted.

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

The continuity of outstanding stock options for the years ended December 31, 2013, 2012 and 2011 is as follows:

|   | 2013                |   | 2012                |   | 2011                |   |
|---|---------------------|---|---------------------|---|---------------------|---|
|   | Number<br>of Shares | Weighted<br>average<br>exercise<br>price<br>(CAD\$) | Number<br>of Shares | Weighted<br>average<br>exercise<br>price<br>(CAD\$) | Number<br>of Shares | Weighted<br>average<br>exercise<br>price<br>(CAD\$) |
| Outstanding balance, beginning of year  | 9,999,000           | \$0.15  | 10,115,000          | \$0.24  | 9,410,000           | \$0.31  |
| Granted                                 | 2,000,000           | \$0.08  | 2,860,000           | \$0.12  | 2,220,000           | \$0.14  |
| Exercised                               | (769,000)           | \$0.10  | (346,000)           | \$0.10  | (299,000)           | \$0.11  |
| Cancelled for share appreciation rights | (700,000)           | \$0.10  |                     | - \$0.00  |                     | - \$0.00  |
| Forfeited                               | (160,000)           | \$0.12  | (145,000)           | \$0.13  | (16,000)            | \$0.10  |
| Expired                                 | (2,045,000)         | \$0.25  | (2,485,000)         | \$0.49  | (1,200,000)         | \$0.69  |
| Outstanding balance, end of year        | 8,325,000           | \$0.11  | 9,999,000           | \$0.15  | 10,115,000          | \$0.24  |
| Exercise price range (CAD\$)            | \$0.08 - \$0.145    |   | \$0.10 - \$0.29     |   | \$0.10 - \$0.74     |   |

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**12. Share Capital** (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at December 31, 2013:

| Exercise Prices (CAD\$) | Number Outstanding at Dec 31, 2013 | Options Outstanding   |  | Number Exercisable at Dec 31, 2013 | Options Exercisable   |  |
|-------------------------|------------------------------------|---|--|------------------------------------|---|--|
|                         |                                    | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) |                                    | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) |
| \$0.11                  | 1,220,000                          | 0.54  | \$0.11                                   | 1,220,000                          | 0.54  | \$0.11                                   |
| \$0.10                  | 1,955,000                          | 1.69  | \$0.10                                   | 1,955,000                          | 1.69  | \$0.10                                   |
| \$0.135                 | 1,815,000                          | 2.51  | \$0.135                                  | 1,815,000                          | 2.51  | \$0.135                                  |
| \$0.145                 | 1,335,000                          | 3.46  | \$0.145                                  | 0                                  | -   | -  |
| \$0.08                  | 2,000,000                          | 4.48  | \$0.08                                   | 800,000                            | 4.48  | \$0.08                                   |
|                         | 8,325,000                          | 2.66  | \$0.11                                   | 5,790,000                          | 2.09  | \$0.11                                   |

During the year ended December 31, 2013, the Company recognized share-based payments of \$72,000 (2012 - \$168,000 and 2011 - \$241,000), net of forfeitures, based on the fair value of options that were earned by the provision of services during the year. Share-based payments are segregated between directors and officers, employees and consultants as follows:

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|                        | 2013  | December 31,<br>2012 | 2011   |
|------------------------|-------|----------------------|--------|
| Directors and officers | \$ 76 | \$ 95                | \$ 225 |
| Employees              | 5     | 7                    | 16     |
| Consultants            | (9)   | 66                   | -      |
|                        | \$ 72 | \$ 168               | \$ 241 |

**12. Share Capital** (continued)

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## (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:

|  | 2013      | 2012      | 2011      |
|--|-----------|-----------|-----------|
| Number of stock options granted              | 2,000,000 | 2,860,000 | 2,220,000 |
| Fair value of stock options granted (CAD\$)  | \$0.06    | \$0.09    | \$0.11    |
| Market price of shares on grant date (CAD\$) | \$0.08    | \$0.14    | \$0.14    |
| Pre-vest forfeiture rate                     | 3.54%     | 1.03%     | 1.43%     |
| Risk-free interest rate                      | 1.71%     | 1.17%     | 2.22%     |
| Expected dividend yield                      | 0%        | 0%        | 0%        |
| Expected stock price volatility              | 117%      | 113%      | 108%      |
| Expected option life in years                | 4.52      | 2.93      | 4.86      |

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

In July 2011, the Company granted 2,220,000 stock options to directors, officers and employees with an exercise price of CAD\$0.135 and an expiry date of July 6, 2016, and which were 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 2012, the Company granted 1,400,000 stock options to directors, officers, employees and consultants with an exercise price of CAD\$0.10 and an expiry date of March 23, 2013, and which were subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every three months thereafter.

In June 2012, the Company granted 1,460,000 stock options to directors, officers and employees with an exercise price of CAD\$0.145 and an expiry date of June 18, 2017. These stock options will only vest when the Company consummates a major transaction or at the discretion of its Board of Directors, and such stock options have not vested as at December 31, 2013.

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

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

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

**12. Share Capital** (continued)

(d) Warrants:

On January 31, 2014, the Company issued 9 million warrants with an exercise price of CAD\$0.10 and an expiry date of January 31, 2016 pursuant to a private placement. Note 12(b)(i) provides further details.

In February 2014, the Company announced a private placement for up to 21 million units at CAD\$0.10 per unit for gross proceeds of up to CAD\$2.1 million, subject to regulatory approval. In March 2014, the



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Company closed the first tranche for 10.6 million units for CAD\$1.06 million of the financing, and paid \$66,200 in cash and issued 661,700 in warrants as finders' fees. Note 12(b)(i) provides further details.

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

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

(1) These warrants are subject to an accelerated expiry. Note 12(b)(iii) provides further details.

(2) As these warrants are agent's warrants, a fair value of \$97,470 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 107%, risk-free rate 1.14%, expected life 3 years, and expected dividend yield 0%. Note 12(b)(iii) provides further details.

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**12. Share Capital** (continued)

(d) Warrants: (continued)

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

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| Exercise<br>Prices<br>(CAD\$) | Expiry Dates   | Oustanding at<br>December 31, 2011 | Issued     | Exercised | Expired     | Oustanding at<br>December 31, 2012 |
|-------------------------------|--|------------------------------------|------------|-----------|-------------|------------------------------------|
| \$0.22                        | June 13, 2012  | 4,250,000                          | -          | -         | (4,250,000) | -                                  |
| \$0.15 /<br>\$0.20            | until September 28,<br>2014<br>expiry September 28, 2015 <sup>(1)</sup>      | -                                  | 11,300,000 | -         | -           | 11,300,000                         |
| \$0.15 /<br>\$0.20            | until September 28,<br>2014<br>expiry September 28, 2015 <sup>(1), (2)</sup> | -                                  | 904,000    | -         | -           | 904,000                            |
| \$0.15 /<br>\$0.20            | until December 19,<br>2014<br>expiry December 19, 2015 <sup>(3)</sup>        | -                                  | 4,500,000  | -         | -           | 4,500,000                          |
|                               |  | 4,250,000                          | 16,704,000 | -         | (4,250,000) | 16,704,000                         |

(1) These warrants are subject to an accelerated expiry. Note 12(b)(iii) provides further details.

(2) As these warrants are agent's warrants, a fair value of \$97,470 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 107%, risk-free rate 1.14%, expected life 3 years, and expected dividend yield 0%. Note 12(b)(iii) provides further details.

(3) These warrants are subject to an accelerated expiry. Note 12(b)(iii) provides further details.

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**12. Share Capital** (continued)

(d) Warrants: (continued)

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

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

(e) Common shares reserved for issuance at December 31, 2013:

|                            | Number of Shares |
|----------------------------|------------------|
| Stock options (Note 12(c)) | 8,325,000        |
| Warrants (Note 12(d))      | 18,304,000       |
| Balance, December 31, 2013 | 26,629,000       |

(f) Shareholder rights plan:

On May 31, 2005, the shareholders of the Company approved a shareholder rights plan (the "Plan") that became effective on April 30, 2005. The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain "Acquiring Persons" (as defined in the Plan), to purchase from treasury one common share at a 50%

discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire on April 30, 2015.

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**13. General and Administrative**

|                             | 2013   | Years ended December 31, |        |
|-----------------------------|--------|--------------------------|--------|
|                             |        | 2012                     | 2011   |
| General and Administrative: |        |                          |        |
| Accounting and audit        | \$ 24  | \$ 67                    | \$ 71  |
| Legal                       | 30     | 32                       | 80     |
| Office and sundry           | 54     | 51                       | 42     |
| Regulatory                  | 58     | 73                       | 52     |
| Rent                        | 57     | 66                       | 51     |
|                             | \$ 223 | \$ 289                   | \$ 296 |

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**14. Related Party Transactions**

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

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following general and administrative costs with related parties during the years ended December 31, 2013, 2012 and 2011:

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|  | Years ended December 31, |        |        | Net balance receivable<br>(payable)<br>as at December 31, |          |
|--|--------------------------|--------|--------|---|----------|
|  | 2013                     | 2012   | 2011   | 2013  | 2012     |
| Key management compensation:   |                          |        |        |   |          |
| Executive salaries and remuneration <sup>(1)</sup>   | \$ 428                   | \$ 592 | \$ 473 | \$ (222)  | \$ -     |
| Directors fees   | 29                       | 35     | 40     | (201)   | (185)    |
| Share-based payments   | 76                       | 89     | 212    | -   | -        |
|  | \$ 533                   | \$ 716 | \$ 725 | \$ (423)  | \$ (185) |
| Legal fees incurred to a law firm in<br>which a senior officer of the Company is<br>a partner <sup>(2)</sup>   | \$ 67                    | \$ 82  | \$ 72  | \$ (158)  | \$ (107) |
| Net office, sundry, rent and salary<br>allocations recovered from (incurred to)<br>company(ies) sharing certain common<br>director(s) <sup>(3)</sup> | 59                       | 36     | 55     | (108)   | (11)     |
| Write-down of long-term investments <sup>(4)</sup>   | 91                       | -      | -      | -   | -        |
| Write-off of receivables <sup>(5)</sup>  | 54                       | -      | -      | -   | -        |

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

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

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

(4) The Company wrote-down its investment in Aztec to a nominal value of CAD\$100. Note 9 provides further details.

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

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

**15. Segment Disclosures**

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

**16. Deferred Income  
Taxes**

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

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

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Loss for the year   | \$ (1,377)  | \$ (1,206)  |
| Canadian statutory tax rate                                   | 26.0%       | 25.0%       |
| Income tax benefit computed at statutory rates                | \$ (358)    | \$ (302)    |
| Temporary differences   | 11          | (82)        |
| Items non-deductible for income tax purposes                  | 19          | 42          |
| Unused tax losses and tax offsets not recognized in tax asset | 437         | 411         |
| Effect of change in tax rate                                  | (109)       | (69)        |
| Deferred income tax recovery                                  | \$ -        | \$ -        |

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

(b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2013 and 2012 are presented below:

|  | 2013 | December 31,<br>2012 |
|--|------|----------------------|
| Deferred tax assets                    |      |                      |
| Capital losses carried forward         | \$ - | \$ -                 |
| Tax value over book value of equipment | -    | -                    |
| Deferred tax assets                    | -    | -                    |

|  |  |      |  |      |
|--|--|------|--|------|
| Deferred tax liabilities                           |  |      |  |      |
| Book value over tax value of marketable securities |  | -    |  | -    |
| Book value over tax value of mineral properties    |  | -    |  | -    |
| Deferred tax liabilities                           |  | -    |  | -    |
| Net deferred tax assets                            |  | \$ - |  | \$ - |

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

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

|   | 2013      | December 31, | 2012      |
|---|-----------|--------------|-----------|
| Non-capital losses                              | \$ 8,754  |              | \$ 8,761  |
| Capital losses                                  | 10        |              | 10        |
| Available for sale securities                   | 55        |              | 12        |
| Share issue costs                               | 190       |              | 272       |
| Tax value over book value of mineral properties | 959       |              | 345       |
| Tax value over book value of equipment          | 1,560     |              | 1,669     |
| Unrecognized deductible temporary differences   | \$ 11,528 |              | \$ 11,069 |

As at December 31, 2013, the Company's unrecognized unused non-capital losses have the following expiry dates:



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|      |    |       |
|------|----|-------|
| 2014 | \$ | 722   |
| 2015 |    | 88    |
| 2026 |    | 783   |
| 2027 |    | 1,727 |
| 2028 |    | 791   |
| 2029 |    | 1,681 |
| 2030 |    | 953   |
| 2031 |    | 876   |
| 2032 |    | 1,140 |
| 2033 |    | 598   |
|      | \$ | 9,359 |

**17. Subsequent Events**

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In February 2014, the Company signed a Letter of Intent (the "LOI") with Pan American Goldfields Ltd. ("Pan American") with respect to a business combination whereby the Company may acquire all of the outstanding common shares of Pan American (the "Transaction").

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

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

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

Pursuant to the terms of the LOI, the Company had agreed to pay \$100,000 (the "Funds") to Pan American, following TSX approval. Pan American had agreed to repay the Funds to the Company in the event that (a) the Company terminated the LOI or determined not to proceed with the Transaction as a result of its due diligence; or (b) Pan American terminated the LOI or determined not to proceed with the Transaction for any reason.

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

American up to a total of \$250,000 prior to closing of the Transaction.

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

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

EXHIBIT 8-1

**LIST OF MATERIAL SUBSIDIARIES**

The Registrant carries on its business in large part through its subsidiaries. The Registrant has a number of direct or indirect wholly or majority owned subsidiaries as follows:

Benzdorp Gold N.V. was incorporated under the laws of Suriname on February 4, 2004 when Suriname presidential assent was received. The Registrant owns 40% of the voting shares of this company with the right to acquire an additional 40%.

Canarc (Barbados) Mining Ltd. is a company duly incorporated under the laws of Barbados on July 26, 1993. The Registrant owns 100% of the issued and outstanding shares.

Canarc Suriname (Barbados) Ltd. is a company duly incorporated under the laws of Barbados on January 26, 1994. The Registrant owns 100% of the issued and outstanding shares.

Canarc van Suriname N.V. is a company duly incorporated under the laws of Suriname on November 10, 1995. The Registrant owns 100% of the issued and outstanding shares.

New Polaris Gold Mines Ltd. (formerly Golden Angus Mines Ltd. - name change effective April 21, 1997) is a corporation formed through the amalgamation of 2820684 Canada Inc. ("2820684"), a former wholly-owned subsidiary of the Registrant incorporated under the Canada Business Corporation Act on May 13, 1992, and Suntac Minerals Inc. The Registrant owns 100% of the issued and outstanding shares.

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EXHIBIT 13.1

**Certification of Chief Executive Officer pursuant to  
Title 18, United States Code, Section 1350, as adopted pursuant to  
Section 906 of The Sarbanes-Oxley Act of 2002**

I, Catalin Chiloflisci, Chief Executive Officer of Canarc Resource Corp. ("Canarc"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

The Annual Report on Form 20-F of Canarc Resource Corp. for the year ended December 31, 2013 (the "Report")  
1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canarc.

*/s/ Catalin Chiloflisci*

Vancouver, Canada

Catalin Chiloflisci

April 28, 2014

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Canarc and will be retained by Canarc and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 13.2

**Certification of Chief Financial Officer pursuant to**

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**Title 18, United States Code, Section 1350, as adopted pursuant to**

**Section 906 of The Sarbanes-Oxley Act of 2002**

I, Philip Yee, Chief Financial Officer of Canarc Resource Corp. ("Canarc"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

The Annual Report on Form 20-F of Canarc Resource Corp. for the year ended December 31, 2013 (the "Report")  
1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canarc.

by: */s/ Philip Yee*

Vancouver, Canada

Philip Yee

April 28, 2014

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Canarc and will be retained by Canarc and furnished to the Securities and Exchange Commission or its staff upon request.

