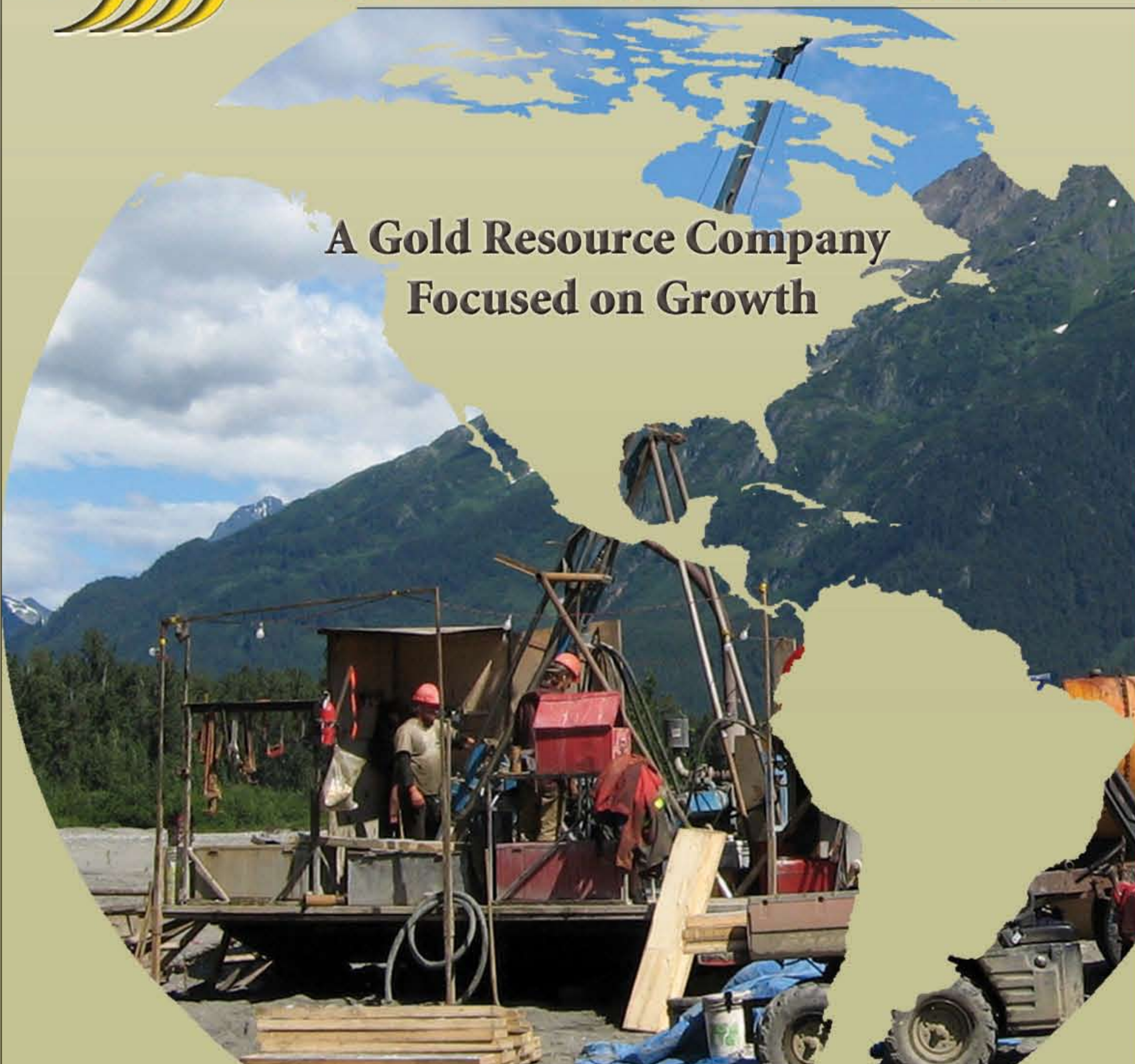
CANARC RESOURCE CORP.



A Gold Resource Company Focused on Growth

ANNUAL REPORT 2007

Corporate Profile

Canarc Resource Corp. (TSX: CCM, OTC-BB: CRCUF, DBFrankfurt: CAN) is a growth-oriented gold exploration and mining company focused on the acquisition, discovery and development of strategic gold deposits in North, Central and South America.

By developing its principal asset, the high-grade New Polaris gold mine project in western Canada, towards feasibility and production and by acquiring and exploring attractive gold mine projects in Mexico, Canarc aims to deliver resource growth and enhance shareholder value.

Table of Contents

Highlights 2007

- Appointed new senior management, including Bruce Bried, P.Eng., as President and COO and Garry Biles, P.Eng., as Vice President, Mining.

- Announced new NI 43-101 resource estimate for New Polaris gold mine project, including 519,000 oz gold in measured and indicated resources and 636,000 oz gold in inferred resources at a 6 gpt gold cutoff grade or 342,096 oz measured and indicated and 361,209 oz inferred at a 9 gpt gold cutoff

- Released positive results of preliminary economic assessment for New Polaris at US$ 650 gold, including after-tax undiscounted NPV of CA$40.9 million and after tax IRR of 11.1% .

- Received outstanding reclamation award for New Polaris from Mining Association of BC and BC Ministry of Energy, Mines and Resources.

- Initiated Mexican acquisitions program with options to acquire 100% interests in the Providencia and Los Arrastres gold-silver properties in Guanajuato State.

- Expanded Mexican gold portfolio with options to acquire the Santiago and Exmin Fraction gold properties in Chihuahua State.

- Closed CA $1.1 million private placement financing to complete Phase 1 exploration programs in Mexico and for working capital .

- Announced plans to "spin-out" the Mexican gold projects to subsidiary company, Caza Gold Corp. and distribute shares of Caza Gold to Canarc shareholders.

Logging drill core at New Polaris

Examining mineralized outcrop at Providencia

Sampling poknokker pit at Benzdorp


1951


1991

2007

During Q3, 2007, Canarc was pleased to accept an award for excellence in environmental reclamation at New Polaris from the Technical and Research Committee on Reclamation of the Mining Association of BC and the BC Ministry of Energy, Mines and Petroleum Resources

Dear Shareholders,

The price of gold bullion enjoyed another stellar year in 2008, rising 32% from US$636 per oz to close the year at US$837 per oz, a 27 year high. Junior gold stocks followed gold higher in Q1, 2007, then corrected in the now familiar annual spring-summer sell-off. This down-trend was aggravated into a precipitous fall in Q3 due to the global credit crisis in August but the junior gold shares started rebounding by year-end. Canarc's share price opened 2007 at CA$0.78 per share but tailed off to close at CA$0.38 per share, down 51% on the year.

In 2007, Canarc set out a two-pronged strategy to create shareholder value. The primary goal was to advance our core asset, the New Polaris gold mine project, through a new NI 43-101 resource estimate and complete an initial economic evaluation to build an 80,000 oz per year gold mine. In addition, we launched a new acquisitions program to build an attractive portfolio of gold projects in Mexico.

New Polaris

Canarc launched 2007 with the appointment of two seasoned mining professionals to its senior management team, Mr. Bruce Bried, P. Eng. as the new President and Chief Operating Officer, and Garry Biles, P. Eng., as the new Vice President, Mining. Bruce and Garry joined Canarc to help facilitate Canarc's move from exploration to economic assessment to mine development at New Polaris.

In February, the Company released an updated NI 43-101 resource estimate for New Polaris that outlined measured and indicated resources of 519,000 oz gold contained in 1,288,000 tonnes grading 12.5 gpt gold and inferred resources totaling 636,000 oz gold contained in 1,628,000 tonnes grading 12.2 gpt gold, using a 6 gpt gold cutoff grade, still open for expansion in other veins and at depth.

As a result, Canarc commenced a CA$3 million pre-feasibility work program for the project, including dewatering, mapping and sampling the lowermost underground mine workings, completing additional metallurgical testwork to optimize gold recoveries, continuing the site-related environmental studies, developing a conceptual mine plan and completing the preliminary economic assessment.

In Q3, 2007, Canarc released positive results from a preliminary economic assessment of New Polaris for the base case model of constructing of an 80,000 oz per year gold mine. At a US$650 per oz gold price and using a 9 gpt gold cutoff grade (342,096 oz gold measured and indicated and 361,209 oz gold inferred) , the project generates an after-tax undiscounted NPV of CA$40.9 million and an after-tax IRR of 11.1%. The base case production model showed positive potential so further work was recommended to optimize the project and complete a feasibility study.

Given the modestly positive economics at US$650 gold and a CA$0.90 dollar, management decided to reassess the economics in 2008 based on higher gold prices and seek strategic alternatives such as a joint venture in order to create shareholder value at New Polaris.

Canarc was awarded a "Citation for Outstanding Achievement for Reclamation at a Mineral Exploration Site" from the British Columbia Technical and Research Committee on Reclamation, (the Mining Association of BC and BC Ministry of Energy, Mines and Resources) in recognition of Canarc's proactive reclamation program at New Polaris.

Mexico

In Q1, Canarc announced it had acquired options to purchase 100% interests in the Providencia and Los Arrastres gold-silver projects located near the town of San Felipe in the state of Guanajuato, Mexico. The 8 km by 10 km Providencia and Los Arrastres properties cover the entire Providencia mining district, which is located about 45 km north of the famous Guanajuato silver-gold mining district.

The 112 hectare Providencia and San Felix mine properties cover two small but high grade vein silver-gold mines that produced an estimated 300,000 tonnes of high grade gold-silver ores until closure in 1934. The 7,638 hectare Los Arrastres properties that surround Providencia and San Felix were staked by Grupo Mexico to explore these mineralized structures on a district scale.

The Company subsequently acquired an option to purchase a 100% interest in a second strategic gold property, the Santiago project, located near the town of Batopilas in Chihuahua State, Mexico. Santiago covers a swarm of high grade gold veins that occupy a large alteration zone adjacent to a granodioritic intrusion only 10 kilometres east of the famous Batopilas silver district.

Even though North Zone alteration has bulk tonnage potential the high grade veins contained within it such as the Veta

Blanca (30.3 gpt gold over 2.3 m in a channel sample) may offer better exploration targets.

At the Providencia and Santiago gold projects, the Phase 1 exploration programs of geological mapping, geochemical soil sampling, rock sampling and hand trenching were carried out during the 3rd Quarter. Canarc also announced a new option to acquire up to a 75% interest in a 791 hectare portion of EXMIN's Huimayvo concession which surrounds the 171 hectare Santiago Gold Project.

To fund exploration on its Mexican gold projects, including Santiago and Providencia, Canarc closed a private placement totalling $1.1 million. The funds were also to be used to acquire additional attractive gold properties in Mexico and for working capital.

At the Benzdorp gold project in Suriname, additional geochemical soil and porknocker pit sampling programs were completed and applications to renew these exploration concessions were submitted to the Minister of Natural Resources. No further work is contemplated at Benzdorp until the new concession titles are issued to Benzdorp Gold NV, the local company owned by Canarc and its partner Grassalco, the state mining company for Suriname.

In Costa Rica, Glencairn Gold (now Central Sun Mining) elected to close the Bellavista gold mine due to ground movement caused by heavy rains that negatively impacted the heap leach pad and damaged the process plant. Canarc did not have to report any write-down for Bellavista in 2007 because its royalty interest was already being carried at nil value.

Both of Canarc's growth strategies in 2007, to evaluate the economics of building an 80,000 oz per year gold mine at New Polaris and to initiate the acquisition of an attractive gold project portfolio in Mexico, were successfully executed. Unfortunately, it would appear that these accomplishments are not yet reflected in Canarc's share price.

That is why, in Q4, 2007, Canarc announced plans to spin-out its Mexican gold projects to a wholly-owned subsidiary company, Caza Gold Corp., and distribute approximately 80% of its shares of Caza Gold pro rata to Canarc shareholders. By effectively issuing a "dividend in kind", management anticipates the spin-out should help to unfold the full value of our Mexican gold portfolio for the benefit of Canarc shareholders.

The Outlook For 2008

The outlook for gold and gold stocks in 2008 continues to be robust, as evidenced by the recent run in the gold price to the US$1000 range. Some forecasters are calling for US$1200 gold this year, which should bode well for Canarc, specifically in rewarding our patience in regard to New Polaris.

Canarc plans three strategic initiatives to create value for shareholders in 2008.

Firstly, management intends to evaluate the economics of New Polaris on an ongoing basis and consider strategic alternatives such as a joint venture or other means to advance this high grade gold mine project to pre-production mine development and a full feasibility study.

Secondly, the spin-out of the Mexican gold projects to subsidiary company, Caza Gold Corp., and the distribution of Caza Gold shares pro rata to Canarc shareholders will allow Caza to finance the acquisition and exploration of additional and more advanced gold projects in Mexico for the benefit of Canarc shareholders but without diluting Canarc shares.

Thirdly, Canarc is now evaluating opportunities to acquire attractive gold projects in the USA where management's exploration and mining experience can add value.

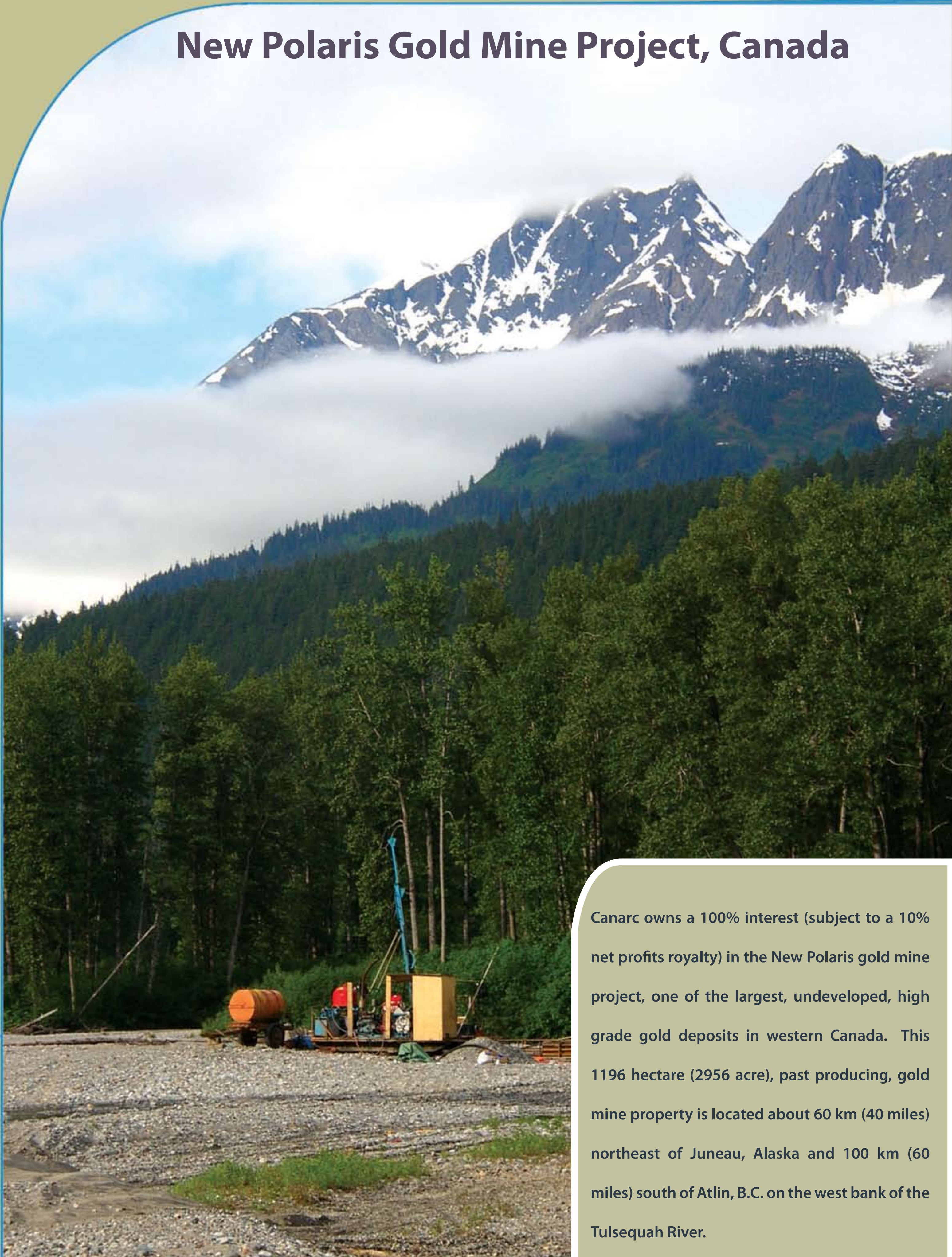
Although the gold markets have recently pulled back from their early year highs, management is still quite bullish that the gold price will seek new highs in 2008. And due to looming inflationary, this should be the year that the precious metals start to separate from and outperform the base metals.

I would like to thank our dedicated management team and staff in their ongoing efforts to create value for the Company. As always, we appreciate the support of our Shareholders.

Bradford J. Cooke

Chairman and CEO

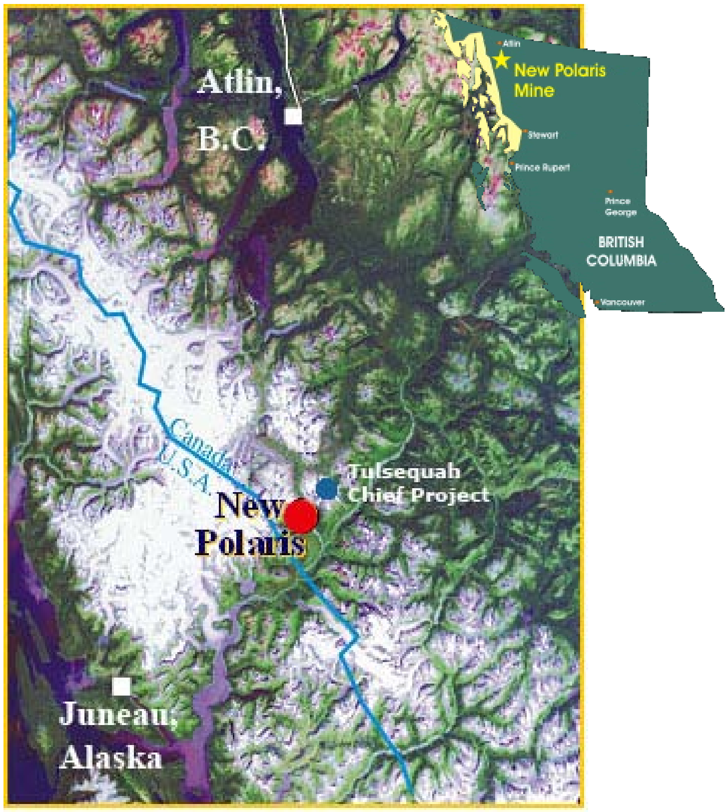
New Polaris Gold Mine Project, Canada



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

Location and Access

New Polaris is located at approximately sea-level near the border with Alaska in north-western B.C. Year round access is available by charter air services from Juneau. AS or Atlin, BC, and barge access is also possible along the Taku River.



History

Prospectors discovered gold at the mine-site in 1929. The Polaris Taku mine, as it was then known, was built in 1936 and commissioned a year later. It operated for 5 years until 1942 and then again after the WWII from 1946 to 1951.

A total of 232,000 oz. gold was produced from 760,000 tons of ore grading 0.35 oz./ton (12 gpt). Gold concentrates were shipped to the smelter in Tacoma, Washington for refining.

The mine closed in 1951 and the town and mill facilities were leased to Cominco Lt.d. who operated the adjacent Tulsequah Chief copper-zinc-silver-gold mine from 1952-1957.

New Polaris then lay dormant for 35 years until exploration resumed in 1988. Canarc acquired New Polaris in 1992 and has since drilled 246 holes, totaling 209,000 feet of core (63,200 meters), to outline major new extensions to the mineralized zones below and beyond the mine workings.

2007 Work Program

The first goal of the 2007 work program was to establish an minimum 650,000 oz NI 43-101 compliant gold resource estimate. Subject to receiving positive results, Canarc then planned to carry out a program of mine dewatering, underground metallurgical testing, environmental studies and related work necessary to complete a preliminary economic assessment.

NI 43-101 Resource Estimate

In Q1, 2007, the Company received an updated, independent NI 43-101 report that estimated measured and indicated undiluted resources ranging from 570,000 to 457,000 oz of gold contained in 1,670,000 to 1,009,000 tonnes (1,840,861 to 1,112,233 tons) of mineralized vein material grading 10.6 to 14.1 grams per tonne (0.31 to 0.41 oz per ton) using a range of cutoff grades from 2 to 8 gpt (0.06 to 0.23 opt). Greater than 95% of the measured and indicated resources are located within the C vein system where infill drilling programs were conducted over the past three years.

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

"This updated NI 43-101 resource estimate was a key first step in advancing the New Polaris gold project towards the feasibility stage. We are thrilled to beat our minimum 650,000 oz resource target, even though we only drilled the C vein system to a depth of 500 m and omitted other historic resource areas in the Y and AB veins, which lie mostly at shallower depths."

Preliminary Economic Assessment

A preliminary assessment of building an 80,000 oz per year gold mine at the New Polaris property in northwestern BC was completed with positive results. At a US$650 per oz gold price, the project generates a pre-tax undiscounted net present value (NPV) of CA$60.4 million and a pre-tax tax internal rate of return (IRR) of 14.9% (after-tax NPV of $40.9 million and after-tax IRR of 11.1%).

Canarc management commissioned Moose Mountain Technical Services (MMTS) as independent consultants to work with Canarc personnel in developing the conceptual mine plan and mining capital and operating costs; Jasman Yee and Associates Inc. for the metallurgical testwork, process design, mill capital and operating costs; and Beacon Hill Consultants (1988) Ltd. for the financial analysis. All three consultants contributed to the preliminary assessment for an 80,000 oz per year, high grade, underground gold mine at New Polaris. J.H. (Jim) Gray, P.Eng. of MMTS is the Qualified Person for the preliminary assessment report.

The preliminary assessment indicates that the New Polaris base case production model and financial parameters have positive potential and therefore further work is recommended to optimize the project and complete a feasibility study.

The preliminary assessment is based on resources, not reserves, and a portion of the modeled resources to be mined are in the inferred resource category. Resources are normally considered too speculative geologically to have economic considerations applied to them so the project does not yet have proven economic viability. The New Polaris current resources were previously disclosed in a news release dated February 1, 2007 and in a NI 43-101 technical report filed on SEDAR on March 15, 2007.

The CA$90.5 million capital costs include CA$19 million to complete a feasibility study, as well as the capital needed to purchase equipment, further develop the mine and construct the plant and site infrastructure. The US$327 per oz cash cost includes site related costs prior to the shipping and sale of concentrates. Offsite costs for concentrate transportation and processing are treated as deductions against sales.

Loading drill core on an ATV to haul back to camp for logging and sampling

The Net Present Values are life of mine net cash flows shown at various discount rates. The Internal Rates of Return assume 100% equity financing.

The New Polaris project is sensitive to the price of gold. At US$600 per oz gold, the pre-tax NPV is CA$26 million with an IRR of 7%, or an after-tax NPV of CA$18 million and an IRR of 5%. At US$750 gold, the pre-tax NPV jumps to CA$130 million and the IRR increases to 29%, or the after-tax NPV increases to CA$87 million and the IRR increases to 22%.

The project is also sensitive to the US$/CA$ exchange rates and gold recoveries. Each 1% change in the US$/CA$ exchange rate indicates a change of approximately CA$0.3 million in after-tax undiscounted NPV. Changes in recoveries produce similar results.

Canarc's management believes that opportunities exist to improve the base case model such as:

- Increasing resources and therefore mine life;
- Increasing gold recoveries and concentrate grades;
- Increasing production to enhance economies of scale;
- Reducing transportation costs; and
- Reducing offsite processing costs.

The main cost risks include:

- Rising engineering and construction labour and equipment costs due to limited availability;
- Escalating capital costs if there are project delays;
- Rising operating costs due to inflation and commod ity shortages; and
- Fluctuations in US$/CA$ exchange rates.

Additional flotation test work is now underway to try and improve gold recoveries and concentrate grades. Autoclave and bio-leach test results will also be completed within the next month, which should allow management to initiate discussions with potential buyers of the New Polaris concentrates.

The base case model includes conventional barging of concentrates off-site during the summer season. However Canarc's neighbour, Redcorp Ventures, has applied for permits to operate year-round air cushion barges, ("ACB's") towed by amphibious vehicles ("Amphitracs") in order to service their proposed Tulsequah Chief mine. Such technology may also be advantageous for Canarc and will be evaluated as part of a feasibility work program.

Canarc is now considering a feasibility work program to include driving a decline from surface down to the 1050 mine level (1000 feet below surface), developing one or more drifts and raises within the C vein, trial mining to extract a bulk sample, shipping and processing of a representative portion of the bulk sample for final metallurgical testing, finalizing the process flow sheet and completing a feasibility study at an estimated cost of CA$18.7 million, subject to financing.

Base Case Production Model

Scheduled Resources	806,000 tonnes measured and indicated grading 13.2 gpt Au (after dilution) and 944,000 tonnes inferred grading 11.9 gpt Au (after dilution) and a 9 gpt cutoff
Production Rate	600 tonnes per day
Grade	12.5 grams per tonne (diluted 20%)
Recoveries	91% gold into concentrate
Output	80,000 oz gold per year
Mine life	8 years

The base case financial parameters are as follows:

Gold Price	US$ 650 per oz	
Exchange Rate	US$ 0.90 = CA$ 1.00	
Capital Cost	CA$90.5 million	
Cash Cost	US$ 327 per oz (excluding offsites)	
	Pre-Tax	After-Tax
Net Present Value (NPV) (0%)	CA$60.4 million	CA$40.9 million
NPV (5%)	CA$32.6 million	CA$18.4 million
NPV (8%)	CA$20.3 million	CA$ 8.3 million
NPV (10%)	CA$13.4 million	CA$ 2.7 million
	Pre-Tax	After-Tax
Internal Rate of Return	14.9%	11.1%
Payback Period	3.8 years	4.7 years

Plans for 2008

Given the modestly positive economics at US$650 gold and a CA$0.90 dollar, and the fact the next phase of underground mine development and bulk sampling required a CA$20 million budget, and with the share price trading at multi-year lows, Canarc elected to not to proceed with a large equity financing that would have caused massive shareholder dilution. Instead, management plans to reassess the economics in 2008 based on higher gold prices and CA$ exchange rates and seek strategic alternatives such as a joint venture in order to create shareholder value at New Polaris.

Mexico Gold Exploration Projects

Canarc made significant progress on its program of new gold project acquisitions in Mexico during the 2nd quarter, 2007. After optioning the Los Arrastres and Providencia properties (the"Providencia" project) in the 1st quarter, the Company has acquired an option to purchase a 100% interest in a second strategic gold property (the "Santiago" project).

Canarc closed a non-brokered private placement financing during the 3rd quarter that consisted of 2,200,000 units priced at CA$0.52 each for gross proceeds of CA$1,144,000. Each unit consisted of one common share and one half of a share purchase warrant. Each full warrant is exercisable to purchase an additional common share at an exercise price of CA$0.65 for a one year period. Net proceeds will be used for the acquisition and exploration of strategic gold properties in Mexico.

At the Providencia gold project in Guanajuato, the Phase 1 exploration program of geological mapping, geochemical soil sampling and hand trenching concluded in August, and the Company is now awaiting assays in order to select top priority targets for the initial drilling program. At the Santiago gold project in Chihuahua, the Phase 1 exploration program of geological mapping and rock sampling was completed in September and like Providencia, assays are pending prior to the selection of initial drill targets.
Canarc also announced a new option to acquire land surrounding the Santiago properties. The Company can acquire up to a 75% interest in a 791 hectare portion of EXMIN's Huimayvo concession (hereafter termed the "Santiago Fraction"), which surrounds the 171 hectare Santiago Gold Project, by issuing 15,000 common shares (subject to regulatory approvals), paying US$25,000 after 1 year and spending up to US$1 million over up to 5 years. After vesting, Canarc and EXMIN will form a joint venture to continue the exploration and development of the Santiago Fraction.

The contiguous Santiago, Santiago II and Sanchez properties (173 hectares) in the state of Chihuahua, Mexico, cover two prominent iron oxide-silica-clay alteration zones, one of which surrounds eight parallel, gold bearing quartz sulphide veins. These properties have been owned by the same family for over 100 years and have never been explored by modern methods. Local infrastructure is good as the properties are road accessible and a state power line crosses the properties.

In March 2006, the SGM (Mexican Geological Survey) carried out a rock sampling program of the North Zone at Santiago and reported a 200 m long by 100 m wide by 70 m deep mineralized zone with potential to host bulk tonnage low grade gold mineralization. Based on Canarc's resampling of three of the eight veins within the North Zone that returned high grade gold intervals such as 30.3 gpt gold over 2.3 m, 17.7 gpt gold over 2.5 m and 14.9 gpt gold over 2.1 m, there is clearly good potential for high grade gold mineralization as well as the bulk tonnage low grade potential.

A Phase 1 exploration program of vein mapping and sampling and extending the road to provide better access for drilling of the North Zone vein system commenced in the 3rd quarter 2007. At the Providencia project, the Phase 1 exploration program of geological mapping, geochemical soil sampling and hand trenching was completed in August, at which time the Company compiled the results and selected top priority targets for the initial drilling program.

To fund exploration on its Mexican gold projects, including Santiago and Providencia, Canarc arranged a private placement totalling $1.1 million. The funds were used to acquire additional attractive gold properties in Mexico and for working capital.

Providencia/Los Arrastres Project

Canarc can acquire 100% interest in the Providencia (including San Felix) mine properties by issuing 30,000 common shares to the Vendors on signing a formal agreement within 30 days and making US$2 million in cash payments over a 2 ½ year period, including US$30,000 on signing. The Vendor will retain a 2 ½ % net smelter return royalty ("NSR"), and Canarc has the right to reduce the royalty to 1 ½ % at any time by paying US$750,000 and issuing an option to the vendor to purchase 250,000 common shares of Canarc at the five day closing share price average on the Toronto Stock Exchange prior to the royalty reduction.

Canarc can separately acquire a 100% interest in the Los Arrastres properties by making US$2.5 million in cash payments and spending US$2 million on exploration over a 3 year period. Grupo Mexico will retain a 2% NSR and Canarc has the right to reduce the NSR to 1% by paying US$1 million at any time.

The 112 hectare Providencia and San Felix mine properties cover two small but high grade vein silver-gold mines that produced an estimated 8.8 million oz silver from 300,000 tonnes ore grading around 1000 gpt silver and 1 gpt gold (30.6 oz per ton Ag equivalents at a 50 silver: 1 gold ratio) according to a CRM report in 1968 (now SGM, the Mexican Geological Survey). The mines closed in 1934 as a result of conflicts related to the Mexican Revolution, and have been dormant ever since.

The 7,638 hectare Los Arrastres properties surround the past producing Providencia and San Felix mine properties and were staked by Grupo Mexico in 1990 to explore these mineralized structures on a district scale. In addition to identifying extensions of the Providencia and San Felix mineralized zones, Grupo Mexico discovered a third mineralized gold prospect area, El Payan, by drilling in 1991 but no work has been done on Los Arrastres since that time.

The 8 km by 10 km Providencia and Los Arrastres properties cover the entire Providencia mining district, which is located in the heart of the "Faja de Plata" (the Mexican Silver Belt) about 45 km north of the famous Guanajuato silver-gold mining district. It is readily accessible by a new state highway that passes within 3 km of the old mines.

The Providencia and San Felix mines were first worked by the Spanish in the 1700's, they were mentioned by Humboldt in his 1936 treatise on gold-silver mines of the New World, but most of the historic production was from 1889 until the mines closed in 1934.

There are three main mineralized gold-silver structures:

1) Providencia - Purisima, which includes the principal past-producing Providencia mine, is a silver-rich quartz vein system that has been traced for more than 2.0 km along strike, consisting of two parallel veins each 0.5 m to 3.0 m wide but only 15 m apart, marked by 12 separate shafts including the main shaft 6 m wide and 365 m deep, that accesses one main stope measuring 250 m long and 150 m vertical as well as 12 mine levels.

2) San Felix - Zamorana, which includes the only other significant past-producer, the San Felix mine, is a gold-rich chalcedony vein system that has been mapped for more than 1.5 km along strike, comprising mercury veinlets towards the north, a gold chalcedony stockwork up to 20 m wide at San Felix and a chalcedonic-argillic-iron oxide alteration zone extending well to the south, marked by 8 separate shafts up to 150 m deep and accessing 3 mine levels at San Felix.

3) El Payan, another gold-rich chalcedony vein system, averages 2 m thick, is exposed for 1.2 km along strike and covers the 100 m deep El Payan shaft and a blind, flat-lying gold-silver chalcedony replacement zone up to 48 m thick that was found by the Grupo Mexico drilling.

Geologically, the Providencia mining district is a classic, low sulfidation, epithermal vein camp located along the northwest edge of the Villa de Reyes graben (a major extensional fault structure) adjacent to a rhyodacite porphyry intrusion. The veins are hosted by deformed, thin bedded, Mesozoic lutites, limestones and andesites and undeformed Tertiary andesites and rhyolites. Mineralization consists of native gold, silver and silver sulfosalts associated with quartz-chalcedony veins and related argillic-pyritic alteration.

Santiago Project

Canarc acquired an option to purchase a 100% interest in the Santiago gold project, located 12 km east of the town of Batopilas in the state of Chihuahua, Mexico.

The contiguous Santiago, Santiago II and Sanchez properties (173 hectares) cover two prominent iron oxide-silica-clay alteration zones, one of which (North Zone) surrounds eight parallel, gold-bearing, quartz-sulfide veins. These properties have been owned by the same family for over 100 years and have never been explored by modern methods. Local infrastructure is good as the properties are road accessible and a state power line crosses the properties.

Like most of the epithermal vein districts in the Sierra Madre gold-silver belt of Mexico such as Ocampo (Gammon Lake Resources) or Tayoltita (Goldcorp), mineralization at Batopilas is hosted by the early-Tertiary Lower Volcanic andesites, capped by mid-Tertiary Upper Volcanic rhyolites and intruded by mid-Tertiary granodiorites. MAG Silver is actively exploring a silver-rich vein system near Batopilas.

In March 2006, the SGM (Mexican Geological Survey) carried out a rock sampling program of the North Zone at Santiago and reported a 200 m long by 100 m wide by 70 m deep mineralized zone with potential to host 3.78 million tonnes grading 1.0 gpt gold and 20 gpt silver. The North Zone alteration has been traced for over 400 m in length and the better potential might be the high grade veins contained within it rather than the bulk tonnage, low grade potential.

Canarc geologists visited three of the eight known veins in the North Zone and channel sampling returned consistently high grade gold assay as follows:

Vein	Width (m)	Width (ft)	Gold (gpt)	Gold (opst)
Veta Verde	2.5	8.2	17.7	0.52
	incl. 1.0	3.3	24.1	0.70
Los Tajos	5.0	16.4	7.0	0.20
	incl. 2.0	6.7	13.7	0.40
Veta Blanca				
Sample 1	2.3	7.5	30.3	0.88
	incl. 1.1	3.6	60.3	1.76
Sample 2	2.1	6.9	14.9	0.44
	incl. 1.0	3.3	25.3	0.74

Gold mineralization appears to be associated with disseminated to semi-massive pyrite-arsenopyrite carried within the quartz veins and stockwork zones. Minor disseminated galena, argentite and chalcopyrite have also been observed in the veins.

Canarc can acquire a 100% interest in the Santiago project by making US$2 million in cash payments over a 5 year period including US$30,000 on signing, by spending US$200,000 on exploration within the first 2 years, and by granting a 2% net smelter royalty on mineral production to the vendors.

A Phase 1 exploration program comprised of additional sampling of the other 5 known veins, extending the road to provide better access, and diamond drilling of the North Zone vein system is now being planned.

Caza Gold Corp

Canarc announces that it plans to spin-out its Mexican gold projects to a wholly-owned subsidiary company, Caza Gold Corp., and distribute approximately 80% of its shares of Caza Gold pro rata to Canarc shareholders under a Plan of Arrangement.

The purpose of the spin-out and distribution is for Canarc shareholders to realize the full potential of Canarc's Mexican gold projects by advancing them through the financing of Caza Gold rather than financing Canarc. Caza Gold intends to carry out sufficient work on these projects so that it can apply for a listing of its shares on a Canadian recognized stock exchange in 2008.

As of the date of record for the distribution, Canarc shareholders will receive one common share of Caza Gold Corp. (approximately 80% of the Caza Gold common shares in total) for each five common shares of Canarc Resource Corp. In addition, Canarc will initially retain approximately 20% of its Caza Gold shares as an investment. Canarc will continue to use its contacts and expertise in Mexico to generate gold opportunities for the benefit of Caza Gold.

The date of record will be determined by the Company after receipt of court, shareholder and regulatory approvals. Canarc anticipates providing shareholders with additional details of the proposed transaction through an Information Circular in relation to convening an Extraordinary General Meeting of the Shareholders for shareholders to vote on the proposed distribution. The final structure of the share distribution that will be recommended to shareholders will be determined after further consultation with tax counsel so as to minimize tax consequences.

Canarc's Mexico Property Locations

Overlooking Providencia

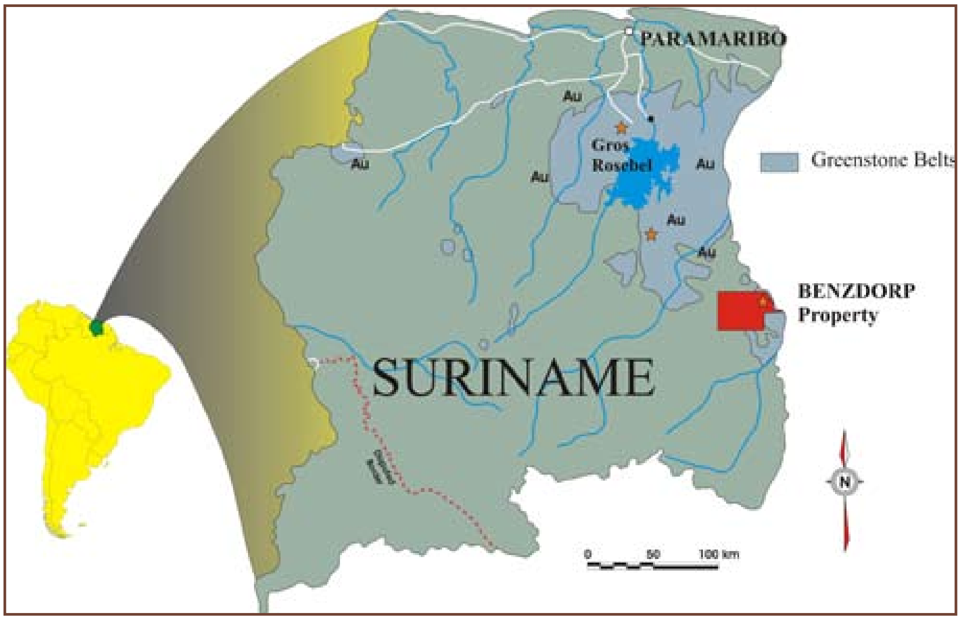
" The spin-out of Canarc's Mexican gold projects benefits shareholders in two ways: Firstly, it puts shares of the new company directly into the hands of Canarc shareholders under a Plan of Arrangement; and secondly, it allows the financing of Mexican gold projects through the new company without diluting Canarc's share capital."

Benzdorp Gold Exploration Project, Suriname

Location and Access

Benzdorp is located west of the Lawa River along the border with French Guiana. Year-round access is available by charter air service from Paramaribo, and boat access is also possible on the river.

The Benzdorp Concessions expired in July 2007 but Canarc exercised its right to apply for new mineral concessions to be granted by the Minister of Natural Resources. While Canarc awaits for the approval of its application it has ceased work on the concessions.



History

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

The property consists of four exploration and two exploitation concessions measuring 42 km by 31 km and is accessible by charter aircraft to the nearby Tabiki airstrip or by boat up to the Marowijne and Lawa Rivers, then by ATV on the property roads. Canarc owns 40% of the shares of Benzdorp Gold NV, the local company formed by Canarc and Grassalco, the state mining company, to hold the concessions, and once Canarc earns its 80% interest, Grassalco's 20% shareholding gives it the right to either a 20% net profit interest (NPI) or up to a 6% net smelter interest.

2007 Program

In 2007, Canarc undertook an exploration program consisting of 58 km of geochemical soil sampling and additional poknokker pit mapping and sampling.

A newly discovered quartz vein in the MM pit assayed 39.7 gpt gold over a 2 m horizontal channel sample and 9.3 gpt gold over a 2 m vertical channel sample. A representative grab sample from the same vein returned 28.8 gpt gold.

The MM vein was discovered by local poknokkers (small scale, itinerant miners) last year within a sheared, altered, felsic intrusion mineralized with quartz-limonite-manganese veinlets. They excavated a pit 20 m deep and are currently processing the main quartz vein and surrounding mineralized saprolite through a small hammer mill and recovering the gold in a sluice box.

Canarc holds an option to earn up to an 80% interest in the Benzdorp project. This huge 1,380 sq. km property is located 300 km southeast of Paramaribo, the capital city and encompasses the northern 20 km of the Benzdorp gold belt where past alluvial mine production has been estimated at over 1 million ounces of gold.

The MM vein is just one of several new gold discoveries sampled by Canarc in 2007. Several new poknokker pits exposed quartz-limonite-manganese veinlets hosted by shear zones crosscutting altered felsic intrusions, banded phyllitic sediments/ tuffs and andestic volcanics at different locations. Pit sampling returned the following assays:

Pit	Length (m)	Gold (gpt)
JQB	2.0	3.37
RK	Grabs	5.89, 4.24, 2.22
MM	2.0	39.7
	2.0	9.3
	Grab	28.8
JB	Grab	1.04
JH	2.0	2.14
VD	Grab	7.75
Paulo	2	3.69
Pinheiro	2	1.14

Re- logging JQA Drill Core at Benzdorp

Bellavista

In Costa Rica, Glencairn Gold (now Central Sun Mining) elected to close the Bellavista gold mine due to ground movement caused by heavy rains that negatively impacted the heap leach pad and damaged the process plant. Canarc did not have to report any write-down for Bellavista in 2007 because its royalty ineterst was already being carried at nil value.

Management & Directors

Canarc's management and directors have successful track records for discovering ore deposits and developing them into production. Their high level of technical expertise comes from having decades of experience in the mining industry. Canarc is strong financially and shareholders include Barrick Gold.

Bradford Cooke, M.Sc., P.Geo., President, CEO and Director, is a professional geologist with 32 years experience in the mining industry, focusing on the financing, acquisition, exploration and development of mining projects world-wide.

Bruce Bried, P.Eng., Appointed President and COO in January 2007, is a professional engineer with over 32 years experience in mine engineering, operations, and reclamation, especially for underground, high grade vein gold and silver mines in North America.

Philip Yee, M.B.A., C.P.A., C.G.A., Chief Financial Officer, is a certified general accountant with an MBA degree and 19 years experience in corporate management, regulatory reporting, accounting, auditing and taxation.

James Moors, B.Sc., P.Geo., VP Exploration, is a professional geologist with 19 years experience in the minerals industry, specializing in exploration for and discovery of precious metal deposits in North America.

Garry Biles, P. Eng., Appointed VP Mining in March 2007, is a professional engineer with 35 years experience, most recently as the General Manager of the Bellavista gold mine for Glencairn Gold.

Gregg Wilson, M.SCI., Manager, Investor Relations, is a corporate communications professional with over 12 years experience in the natural resource sector as well as an extensive background in business administration and management.

Stewart Lockwood, L.L.B., M.B.A., Secretary and Legal Counsel, is a securities lawyer with an MBA degree and 23 years experience in corporate and securities law, business management and stock exchange listings.

Derek Bullock, P.Eng., Director, is a mining engineer who brings over 41 years of mine operating, engineering, and consulting experience and resource company management to the Board of Directors .

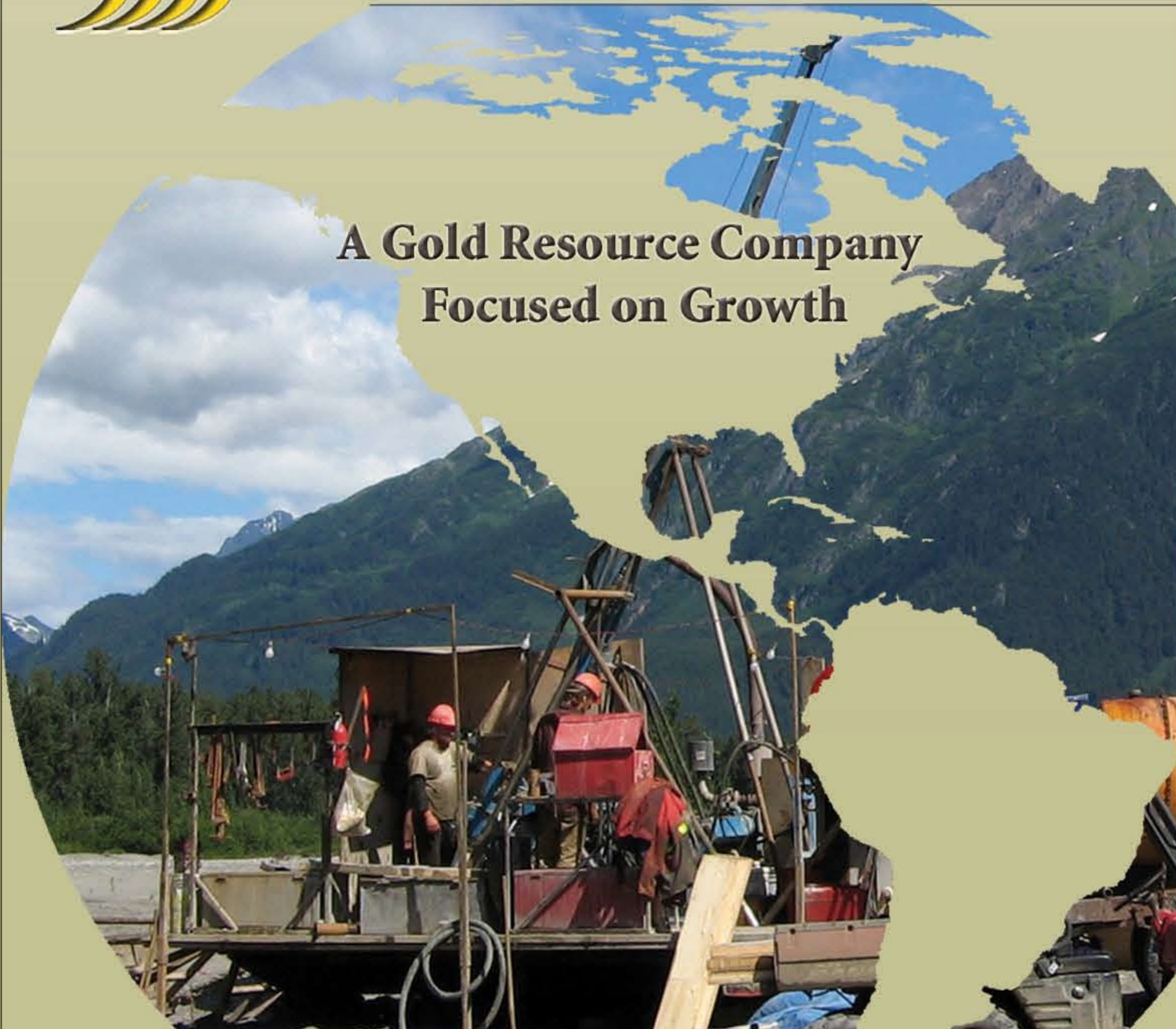
Leonard Harris, Metallurgical Engineer, Director, is a professional engineer with a metallurgy diploma and over 51 years experience in all aspects of mineral processing and mining operations, including the construction of the Yanacocha gold mine in Peru

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

Corporate Information

HEAD OFFICE	#301 – 700 West Pender Street Vancouver, BC, Canada, V6C 1G8 Telephone: (604) 685-9700 Toll Free: 1-877-684-9700 Facsimile: (604) 685-9744 Website: www.canarc.net
DIRECTORS	Bradford Cooke Derek Bullock Leonard Harris William Price
OFFICERS	Bradford Cooke ~ Chairman and Chief Executive Officer Bruce Bried ~ President and Chief Operating Officer Garry Biles ~ Vice-President, Mining James Moors ~ Vice-President, Exploration Philip Yee ~ Chief Financial Officer Stewart Lockwood ~ Secretary
REGISTRAR AND TRANSFER AGENT	Computershare Investor Services Inc. 3rd Floor, 510 Burrard Street Vancouver, BC, Canada, V6C 3B9
AUDITORS	KPMG LLP 777 Dunsmuir Street Vancouver, BC, Canada, V7Y 1K3
SOLICITORS	Vector Corporate Finance Lawyers #1040 – 999 West Hastings Street Vancouver, BC, Canada, V6C 2W2
SHARES LISTED	Trading Symbols TSX: CCM OTC-BB: CRCUF DBFrankfurt: CAN
ANNUAL & SPECIAL GENERAL MEETING	April 29, 2008. 9: 30 AM Head Office, Boardroom Vancouver, BC, Canada

CANARC RESOURCE CORP.



A Gold Resource Company Focused on Growth

ANNUAL REPORT 2007

Consolidated Financial Statements of

CANARC RESOURCE CORP.

(expressed in thousands of United States dollars)

Years ended December 31, 2007, 2006 and 2005

SHAREHOLDER UPDATE

Review of 2007 and Outlook for 2008

Bradford Cooke, Chairman and CEO of Canarc Resource Corp., is pleased to provide the following review of 2007 and the outlook for 2008.

<u>2007 Highlights</u>

- Appointed new senior management, including Bruce Bried, P.Eng., as President and COO and Garry Biles, P.Eng., as Vice President, Mining
- Announced new NI 43-101 resource estimate for New Polaris gold mine project, including 519,000 oz gold in measured and indicated resources and 636,000 oz gold in inferred resources at a 6 gpt gold cutoff grade or 342,096 oz measured and indicated and 361,209 oz inferred at a 9 gpt gold cutoff – see Feb 1, 2007 and Aug 20, 2007 news releases)
- Released positive results of preliminary economic assessment for New Polaris at US$ 650 gold, including after-tax undiscounted NPV of CA$40.9 million and IRR of 11.1% (see Aug 20, 2007 news release)
- Received outstanding reclamation award for New Polaris from Mining Association of BC and BC Ministry of Energy, Mines and Resources
- Initiated Mexican acquisitions program with options to acquire 100% interests in the Providencia and Los Arrastres gold-silver properties in Guanajuato State
- Expanded Mexican gold portfolio with options to acquire the Santiago and Exmin Fraction gold properties in Chihuahua State
- Closed CA $1.1 million private placement financing to complete Phase 1 exploration programs in Mexico and for working capital
- Announced plans to “spin-out” the Mexican gold projects to subsidiary company, Caza Gold Corp. and distribute shares of Caza Gold to Canarc shareholders

<u>The Year In Review</u>

The price of gold bullion enjoyed another steller year in 2008, rising 32% from US$636 per oz to close the year at US$837 per oz, a 27 year high. Rising investment demand, flat mine supply and the weakening US dollar continued to be the main fundamentals behind the move in precious metals. In US dollar terms, gold remains locked in a now 7 year-old uptrend, although this is only the third year of the gold bull market denominated in other major currencies.

Junior gold stocks followed gold higher in Q1, 2007, then corrected in the now familiar annual spring-summer sell-off. This down-trend was aggravated into a precipitous fall in Q3 due to the mortgage-backed securities crisis in August but the junior gold shares started rebounding by year-end. Canarc’s share price opened 2007 at CA$0.78 per share but tailed off to close at CA$0.36 per share, down 51% on the year.

In 2007, Canarc set out a two-pronged strategy to create shareholder value. The primary goal was to advance our core asset, the New Polaris gold mine project, through a new NI 43-101 resource estimate and complete an initial economic evaluation to build an 80,000 oz per year gold mine. In addition, we launched a new acquisitions program to build an attractive portfolio of gold projects in Mexico.

New Polaris

Canarc launched 2007 with the appointment of two seasoned mining professionals to its senior management team, Mr. Bruce Bried, P. Eng. as the new President and Chief Operating Officer, and Garry Biles, P. Eng., as the new Vice President, Mining. Bruce and Garry joined Canarc to help facilitate Canarc’s move from exploration to economic assessment to mine development at New Polaris.

In February, the Company released an updated NI 43-101 resource estimate for New Polaris that outlined measured and indicated resources of 519,000 oz gold contained in 1,288,000 tonnes grading 12.5 gpt gold (measured resource of 271,000 tonnes grading 11.89 gpt and indicated resource of 1,017,000 tonnes grading 12.71 gpt) and inferred resources totaling 636,000 oz gold contained in 1,628,000 tonnes grading 12.2 gpt gold, using a 6 gpt gold cutoff grade, still open for expansion in other veins and at depth.

As a result, Canarc commenced a CA$3 million pre-feasibility work program for the project, including dewatering, mapping and sampling the lowermost underground mine workings, completing additional metallurgical testwork to optimize gold recoveries, continuing the site-related environmental studies, developing a conceptual mine plan and completing the preliminary economic assessment.

In Q3, 2007, Canarc was awarded a “Citation for Outstanding Achievement for Reclamation at a Mineral Exploration Site" from the British Columbia Technical and Research Committee on Reclamation, (the Mining Association of BC and BC Ministry of Energy, Mines and Resources) in recognition of Canarc’s proactive reclamation program at New Polaris.

Canarc also released positive results from a preliminary economic assessment of New Polaris for the base case model of constructing of an 80,000 oz per year gold mine. At a US$650 per oz gold price and using a 9 gpt gold cutoff grade to revise the NI 43-101 resource to 342,096 oz gold measured and indicated in 806,000 tonnes grading 13.2 gpt gold and 361,209 oz gold inferred in 944,000 tonnes grading 11.9 gpt gold, the project generates an after-tax undiscounted NPV of CA$40.9 million and an after-tax IRR of 11.1%. The base case production model showed positive potential so further work was recommended to optimize the project and complete a feasibility study.

However, given the modestly positive economics at US$650 gold and a CA$0.90 dollar, and the fact the next phase of underground mine development and bulk sampling required a CA$20 million budget, and with the share price trading at multi-year lows, Canarc elected to not to proceed with a large equity financing that would have caused massive shareholder dilution. Instead, management plans to reassess the economics in 2008 based on higher gold prices and CA$ exchange rates and seek strategic alternatives such as a joint venture in order to create shareholder value at New Polaris.

Mexico

In Q1, Canarc announced it had acquired options to purchase 100% interests in the Providencia and Los Arrastres gold-silver projects located near the town of San Felipe in the state of Guanajuato, Mexico. The 8 km by 10 km Providencia and Los Arrastres properties cover the entire Providencia mining district, which is located about 45 km north of the famous Guanajuato silver-gold mining district. The Providencia agreement is expected to be finalized in 2008.

The 112 hectare Providencia and San Felix mine properties cover two small but high grade vein silver-gold mines that produced an estimated 8.8 million oz silver from 300,000 tonnes ore grading around 1000 gpt silver and 1 gpt gold (30.6 oz per ton Ag equivalents at a 50 silver: 1 gold ratio) until closure in 1934. The 7,638 hectare Los Arrastres properties that surround Providencia and San Felix were staked by Grupo Mexico to explore these mineralized structures on a district scale.

The Company subsequently acquired an option to purchase a 100% interest in a second strategic gold property, the Santiago project, located near the town of Batopilas in Chihuahua State, Mexico. Santiago covers a swarm of high grade gold veins that occupy a large alteration zone adjacent to a granodiritic intrusion only 10 kilometres east of the famous Batopilas silver district.

The SGM (Mexican Geological Survey) carried out a rock sampling program of the North Zone at Santiago and reported a 200 m long by 100 m wide by 70 m deep mineralized zone with potential to host 3.78 million tonnes grading 1.0 gpt gold and 20 gpt silver. Even though North Zone alteration has been traced for over 400 m in length, the better potential might be the high grade veins contained within it such as the Veta Blanca that grades 30.3 gpt gold over 2.3 m in a channel sample.

At the Providencia and Santiago gold projects, the Phase 1 exploration programs of geological mapping, geochemical soil sampling, rock sampling and hand trenching were carried out during the 3rd Quarter. Canarc also announced a new option to acquire up to a 75% interest in a 791 hectare portion of EXMIN’s Huimayvo concession which surrounds the 171 hectare Santiago Gold Project.

To fund exploration on its Mexican gold projects, including Santiago and Providencia, Canarc closed a private placement totalling $1.1 million. The funds were also to be used to acquire additional attractive gold properties in Mexico and for working capital.

At the Benzdorp gold project in Suriname, additional geochemical soil and porknocker pit sampling programs were completed and applications to renew these exploration concessions were submitted to the Minister of Natural Resources. No further work is contemplated at Benzdorp until the new concession titles are issued to Benzdorp Gold NV, the local company owned by Canarc and its partner Grassalco, the state mining company for Suriname.

In Costa Rica, Glencairn Gold (now Central Sun Mining) elected to close the Bellavista gold mine due to ground movement caused by heavy rains that negatively impacted the heap leach pad and damaged the process plant.

Both of Canarc's growth strategies in 2007, to evaluate the economics of building an 80,000 oz per year gold mine at New Polaris and to initiate the acquisition of an attractive gold project portfolio in Mexico, were successfully executed. Unfortunately, it would appear that these accomplishments are not yet reflected in Canarc's share price.

That is why, in Q4, 2007, Canarc announced plans to spin-out its Mexican gold projects to a wholly-owned subsidiary company, Caza Gold Corp., and distribute approximately 80% of its shares of Caza Gold pro rata to Canarc shareholders. By effectively issuing a "dividend in kind", management anticipates the spin-out should help to unfold the full value of our Mexican gold portfolio for the benefit of Canarc shareholders. In March 2008, the Company announced a Special General Meeting to be held on April 29, 2008 for a special resolution to approve the distribution under a plan of arrangement, which is subject to shareholder, court and regulatory approvals.

The Outlook For 2008

The outlook for gold and gold stocks in 2008 continues to be robust, as evidenced by the recent run in the gold price to the US$900 range. Some forecasters are calling for US$1000 gold this year, which should bode well for Canarc, specifically in rewarding our patience in regard to New Polaris.

Canarc plans three strategic initiatives to create value for shareholders in 2008.

Firstly, management intends to evaluate the economics of New Polaris on an ongoing basis and consider strategic alternatives such as a joint venture or other means to advance this high grade gold mine project to pre-production mine development and a full feasibility study.

Secondly, the spin-out of the Mexican gold projects to subsidiary company, Caza Gold Corp., and the distribution of Caza Gold shares pro rata to Canarc shareholders will allow Caza to finance the acquisition and exploration of additional and more advanced gold projects in Mexico for the benefit of Canarc shareholders but without diluting Canarc shares.

Thirdly, Canarc is now evaluating opportunities to acquire attractive gold projects in the USA where management's exploration and mining experience can add value.

Although the gold markets have recently pulled back from their early year highs, management is still quite bullish that the gold price will seek new highs in 2008. And due to a looming inflationary period, this should be the year that the precious metals start to separate from and outperform the base metals.

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

James Moors, B.Sc., P.Geo, Vice President, Exploration, is the Qualified Person who reviewed the technical disclosures for this shareholder update.

CANARC RESOURCE CORP.

Per:

/s/ Bradford J. Cooke

Bradford J. Cooke March 25, 2008
Chairman and C.E.O.

CAUTIONARY DISCLAIMER – FORWARD LOOKING STATEMENTS

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

KPMG LLP
Chartered Accountants
Box 10426, 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Telefax (604) 691-3031
www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canarc Resource Corp. as at December 31, 2007 and 2006, and the consolidated statements of operations, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007, and the consolidated statements of shareholders' equity for each of the years in the two-year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada
March 14, 2008.

CANARC RESOURCE CORP.

Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 633**	$ 2,267
Marketable securities (Note 3)	**16**	522
Receivables and prepaids	**526**	105
Royalty receivable - current portion (Note 4(c)(i))	**50**	50
	1,225	2,944
NONCURRENT ASSETS		
Mineral properties (Note 4)	**18,629**	15,224
Equipment (Note 5)	**8**	7
Royalty receivable - long-term portion (Note 4(c)(i))	**127**	200
Long-term investment (Note 6)	**126**	72
	18,890	15,503
	$ 20,115	$ 18,447
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 331**	$ 235
Notes payable (Note 8)	**304**	-
	635	235
SHAREHOLDERS' EQUITY		
Share capital (Note 7(a))	**55,289**	55,629
Contributed surplus	**2,014**	1,855
Accumulated other comprehensive income	**(28)**	-
Deficit	**(37,795)**	(39,272)
	19,480	18,212
	$ 20,115	$ 18,447

Nature of operations (Note 1)
Commitments and contingencies (Note 4)
Subsequent events (Notes 4(d)(i) and 13)

Refer to the accompanying notes to the consolidated financial statements.

Approved by the Directors:

/s/ Bradford Cooke
Director

/s/ William Price
Director

CANARC RESOURCE CORP.

Consolidated Statements of Operations and Comprehensive Income
(expressed in thousands of United States dollars, except per share amounts)

	Years ended December 31, 2007	2006	2005
Expenses:			
Amortization	**$ 2**	$ 3	$ 4
Corporate development	**65**	294	8
Employee and director remuneration (Note 9)	**618**	429	137
Foreign exchange gain	**(198)**	(14)	(40)
General and administrative (Note 9)	**592**	337	324
Shareholder relations	**198**	307	113
Stock-based compensation (Note 7(b))	**442**	454	435
Loss before the undernoted	**(1,719)**	(1,810)	(981)
Equity loss from investment in affiliated company	**-**	(6)	(3)
Gain on disposition of marketable securities	**1,152**	1,598	1,225
Gain on dilution from long term investment (Note 6)	**-**	-	621
Gain from disposition of subsidiary (Note 4(c)(i))	**-**	600	-
Investment and other income	**28**	81	2
Accretion of royalty receivable (Note 4(c)(i))	**15**	-	-
Non-controlling interest	**-**	-	22
Write-down of marketable securities	**-**	(30)	(2)
Write-down of mineral properties	**-**	-	(170)
Write-off of debt due from affiliated company (Note 6)	**-**	-	(542)
(Loss) income before income tax	**(524)**	433	172
Future income tax recovery (Note 7(a)(i))	**2,039**	-	143
Income for the year	**1,515**	433	315
Other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	**289**	-	-
Realized gain on sale of available-for-sale securities	**(1,152)**	-	-
Foreign exchange on unrealized gain	**68**	-	-
Foreign exchange on realized gain	**(70)**	-	-
Comprehensive income for the year	**$ 650**	$ 433	$ 315
Basic and diluted earnings per share	**$ 0.02**	$ 0.01	$ 0.01
Weighted average number of shares outstanding	**69,907,839**	63,462,293	58,518,229

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

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

	Years ended December 31,			
	2007		2006	
	Shares	**Amount**	Shares	Amount
Common shares:				
Balance, beginning of year	**68,470,476**	**$ 55,629**	58,545,115	$ 49,150
Issued:				
Private placement	**2,200,000**	**1,039**	9,380,361	6,201
Property acquisition	**45,000**	**24**	-	-
Exercise of options	**830,000**	**530**	545,000	278
Exercise of share appreciation rights	**189,029**	**106**	-	-
Provision for flow-through shares (Note 7(a)(i))	**-**	**(2,039)**	-	-
Balance, end of year	**71,734,505**	**55,289**	68,470,476	55,629
Contributed surplus:				
Balance, beginning of year		**1,855**		1,502
Exercise of options		**(177)**		(101)
Fair value of stock options recognized		**405**		454
Fair value of share appreciation rights		**(69)**		-
Balance, end of year		**2,014**		1,855
Accumulated other comprehensive income:				
Balance, beginning of year		**-**		-
Adoption of new accounting policy for available-for-sale securities (Note 2(p))		**837**		-
Unrealized gain on available-for-sale securities		**289**		-
Realized gain on sale of available-for-sale securities		**(1,152)**		-
Foreign exchange on unrealized gain on available-for-sale securities		**68**		-
Foreign exchange on realized gain on available-for-sale securities		**(70)**		-
Balance, end of year		**(28)**		-
Deficit:				
Balance, beginning of year		**(39,272)**		(39,705)
Adoption of new accounting policy for royalty receivable (Note 2(p))		**(38)**		-
Income for the year		**1,515**		433
Balance, end of year		**(37,795)**		(39,272)
Total Shareholders' Equity		**$ 19,480**		$ 18,212

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	Years ended December 31,		
	2007	2006	2005
Cash provided from (used for):			
Operations:			
Income for the year	**$ 1,515**	$ 433	$ 315
Items not involving cash:			
Amortization	**2**	3	4
Equity loss from investment in affiliated company	**-**	6	3
Gain on disposition of marketable securities	**(1,152)**	(1,598)	(1,225)
Gain on dilution from long term investment	-	-	(621)
Gain on disposition of subsidiary (Note 4(c)(i))	**-**	(600)	-
Future income tax recovery	**(2,039)**	-	(143)
Accretion of royalty receivable (Note 4(c)(i))	**(15)**	-	-
Stock-based compensation	**442**	454	435
Unrealized currency translation loss	**(47)**	(9)	(29)
Write-down of marketable securities	-	30	2
Write-down of mineral properties	-	-	170
Write-off of debt due from affiliated company (Note 6)	-	-	542
	(1,294)	(1,281)	(547)
Changes in non-cash working capital items:			
Receivables and prepaids	**(106)**	(57)	67
Due to/from related parties	-	-	(118)
Accounts payable and accrued liabilities	**96**	-	(35)
	(1,304)	(1,338)	(633)
Financing:			
Issuance of common shares	**1,392**	6,378	38
Proceeds from notes payable	**304**	-	-
	1,696	6,378	38
Investing:			
Proceeds from disposal of marketable securities	**1,690**	2,452	2,009
Proceeds from disposition of subsidiary	**50**	450	-
Acquisition of marketable securities	**(13)**	(498)	(789)
Mineral properties, net of recoveries	**(3,696)**	(5,666)	(851)
Equipment	**(3)**	-	-
Long term investment	**(54)**	-	-
	(2,026)	(3,262)	369
(Decrease) increase in cash and cash equivalents	**(1,634)**	1,778	(226)
Cash and cash equivalents, beginning of year	**2,267**	489	715
Cash and cash equivalents, end of year	**$ 633**	$ 2,267	$ 489

Supplemental disclosure with respect to cash flows (Note 12).

Refer to the accompanying notes to the consolidated financial statements.

1. Nature of Operations

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

The Company has incurred significant operating losses and has an accumulated deficit of $37,795,000 at December 31, 2007. Furthermore, the Company has working capital of $590,000 as at December 31, 2007, which is not sufficient to achieve the Company's planned business objectives. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on the continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of presentation:

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

- Sara Kreek Resource Corporation N.V. ("Sara Kreek Resource"), in which the Company previously held an 80% interest but was disposed in April 2006;
- Aztec Metals Corp. ("Aztec"), in which the Company held a 27% as at December 31, 2005 when its investment was accounted for using the equity method (Note 6), and further diluted its interest to 19% as at December 31, 2006 and then to 17% at December 31, 2007 which investment was accounted for using the cost method;
- Carib Industries Ltd., in which the Company holds a 78.5% interest, which is consolidated; and
- its 40% owned investee, Benzdorp Gold N.V., which is proportionately consolidated.

All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents:

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

2. Significant Accounting Policies (continued)

(c) Marketable securities:

Marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation. Refer to Note 2(p) for change in accounting policy effective January 1, 2007.

(d) Mineral properties:

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

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

(e) Equipment:

Equipment is recorded at cost and, for that equipment subject to amortization, the Company uses the declining balance method at rates varying from 10% to 30% annually. Amortization on equipment used directly on exploration projects is included in mineral properties.

(f) Long-term investment:

Investment in shares of an affiliated company in which the Company’s ownership is greater than 20% but no more than 50% is, where significant influence is present, accounted for by the equity method. Investment in shares in which the Company’s ownership is less than 20%, where significant influence does not exist, is accounted for in accordance with the Company’s policy for financial instruments as defined in Note 2(p)(i).

(g) Stock-based compensation plan:

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

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

2. Significant Accounting Policies (continued)

(h) Asset retirement obligations:

Any statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, are recognized if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. The Company assessed its mineral properties, and based upon such assessments, there were no known material asset retirement obligations as at December 31, 2007.

(i) Income taxes:

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

(j) Earnings per share:

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

(k) Foreign currency translation:

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

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

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

2. Significant Accounting Policies (continued)

(l) Flow-through shares:

A provision at the date of the actual renunciation is recognized by a reduction in the amount included in share capital relating to the flow-through shares for the future income taxes related to the deductions foregone by the Company.

(m) Use of estimates:

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

(n) Fair value of financial instruments:

The fair values of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the short terms to maturity. The fair value of marketable securities is disclosed in Note 3.

(o) Variable interest entities:

Consolidation principles apply to entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. The Company does not have any VIE's.

2. Significant Accounting Policies (continued)

(p) Change in accounting policy:

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. The new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

(i) CICA Handbook Section 3855 – Financial Instruments – Recognition and Measurement

The standard addresses the classification, recognition and measurement of financial instruments in the financial statements. This standard requires all financial instruments within its scope, including derivatives, to be included in the Company's balance sheet and measured either at fair value on initial recognition or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are recognized in the statements of operations.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to the adoption date are recognized by adjusting accumulated other comprehensive income.

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings;

- Available-for-sale financial assets are measured at fair value based on quoted market prices. Investment in equity instruments classified as available-for-sale that does not have a quoted market price in an active market is measured at cost. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet either by disposition or permanent impairment at which time the realized gain or loss is transferred to net earnings;

- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise; and

- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

2. Significant Accounting Policies (continued)

(p) Change in accounting policy: (continued)

(i) CICA Handbook Section 3855 – Financial Instruments – Recognition and Measurement (continued)

In accordance with the new standard, the Company has classified its marketable securities as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with realized gains or losses recorded in net earnings and unrealized gains or losses recorded in other comprehensive income. This change in accounting policy resulted in an increase of $837,000 in the carrying value of its marketable securities on initial adoption.

The Company's royalty receivable from disposition of subsidiary (Note 4(c)(i)) is classified as loans and receivables. It is measured at amortized cost and is amortized to interest income using the effective interest rate method. This change in accounting policy resulted in a decrease of $38,000 in the carrying value of its royalty receivable from disposition of subsidiary on initial adoption.

Its investment in shares of Aztec is classified as available-for-sale but such shares do not have a quoted market price in an active market and is therefore measured at cost.

(ii) CICA Handbook Section 3865 - Hedging

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. Section 3865, "Hedges" specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The Company currently does not have any hedges.

(iii) CICA Handbook Section 1530 - Comprehensive Income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

Accordingly, the Company now includes the account "accumulated other comprehensive income" in the shareholders' equity section of the consolidated balance sheet and the account "other comprehensive income" in the statement of operations.

2. Significant Accounting Policies (continued)

(q) New Accounting Pronouncements:

(i) Financial Instruments – Disclosures and Presentation, CICA Handbook Sections 3862 & 3863

The CICA issued Section 3862 on disclosures and Section 3863 on presentation. The two new CICA sections replace Section 3861 and set out additional financial instruments disclosure requirements while carrying forward unchanged its presentation requirements. These sections are applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

(ii) Assessing Going Concern, CICA Handbook Section 1400

In June 2007, CICA Section 1400 was amended to clarify requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual periods beginning on or after January 1, 2008.

(iii) Capital Disclosures, CICA Handbook Section 1535

CICA Section 1535 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. This section requires additional disclosures relating to capital management strategies.

The Company will adopt the standards on January 1, 2008, and is evaluating the impact of these new standards on its financial position and results of operations.

The Company does not expect the adoption of the standards to result in any material changes to the Company's financial statements.

(t) Comparative figures:

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

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

3. Marketable Securities

	2007	2006
Investment in shares of companies, at cost	$ 44	$ 497
Unrealized foreign exchange (losses) gains	(2)	25
Unrealized loss in market values	(26)	-
	$ 16	$ 522

The quoted market value of shares of companies was $16,000 at December 31, 2007.

As at December 31, 2006, investment in shares of companies includes shares of Endeavour Silver Corp. ("Endeavour"), a company which has certain directors in common with the Company. At December 31, 2006, these shares had a cost of $367,000, a carrying value of $367,000 and a quoted market value of $1,156,000. In 2007, the Company disposed all its shareholdings in Endeavour.

4. Mineral Properties

	2007			2006		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
British Columbia:						
New Polaris (Note 4(a)(i))	$ 3,605	$ 8,582	$ 12,187	$ 3,605	$ 6,077	$ 9,682
Suriname:						
Benzdorp (Note 4(c)(ii))	301	5,795	6,096	301	5,241	5,542
Mexico:						
Los Arrastres (Note 4(d)(i))	125	95	220	-	-	-
Providencia (Note 4(d)(ii))	17	8	25	-	-	-
Santiago (Note 4(d)(iii))	60	34	94	-	-	-
Santiago Fraction (Note 4(d)(iv))	7	-	7	-	-	-
	$ 4,115	$ 14,514	$ 18,629	$ 3,906	$ 11,318	$ 15,224

4. Mineral Properties (continued)

(a) British Columbia:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2007 and 2006 include a reclamation bond for CAD$249,000.

(ii) Eskay Creek:

The Company continues to own a one-third carried interest in the Eskay Creek property, Skeena Mining Division, British Columbia, pursuant to a joint venture with Barrick Gold Corporation ("Barrick"). The property is subject to a 2% net smelter return in favour of a related company. In 2005, the Company elected to write-off the associated property costs.

(b) Bellavista, Costa Rica:

The Company holds a net profit interest in the Bellavista property, which is located near San Jose, Costa Rica. A property agreement giving Central Sun Mining Inc. (formerly, Glencairn Gold Corporation) ("Central Sun") the right to earn a 100% working interest in the property calls for pre-production payments which ended in fiscal 2005. The Company has a net profit interest in Bellavista in which the Company is entitled to 5.67% of the net profits during the first payback period, as defined, then increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter, once commercial production commences. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Central Sun until $317,741 in advance royalty payments are repaid.

(c) Suriname:

(i) Sara Kreek:

As at December 31, 2005, the Company held 80% of the shares of Sara Kreek Resource, the company that holds the Sara Kreek concession. The Company was to issue an additional 200,000 shares to the vendor, Suriname Wylap Development N.V., ("Wylap Development") upon completing a feasibility study and commencing commercial production of the underground deposits. In fiscal 2004, the property was written down by $3,184,000 to a nominal $100,000 in accordance with Canadian generally accepted accounting principles. A loan to Wylap Development that was included in acquisition costs, with a principal balance of $400,000 plus accrued interest remained outstanding as at December 31, 2005.

On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Wylap Development to transfer its interest in Sara Kreek Resource to Wylap Development. The Company received a cash payment of $400,000 in 2006 and shall receive the greater of $50,000 per year, payable semi-annually, or 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011, in settlement of all claims, loans and advances owed to the Company. In 2007, the Company received a royalty of $50,000 (2006 - $50,000).

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

4. Mineral Properties (continued)

(c) Suriname: (continued)

(i) Sara Kreek: (continued)

The royalty receivable has been determined using the effective interest rate method. The expected future cash flows have been discounted using the effective interest rate to determine the present value as at January 1, 2007 and December 31, 2007.

		2007
Present value of expected cash flows from royalties as at January 1	$	212
Add: Accretion for the year		15
Less: Royalty received during the year		(50)
Present value of expected cash flows from royalties as at December 31		177
Less: Current portion of royalty receivable as at December 31		(50)
Long-term portion of royalty receivable as at December 31	$	127

(ii) Benzdorp:

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

4. Mineral Properties (continued)

(c) Suriname: (continued)

(ii) Benzdorp: (continued)

Pursuant to the amended option agreement, the Company will owe Grassalco an additional $250,000 payable on or before 30 days after the commencement of commercial production if a feasibility study has not been completed by October 6, 2005. For the years 2006 to 2008, the Company will owe an additional $250,000 payable on or before 30 days after the commencement of commercial production. However, if a feasibility study has not been completed by October 6, 2008, then the annual additional cash payments of $250,000 will increase at that time to $500,000 payable on or before 30 days after the commencement of commercial production. These additional cash payments will be treated as advance payments against Grassalco's shareholder ownership interest and will be deductible from Grassalco's net profit share or net smelter profit from exploiting the deposits. As at December 31, 2007, the Company did not complete a feasibility study.

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

The exploration concessions for the Benzdorp property were due to expire in July 2007, and Benzdorp Gold NV, the joint venture company held by the Company and Grassalco, has applied to the Minister of Natural Resources of Suriname for a three year extension to the Company's exploration concessions at Benzdorp. An extension is available at the discretion of the Suriname Minister of Natural Resources. The Company continues to have the exclusive right to explore the Benzdorp concessions after the expiry date until there is a decision on the application to extend.

(d) Mexico:

(i) Los Arrastres:

In February 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making $2.5 million in cash payments and spending $2 million on exploration over a 3 year period. The vendor will retain a 2% NSR and the Company has the right to reduce the NSR to 1% by paying $1 million at any time. An initial payment of $50,000 was made upon the signing of the option agreement and a further payment of $75,000 was made in August 2007. A cash payment of $25,000 was made in February 2008.

4. Mineral Properties (continued)

(d) Mexico: (continued)

(ii) Providencia and San Felix:

In March 2007, the Company entered into a preliminary option agreement to acquire a 100% interest in the Providencia and San Felix gold/silver properties by issuing 30,000 common shares to the vendors on signing a formal agreement within 30 days and making $2 million in cash payments over a 2 ½ year period, including $30,000 on signing. The Company issued 30,000 shares at a deemed value of CAD$0.63 per share. The vendors will retain a 2 ½ % net smelter return royalty ("NSR"), and the Company has the right to reduce the royalty to 1 ½ % at any time by paying $750,000 and issuing an option to the vendors to purchase 250,000 common shares of the Company at the five day closing share price average on the Toronto Stock Exchange prior to the royalty reduction. A formal agreement is expected in fiscal 2008.

(iii) Santiago:

In May 2007, the Company entered into an option agreement to acquire a 100% interest in the Santiago gold property by making $2 million in cash payments over a 5 year period and spending $200,000 on exploration over a 2 year period. The vendor will retain a 2% NSR. An initial payment of $30,000 was made upon the signing of the option agreement and a further payment of $30,000 was made in November 2007.

(iv) Santiago Fraction:

In September 2007, the Company entered into an option and joint venture agreement to acquire up to a 75% interest in the Santiago Fraction property by issuing 15,000 common shares, paying $25,000 in cash after 1 year, and spending up to $1 million in exploration over a 5-year period. The Company issued 15,000 common shares at a deemed value of CAD$0.45 per share.

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

4. Mineral Properties (continued)

(e) Expenditure options:

As at December 31, 2007, to maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments	Expenditure Commitments	Shares
Benzdorp (Note 4(c)(ii)):			
On commercial production [i]	$ 450	$ -	-
New Polaris (Note 4(a)(i)):			
Net profit interest reduction or buydown	-	-	150,000
Los Arrastres (Note 4(d)(i))			
Option payments and expenditure commitments	2,375	1,905	-
Net profit interest reduction or buydown	1,000	-	-
Providencia (Note 4(d)(ii)) [ii]			
Option payments and expenditure commitments	2,000	-	-
Net profit interest reduction or buydown	750	-	250,000
Santiago (Note 4(d)(iii))	1,940	166	-
Santiago Fraction (Note 4(d)(iv))	25	1,000	-
	$ 8,540	$ 3,071	400,000

(i) Payable on or before 30 days after the commencement of commercial production.

(ii) A formal agreement is expected in fiscal 2008.

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

(f) Mineral properties contingencies:

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

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

5. Equipment

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 143	$ 135	$ 8	$ 140	$ 133	$ 7

6. Long-Term Investment

In 2005, the Company agreed to settle debts of CAD$100,000 owed by Aztec by the issuance of 1,000,000 units of Aztec at a deemed price of CAD$0.10 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant with each whole warrant exercisable to acquire one common share at an exercise price of CAD$0.12 until November 25, 2006 which was extended to May 28, 2007. The remaining debt of $542,051 owed by Aztec was written off.

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

In 2006, the Company's interest in Aztec was further diluted to 19% due to a private placement which Aztec closed in March 2006, in which the Company's investment in Aztec was thereafter accounted for using the cost method.

In May 2007, the Company exercised its warrants for 500,000 common shares of Aztec at an exercise price of CAD$0.12. As at December 31, 2007, the Company has an interest of 17% in Aztec.

7. Share Capital

(a) Authorized and issued:

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

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

7. Share Capital (continued)

(a) Authorized and issued: (continued)

(i) In March 2007, the Company renounced CAD$7 million in exploration expenditures from the proceeds of the flow-through private placements in 2006, resulting in an income tax recovery of approximately $2 million.

In July 2007, the Company closed a non-brokered private placement for 2,200,000 units at CAD$0.52 per unit for gross proceeds of CAD$1,144,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at an exercise price of CAD$0.65 until July 24, 2008. Finders' fees of CAD$37,440 were paid in cash.

The Company issued 45,000 common shares for property acquisitions (Notes 4(d)(ii) and (iv)).

(ii) In March 2006, the Company closed brokered and non-brokered private placements. The brokered private placement with Dundee Securities Corporation (the "Agent") was for 3,850,000 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$3,157,000. Agent's fees of CAD$189,420 were comprised of CAD$123,123 in cash and CAD$66,297 in non-flow-through common shares, totalling 80,850 shares, with a deemed price of CAD$0.82 per share. The Agent also received a compensation warrant exercisable for 231,000 non-flow-through common shares at an exercise price of CAD$0.82 and with an expiry date of March 17, 2007 and a fair value of CAD$43,890 which have been recorded in share capital on a net basis.

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

In October 2006, the Company closed two non-brokered private placements. The flow-through private placement was for 4,300,000 units at CAD$0.82 per unit for gross proceeds of CAD$3,526,000. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD$1.25 until October 18, 2007. Finders' fees comprised of CAD$208,196 in cash and 247,800 warrants were issued; each warrant is exercisable to acquire one non-flow through common share at CAD$0.82 until October 18, 2007 and a fair value of CAD$44,604 which have been recorded in share capital on a net basis.

The non-flow through private placement was for 700,000 non-flow through units at CAD$0.75 per unit for gross proceeds of CAD$525,000. Each unit was comprised of one non-flow through common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at an exercise price of CAD$0.95 until October 18, 2007. A finder's fee of CAD$5,850 was paid.

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

7. **Share Capital** (continued)

(b) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, directors and consultants to acquire up to 18,374,095 common shares, of which options for 7,074,000 common shares are outstanding as at December 31, 2007. The exercise price of each option equals the high/low average price for the common shares on the Toronto Stock Exchange based on the last five trading days before the date of the grant. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the Board at the time the options are granted. At the discretion of the Board, certain option grants provide the holder the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the options.

The continuity of stock options for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007		2006		2005	
	Number of Shares	Weighted average exercise price (CAD$)	Number of Shares	Weighted average exercise price (CAD$)	Number of Shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	7,929,000	$0.54	6,984,000	$0.50	5,649,000	$0.57
Granted	2,190,000	$0.54	1,490,000	$0.69	2,395,000	$0.36
Exercised	(830,000)	$0.44	(545,000)	$0.37	(220,000)	$0.19
Converted to stock appreciation rights on exercise	(410,000)	$0.37	-	-	(20,000)	$0.34
Expired	(1,805,000)	$0.65	-	-	(820,000)	$0.70
Outstanding, end of year	7,074,000	$0.54	7,929,000	$0.54	6,984,000	$0.50
Exercise price range (CAD$)	$0.25 - $1.00		$0.17 - $1.00		$0.17 - $1.00	

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

7. Share Capital (continued)

(b) Stock option plan: (continued)

The following table summarizes information about stock options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Price Intervals (CAD$)	Number Outstanding at Dec 31, 2007	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD$)	Number Exercisable at Dec 31, 2007	Weighted Average Exercise Prices (CAD$)
$0.25 - $0.49	2,914,000	3.0	$0.35	2,914,000	$0.35
$0.50 - $0.74	3,670,000	3.1	$0.62	3,170,000	$0.64
$1.00 - $1.24	490,000	1.2	$1.00	490,000	$1.00
	7,074,000	2.9	$0.54	6,574,000	$0.54

At December 31, 2007, 7,074,000 options are outstanding of which 6,574,000 options are exercisable and expire at various dates from January 29, 2008 to September 26, 2012, with a weighted average remaining life of 2.9 years. During the year ended December 31, 2007, the Company recognized stock-based compensation of $405,115 (2006 - $454,177 and 2005 - $432,424) based on the fair value of options granted that were earned by the provision of services during the year.

Of the options granted in 2007, options for 500,000 common shares with an exercise price of CAD$0.54 and an expiry date of June 15, 2012 have vesting provisions in which options for 250,000 common shares vest on June 15, 2008 and the balance of 250,000 vest on June 15, 2009.

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

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

	2007	2006	2005
Fair value of options granted during the year	$0.18	$0.30	$0.18
Risk-free interest rate	3.31%	3.32%	2.25%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	54%	66%	87%
Expected option life in years	4	4	4

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

7. Share Capital (continued)

(c) Warrants:

At December 31, 2007, the Company had outstanding warrants as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2006	Issued	Exercised	Expired	Oustanding at December 31, 2007
$0.82	March 17, 2007	231,000	-	-	(231,000)	-
$1.25	October 18, 2007	2,150,000	-	-	(2,150,000)	-
$0.82	October 18, 2007	247,800	-	-	(247,800)	-
$0.95	October 18, 2007	350,000	-	-	(350,000)	-
$0.65	July 24, 2008	-	1,100,000	-	-	1,100,000
		2,978,800	1,100,000	-	(2,978,800)	1,100,000

At December 31, 2006, the Company had outstanding warrants as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2005	Issued	Exercised	Expired	Oustanding at December 31, 2006
$0.82	March 17, 2007	-	231,000	-	-	231,000
$1.25	October 18, 2007	-	2,150,000	-	-	2,150,000
$0.82	October 18, 2007	-	247,800	-	-	247,800
$0.95	October 18, 2007	-	350,000	-	-	350,000
		-	2,978,800	-	-	2,978,800

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

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

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

7. Share Capital (continued)

(d) Shares reserved for issuance:

	Number of Shares
Outstanding, December 31, 2007	71,734,505
Property agreements (Note 4(e))	400,000
Stock options (Note 7(b))	7,074,000
Warrants (Note 7(c))	1,100,000
Fully diluted, December 31, 2007	80,308,505

(e) Shareholder rights plan:

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

8. Notes Payable

In December 2007, the Company’s wholly-owned subsidiary, Caza Gold Corp. (“Caza”), received proceeds of CAD$300,000 in demand loans of which CAD$180,000 are from directors and officers of the Company. The loans are repayable on demand and bear an interest rate of 9% per annum.

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

9. Related Party Transactions

General and administrative costs during 2007 include:

- CAD$Nil (2006 - CAD$38,000 and 2005 - CAD$Nil) of consulting fees charged by a company controlled by a former director of the Company;
- CAD$120,987 (2006 - CAD$99,208 and 2005 - CAD$59,385) of salaries paid to a director;
- CAD$32,005 (2006 - CAD$55,580 and 2005 - CAD$23,000) in office rent recovered from companies sharing certain common directors; and
- CAD$35,273 (2006 - $Nil and 2005 $Nil) in office rent paid to a company sharing certain common directors.

A law firm in which a senior officer is a partner charged fees totalling CAD$106,316 in 2007 (2006 - CAD$159,594 and 2005 – CAD$65,496). Also, in fiscal 2007, the Company paid a total of CAD$35,604 (2006 - CAD$40,000 and 2005 - CAD$40,000) to current and former directors in their capacity as Directors of the Company.

Details of transactions with Aztec are provided in Note 6, and notes payables for Caza are provided in Note 8.

10. Segment Disclosures

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

11. Income Taxes

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

	2007	2006	2005
Canadian statutory tax rates	34.12%	36.12%	37.12%
Expected recovery	$ (179)	$ (292)	$ (64)
Permanent differences	(58)	26	350
Benefit of tax attributes and other items	845	406	(143)
Change in valuation allowance	(2,647)	(140)	-
Income tax (expense) recovery	$ (2,039)	$ -	$ 143

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

11. Income Taxes (continued)

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

The significant components of the Company's future income tax assets as at December 31, 2007 and 2006 are as follows:

	2007	2006
Future income tax assets:		
Resource properties	$ (599)	$ 2,156
Equipment	305	347
Non-capital losses	1,164	1,009
Capital losses	29	34
Total future income tax assets	899	3,546
Valuation allowance	(899)	(3,546)
Future income tax assets, net	$ -	$ -

At December 31, 2007, the Company has non-capital losses for Canadian tax purposes of approximately $4,665,000 which expire on various dates to 2014, and Canadian capital losses of approximately $178,000 which are without expiry.

12. Supplemental Disclosure with respect to Cash Flows

	2007	2006	2005
Non-cash financing and investing activities:			
Fair value of stock options allocated to shares issued on exercise of:			
Share appreciation rights	$ 69	$ -	$ 3
Stock options	177	101	18
Issuance of shares for property acquisitions	24	-	-
Mineral exploration tax credit, receivable on mineral properties	315	-	-

13. Subsequent Events

In March 2008, the Company announced a Special General Meeting to be held on April 29, 2008 for a special resolution to approve the distribution of approximately 83% of the Company's interest in its wholly-owned subsidiary, Caza, to the shareholders of the Company under a plan of arrangement. The special resolution is: (1) to transfer the Company's wholly-owned Mexican subsidiary which holds the rights to the Mexican gold exploration properties to Caza in return for approximately 14.4 million shares of Caza, and (2) to distribute approximately 12 million Caza shares held by the Company to the Company's shareholders. Upon completion of the plan of arrangement, shareholders of the Company will continue to hold shares of the Company and will receive, by way of a dividend in kind, one share of Caza for every six shares of the Company held by shareholders as of the dividend record date. The plan of arrangement is subject to shareholder, court and regulatory approvals.

HEAD OFFICE	#301 – 700 West Pender Street Vancouver, BC, Canada, V6C 1G8 Telephone: (604) 685-9700 Facsimile: (604) 685-9744 Website: www.canarc.net
DIRECTORS	Bradford Cooke Derek Bullock Leonard Harris William Price
OFFICERS	Bradford Cooke ~ Chairman and Chief Executive Officer Bruce Bried ~ President and Chief Operating Officer Garry Biles ~ Vice-President, Mining James Moors ~ Vice-President, Exploration Philip Yee ~ Chief Financial Officer Stewart Lockwood ~ Secretary
REGISTRAR AND TRANSFER AGENT	Computershare Investor Services Inc. 3rd Floor, 510 Burrard Street Vancouver, BC, Canada, V6C 3B9
AUDITORS	KPMG LLP 777 Dunsmuir Street Vancouver, BC, Canada, V7Y 1K3
SOLICITORS	Vector Corporate Finance Lawyers #1040 – 999 West Hastings Street Vancouver, BC, Canada, V6C 2W2
SHARES LISTED	Trading Symbols TSX: CCM OTC-BB: CRCUF DBFrankfurt: CAN

CANARC RESOURCE CORP.

(the “**Company**”)

Management’s Discussion and Analysis
For the Year Ended December 31, 2007

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2007 and the audited consolidated financial statements for the years ended December 31, 2006 and 2005, all of which are available at the SEDAR website at www.sedar.com.

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

All information contained in the MD&A is as of March 25, 2008 unless otherwise indicated.

1.1 Background

The Company was incorporated under the laws of British Columbia and is engaged in the acquisition, exploration, development and exploitation of precious metal properties in Canada, Costa Rica, Mexico and Suriname. The Company owns or holds, directly or indirectly, interests in precious metal properties, known as the New Polaris property in British Columbia, Canada; the Bellavista property in Costa Rica; the Los Arrastres, Providencia, Santiago and Santiago Fraction properties in Mexico; and the Benzdorp property in Suriname.

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

The Company holds a 5.7% to 20.2% net profit interest in the Bellavista property, located near Miramar, Costa Rica. Central Sun Mining Inc. (formerly, Glencairn Gold Corporation) (“Central Sun”) owns a 100% working interest in the property, which is an open pit, heap leach, gold mine and which achieved commercial production in December 2005. In July 2007, Central Sun suspended mining operations due to ground movement and heavy rainfall causing surface erosion and deep seated ground creep in some areas of the mine site. The Company has a net profit interest in Bellavista which entitles the Company to 5.67% of the net profits during the first payback period, increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Central Sun until $317,741 in advance royalty payments are repaid.

Previously, the Company held 80% of the shares of Sara Kreek Resource Corporation N.V. ("Sara Kreek Resource"), the company that holds the Sara Kreek concession in the Republic of Suriname. On April 15, 2006, the Company entered into a Settlement and Termination Agreement with its partner, Suriname Wylap Development N.V. ("Wylap Development"), to transfer the Company's interest in Sara Kreek Resource. In settlement for all claims, loans and advances owed to the Company, the Company received a cash payment of $400,000 in 2006, and will receive the greater of $50,000 per year, payable semi-annually, or a 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011. The Company received $50,000 in 2007.

In April 1996, the Company entered into an option agreement with Grasshopper Aluminum Company N.V. ("Grassalco") to earn up to an 80% interest in the Benzdorp property located in the Republic of Suriname by making cumulative cash payments of $750,000 and property expenditures totalling $5,000,000 over a four-year period. In August 2002, the Company amended its option agreement. Cash payments prior to commercial production were reduced to $300,000 and the period to incur exploration expenditures totalling $5,000,000 was extended to April 2005 which was then extended to December 2005 pursuant to amendments in April 2005, subject to a payment of $40,000 which was paid in April 2005. Also, the Company will owe Grassalco an additional $250,000 payable on or before 30 days after the commencement of commercial production if a feasibility study has not been completed by October 6, 2005. Each year thereafter, the Company will owe an additional $250,000 payable on or before 30 days after the commencement of commercial production. However, if a feasibility study has not been completed by October 6, 2008, then the annual additional cash payments of $250,000 will increase at that time to $500,000. These additional cash payments shall be treated as advance payments against Grassalco's shareholder ownership interest and shall be deductible from Grassalco's net profit share or net smelter profit from exploiting the deposits. In fiscal 2004, the Company had earned a 40% interest in the Benzdorp property, and the Company can exercise its right to increase its interest to 80%. In February 2004, the Company and Grassalco incorporated a company in Suriname and transferred the Benzdorp concessions to it, on behalf of the Company (40%) and Grassalco (60%). The exploration concessions for the Benzdorp property were due to expire in July 2007, and Benzdorp Gold NV, the joint venture company held by the Company and Grassalco, has applied to the Minister of Natural Resources of Suriname for a three year extension to the Company's exploration concessions at Benzdorp. An extension is available at the discretion of the Suriname Minister of Natural Resources. The Company continues to have the exclusive right to explore the Benzdorp concessions after the expiry date until there is a decision on the application to extend.

In February 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making $2.5 million in cash payments and spending $2 million on exploration over a 3 year period. The vendor will retain a 2% net smelter return royalty ("NSR") and the Company has the right to reduce the NSR to 1% by paying $1 million at any time. An initial payment of $50,000 was made upon the signing of the option agreement and a further payment of $75,000 was made in August 2007. A cash payment of $25,000 was made in February 2008.

In March 2007, the Company entered into a preliminary option agreement to acquire a 100% interest in the Providencia gold/silver properties by issuing 30,000 common shares to the vendors on signing a formal agreement within 30 days and making $2 million in cash payments over a 2 ½ year period, including $30,000 on signing. The vendors will retain a 2 ½ % NSR, and the Company has the right to reduce the royalty to 1 ½ % at any time by paying $750,000 and issuing an option to the vendors to purchase 250,000 common shares of the Company at the five day closing share price average on the Toronto Stock Exchange prior to the royalty reduction. The formal agreement is expected in fiscal 2008.

In May 2007, the Company entered into an option agreement to acquire a 100% interest in the Santiago gold property by making $2 million in cash payments over a 5 year period and spending $200,000 on exploration over a 2 year period. The vendor will retain a 2% NSR. An initial payment of $30,000 was made upon the signing of the option agreement and a further payment of $30,000 was made in November 2007.

In September 2007, the Company entered into an option and joint venture agreement to acquire up to a 75% interest in the Santiago Fraction property by issuing 15,000 common shares, paying $25,000 in cash after 1 year, and spending up to $1 million in exploration over a 5-year period. The Company issued 15,000 common shares at a deemed value of CAD$0.45 per share.

1.2 Overall Performance

As the Company is focused on its exploration activities, there is no production, sales or inventory in the conventional sense. The recoverability of costs capitalized to mineral properties and the Company's future financial success will be dependent upon the extent to which it can discover mineralization and determine the economic viability of developing such properties. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty at this time. Many of the key factors are outside of the Company's control. The sales value of any mineralization discovered and developed by the Company is largely dependent upon factors beyond the Company's control such as the market prices of the metals produced. As the carrying value and amortization of mineral properties and capital assets are, in part, related to the Company's mineral reserves and resources, if any, the estimation of such reserves and resources is significant to the Company's position and results of operations.

Gold prices continued to show strength as the cumulative annual average increased from $445 in fiscal 2005 to $603 in fiscal 2006 and $695 in 2007, closing at $927 on March 25, 2008. Gold prices achieved new highs in each of the past several years. In late 2005, prices reached a high of $537, then $725 in May 2006 and $841 in November 2007 before reaching a high of $1,011 in March 2008.

New Polaris property

From the flow-through equity financings in 2006, the Company continued with its work program in 2007 which included mine dewatering, underground development, diamond drilling, bulk sampling, metallurgical testing, environmental studies and related work necessary for a preliminary assessment.

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

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

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

(expressed in United States dollars)

MEASURED UNDILUTED RESOURCE

Cutoff Grade (g/tonne)	Cutoff Grade (oz/ton)*	Mineralized Tonnage (tonnes)	Mineralized Tonnage (tons)	Average Grade (g/tonne)	Average Grade (oz/ton)	Contained Gold Au (oz)
2	0.058	390,000	429,902	9.48	0.277	119,000
4	0.117	330,000	363,763	10.62	0.310	113,000
6	0.175	271,000	298,727	11.89	0.347	104,000
8	0.233	203,000	223,769	13.54	0.395	88,000

INDICATED UNDILUTED RESOURCE

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

MEASURED PLUS INDICATED UNDILUTED RESOURCE

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

INFERRED UNDILUTED RESOURCE

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

* ton equals short dry ton

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

(expressed in United States dollars)

In the third quarter of 2007, the Company completed a preliminary assessment of building an 80,000 oz per year gold mine at the New Polaris property. At a US$650 per oz gold price, the project generates an after-tax net present value (NPV) with an 8% discount rate of CAD$8.3 million and after-tax internal rate of return (IRR) of 11.1%. Moose Mountain Technical Services ("Moose Mountain") was commissioned as independent consultants to work with the Company's personnel in developing the conceptual mine plan and mining capital and operating costs; Jasman Yee and Associates Inc. for the metallurgical testwork, process design, mill capital and operating costs; and Beacon Hill Consultants (1988) Ltd. for the financial analysis. All three consultants contributed to the preliminary assessment for an 80,000 oz per year, high grade, underground gold mine at New Polaris. Their report entitled "New Polaris Project – Preliminary Assessment" dated October 4, 2007 ("Preliminary Assessment Report") was prepared in compliance with NI 43-101, to the best of the Company's knowledge. The Preliminary Assessment Report is available at www.sedar.com. J.H. (Jim) Gray, P.Eng. of Moose Mountain is the Qualified Person for the Preliminary Assessment Report.

The base case production model is summarized below:

Scheduled Resources	806,000 tonnes measured and indicated grading 13.2 gpt Au (after dilution) and 944,000 tonnes inferred grading 11.9 gpt Au (after dilution) and a 9 gpt cutoff
Production Rate	600 tonnes per day
Grade	12.5 grams per tonne (diluted 20%)
Recoveries	91% gold into concentrate
Output	80,000 oz gold per year
Mine life	8 years

The base case financial parameters are as follows:

Gold Price	US$650 per oz	
Exchange Rate	US$0.90 = CAD$1.00	
Capital Cost	CAD$90.5 million	
Cash Cost	US$327 per oz (excluding offsites)	
	Pre-Tax	After-Tax
Net Present Value (NPV) (0%)	CAD$60.4 million	CAD$40.9 million
NPV (5%)	CAD$32.6 million	CAD$18.4 million
NPV (8%)	CAD$20.3 million	CAD$8.3 million
NPV (10%)	CAD$13.4 million	CAD$2.7 million
	Pre-Tax	After-Tax
Internal Rate of Return	14.9%	11.1%
Payback Period	3.8 years	4.7 years

The preliminary assessment indicates that the New Polaris base case production model and financial parameters have positive potential and therefore further work was recommended to optimize the project and to complete a feasibility study. The preliminary assessment is based on resources, not reserves, and a portion of the modeled resources to be mined are in the inferred resource category. Resources are normally considered too speculative geologically to have economic considerations applied to them so the project does not yet have proven economic viability. The CAD$90.5 million capital costs include CAD$19 million to complete a feasibility study, as well as the capital needed to purchase equipment, further develop the mine and construct the plant and site infrastructure. The US$327 per oz cash cost includes site related costs prior to the shipping and sale of concentrates. Offsite costs for concentrate transportation and processing are treated as deductions against sales. The NPVs are life of mine net cash flows shown at various discount rates. The IRR assumes 100% equity financing.

The Company's management believes that opportunities exist to improve the base case model such as:

- Increasing resources and therefore mine life;
- Increasing gold recoveries and concentrate grades;
- Increasing production to enhance economies of scale;
- Reducing transportation costs; and
- Reducing offsite processing costs.

The main cost risks include:

- Rising engineering and construction labour and equipment costs due to limited availability;
- Escalating capital costs if there are project delays;
- Rising operating costs due to inflation and commodity shortages; and
- Fluctuations in US$/CA$ exchange rates.

Benzdorp property

The exploration efforts in 2006 resulted in the identification of several new, higher grade gold prospect areas.

The exploration program for 2007 included ground geophysics, bulldozer trenching, additional soil geochemistry, and poknokker pit mapping and sampling.

The exploration concessions for the Benzdorp property were due to expire in July 2007, and Benzdorp Gold NV, the joint venture company held by the Company and Grassalco, has applied to the Minister of Natural Resources of Suriname for a three year extension to the Company's exploration concessions at Benzdorp. An extension is available at the discretion of the Suriname Minister of Natural Resources. The Company continues to have the exclusive right to explore the Benzdorp concessions after the expiry date until there is a decision on the application to extend.

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

Bellavista property

The Company holds a 5.7% to 20.2% net profit interest in the Bellavista property located in Costa Rica, which is an open pit, heap leach, gold mine. Central Sun, owner and operator of the Bellavista mine in Costa Rica, declared commercial production in December 2005. In July 2007, Central Sun suspended mining operations due to ground movement and heavy rainfall causing surface erosion and deep seated ground creep in some areas of the mine site.

Sara Kreek property

In April 2006, the Company agreed to transfer all its interest in Sara Kreek Resource to Wylap Development in exchange for a cash payment of $400,000 and the greater of $50,000 per year or 1.5% royalty on annual gross production until December 31, 2011 in settlement of any claims, loans and advances owed to the Company. In 2007, $50,000 was received.

Plan of Arrangement

In March 2008, the Company announced a Special General Meeting to be held on April 29, 2008 for a special resolution to approve the distribution of approximately 83% of the Company's interest in its wholly-owned subsidiary, Caza Gold Corp. ("Caza"), to the shareholders of the Company under a plan of arrangement. The special resolution is: (1) to transfer the Company's wholly-owned Mexican subsidiary which holds the rights to the Mexican gold exploration properties to Caza in return for approximately 14.4 million shares of Caza, and (2) to distribute approximately 12 million Caza shares held by the Company to the Company's shareholders. Upon completion of the plan of arrangement, shareholders of the Company will continue to hold shares of the Company and will receive, by way of a dividend in kind, one share of Caza for every six shares of the Company held by shareholders as of the dividend record date. The plan of arrangement is subject to shareholder, court and regulatory approvals.

Other Matters

In February 2007, Mr. Bruce Bried replaced Mr. John McClintock as President and Chief Operating Officer, and in March 2007, Mr. Garry Biles was appointed Vice-President, Mining.

The Shareholders Update included in the Company's audited consolidated financial statements for the year ended December 31, 2007 provides further review of the Company's overall performance for fiscal 2007 and an outlook for fiscal 2008.

1.3 Selected Annual Information

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

	For the Years Ended December 31,		
(in $000s except per share amounts)	2007	2006	2005
Total revenues	$ -	$ -	$ -
Income (loss) before discontinued operations and extraordinary items:			
(i) Total	$ 1,515	$ 433	$ 315
(ii) Basic per share	$ 0.02	$ 0.01	$ 0.01
(iii) Fully diluted per share	$ 0.02	$ 0.01	$ 0.01
Net income (loss):			
(i) Total	$ 1,515	$ 433	$ 315
(ii) Basic per share	$ 0.02	$ 0.01	$ 0.01
(iii) Fully diluted per share	$ 0.02	$ 0.01	$ 0.01
Total assets	$ 20,115	$ 18,447	$ 11,182
Total long-term liabilities	$ -	$ -	$ -
Dividends per share	$ -	$ -	$ -

1.4 Results of Operations

Fiscal Year 2007 – Year ended December 31, 2007 compared with December 31, 2006

The Company realized a higher net income of approximately $1.5 million for the year ended December 31, 2007 in comparison to a net income of $433,000 for 2006. The net income in 2007 was primarily attributable to the future income tax recovery for the renunciation of exploration expenditures from flow-through equity financings in 2006 and the realized gain from the disposition of marketable securities. The net income in 2006 was attributable to gains realized from the disposition of marketable securities and from the gain from the disposition of Sara Kreek Resource. A substantial portion of the realized gains from marketable securities for both years was from the disposition of shares of Endeavour Silver Corp. ("Endeavour"), a company with two common directors. In 2007, the Company disposed of all its shares of Endeavour.

The Company has no sources of operating revenues.

The future income tax recovery of approximately $2 million is a provision for the recognition at the date of actual renunciation being March 8, 2007, by a reduction in the amount included in share capital for the flow through shares for the future income taxes related to the deductions foregone by the Company. In 2006, the Company raised flow-through equity financing from three private placements for approximately CAD$7.05 million which were renounced in March 2007.

In 2007, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") for the recognition and measurement of financial instruments which were applied prospectively with no restatement of prior period financial statements. These new standards consist of CICA Handbook Section 3855-Financial Instruments-Recognition and Measurement, Section 3865-Hedging and Section 1530-Comprehensive Income. The new accounting standards require financial assets designated as held-for-trading and available-for-sale be measured at fair value on initial adoption, while financial assets designated as held to maturity and loans and receivables are measured at amortized cost. Changes in the fair values of marketable securities which the Company classifies as available-for-sale financial instruments are recognized in other comprehensive income. Due to the adoption of the new standards, the Company's marketable securities and accumulated other comprehensive income increased by $837,000 on initial adoption. On adoption of the new standards, the Company designated the royalty receivable as loans and receivables, and reported an adjustment of $38,000 to opening retained earnings. The Company recognized $15,000 from the accretion of royalty receivable.

The Company did not acquire nor dispose of any marketable securities in the first quarter of 2007. In the second quarter of 2007, the Company realized gains of $664,000 from the disposition of marketable securities, and then realized further gains of $460,000 in the third quarter and $28,000 in the fourth quarter of fiscal 2007. The Company realized gains of approximately $1.2 million from disposition of marketable securities in fiscal 2007, again primarily from the Company's shareholdings of Endeavour. Proceeds from the disposition of marketable securities supplemented the financing needs for operating activities and working capital.

With the exception of the fourth quarter of 2007, overall operating expenses in 2007 continue to be higher than prior periods in 2006, reflecting the commensurate heightened operating activities of the Company as management focused greater efforts on the planning, detailing and implementation of the de-watering program and the preliminary assessment for the New Polaris property and the exploration program for the Benzdorp property, which included hiring additional personnel. Expenses for corporate development reflect active due diligence and property evaluations for Mexico for acquisitions and to identify properties of merit for possible acquisitions. Expenses for corporate development were higher in 2006 than 2007, in which such efforts in 2006 culminated in the acquisition of Mexican properties in 2007. Given that certain account balances of the Company are stated in Canadian dollars, the appreciation of the Canadian dollar relative to the U.S. dollar during fiscal 2007 caused the recognition of foreign exchange gains for US$ stated financial information. Stock-based compensation results from the granting of stock options was nominally lower in 2007, partly attributable to vesting provisions on certain stock options and due to a lower fair value per option granted. General and administrative expenses and salaries continue to account for a significant portion of operating expenses. Operating activities subsided in the fourth quarter of 2007 as the Company completed its preliminary assessment for the New Polaris property and continued with its efforts for the extension of its exploration concessions for the Benzdorp property.

As at December 31, 2007, the Company has mineral properties which are comprised of the following:

	December 31, 2007		
(in $000s)	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris	$ 3,605	$ 8,582	$ 12,187
Suriname:			
Benzdorp	301	5,795	6,096
Mexico:			
Los Arrastres	125	95	220
Providencia	17	8	25
Santiago	60	34	94
Santiago Fraction	7	-	7
	$ 4,115	$ 14,514	$ 18,629

Expenditures of $2,505,000 were incurred for New Polaris for the year ended December 31, 2007 as the Company continued with its de-watering program which was being financed from the proceeds of the flow-through private placement in October 2006. The de-watering program and preliminary assessment for the property were completed in September 2007. As for the Benzdorp property, expenditures of $554,000 were incurred during 2007.

Acquisition costs related to the Company's Mexican properties totalled $209,000 and exploration expenditures totalled $137,000, all of which were incurred in 2007.

At December 31, 2007, to maintain its interest and to fully exercise the options under various property agreements covering the properties located in British Columbia (Canada), Mexico and Suriname, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments (in $000s)	Expenditure Commitments (in $000s)	Shares
Benzdorp:			
On commercial production [(i)]	$ 450	$ -	-
New Polaris:			
Net profit interest buyout	-	-	150,000
Los Arrastres			
Option payments and expenditure commitments	2,375	1,905	-
Net profit interest reduction	1,000	-	-
Providencia [(ii)]			
Option payments and expenditure commitments	2,000	-	-
Net profit interest reduction	750	-	250,000
Santiago	1,940	166	-
Santiago Fraction	25	1,000	-
	$ 8,540	$ 3,071	400,000

(i) Payable on or before 30 days after the commencement of commercial production.

(ii) A formal agreement is expected in fiscal 2008.

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

1.5 Summary of Quarterly Results

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

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, December 31, 2007:

(in $000s except per share amounts)	2007 Dec 31	2007 Sept 30	2007 June 30	2007 Mar 31	2006 Dec 31	2006 Sept 30	2006 June 30	2006 Mar 31
Total revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income (loss) before discontinued discontinued operations and extraordinary items:								
(i) Total	$ (182)	$ (72)	$ 254	$ 1,515	$ (426)	$ 148	$ 15	$ 696
(ii) Basic per share	$ -	$ -	$ -	$ 0.02	$ -	$ -	$ -	$ 0.01
(iii) Fully diluted per share	$ -	$ -	$ -	$ 0.02	$ -	$ -	$ -	$ 0.01
Net income (loss):								
(i) Total	$ (182)	$ (72)	$ 254	$ 1,515	$ (426)	$ 148	$ 15	$ 696
(ii) Basic per share	$ -	$ -	$ -	$ 0.02	$ -	$ -	$ -	$ 0.01
(iii) Fully diluted per share	$ -	$ -	$ -	$ 0.02	$ -	$ -	$ -	$ 0.01
Total assets	$ 20,115	$ 19,988	$ 19,168	$ 19,395	$ 18,447	$ 16,072	$ 16,001	$ 14,762
Total long-term liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dividends per share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Realized gains from disposition of marketable securities and the renunciation of exploration expenditures in March 2007 contributed to a net income for fiscal 2007. Gains from the disposition of marketable securities and from the disposition of subsidiary were the primary contributors to the realization of the net income for fiscal 2006. The Company has no sources of operating revenues.

1.6 Liquidity and Capital Resources

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

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

(in $000s)	December 31, 2007	2006	2005
Cash and cash equivalents	$ 633	$ 2,267	$ 489
Working capital	$ 590	$ 2,709	$ 1,201

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

The exercise of stock options provided proceeds of CAD$364,700.

The Company did not dispose of any marketable securities in the first quarter of 2007 to generate cash flows, but did dispose of marketable securities in the other quarters of 2007 which provided proceeds of approximately $1.7 million.

In March 2006, Aztec, an affiliated company, closed a private placement for 3,675,000 units at CAD$0.30 per unit with each unit comprised of one common share and one-half of a share purchase warrant, which diluted the Company's interest in Aztec from 27% to 19%. In May 2007, the Company exercised its warrants for 500,000 common shares of Aztec at an exercise price of CAD$0.12. At December 31, 2007, the Company had a 17% interest in Aztec.

In July 2007, the Company closed a non-brokered private placement for 2,200,000 units at CAD$0.52 per unit for gross proceeds of CAD$1,144,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at an exercise price of CAD$0.65 until July 24, 2008. Finders' fees of CAD$37,440 were paid in cash.

In December 2007, Caza, a wholly-owned subsidiary, received proceeds of CAD$300,000 in demand loans of which CAD$180,000 are from directors and officers of the Company. The loans are repayable on demand and bear an interest rate of 9% per annum.

The Company has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.4, further details of contractual obligations are provided as at December 31, 2007. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

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

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

1.9 Transactions with Related Parties

General and administrative costs during 2007 include:

- CAD$120,987 of salaries paid to a director;
- CAD$32,005 in office rent recovered from companies sharing certain common directors; and
- CAD$35,273 in office rent paid to a company sharing certain common directors.

A law firm in which a senior officer is a partner charged fees totalling CAD$106,316 in 2007. Also, in fiscal 2007, the Company paid a total of CAD$35,604 to current and former directors in their capacity as Directors of the Company.

Details of transactions with Aztec and notes payables for Caza are provided in Item 1.6.

1.10 Fourth Quarter

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

1.11 Proposed Transactions

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

Plan of Arrangement

In March 2008, the Company announced a Special General Meeting to be held on April 29, 2008 for a special resolution to approve the distribution of approximately 83% of the Company's interest in its wholly-owned subsidiary, Caza, to the shareholders of the Company under a plan of arrangement. The special resolution is: (1) to transfer the Company's wholly-owned Mexican subsidiary which holds the rights to the Mexican gold exploration properties to Caza in return for approximately 14.4 million shares of Caza, and (2) to distribute approximately 12 million Caza shares held by the Company to the Company's shareholders. Upon completion of the plan of arrangement, shareholders of the Company will continue to hold shares of the Company and will receive, by way of a dividend in kind, one share of Caza for every six shares of the Company held by shareholders as of the dividend record date. The plan of arrangement is subject to shareholder, court and regulatory approvals.

1.12 Critical Accounting Estimates

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

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

1.13 Changes in Accounting Policies Including Initial Adoption

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. The new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

(i) CICA Handbook Section 3855 – Financial Instruments – Recognition and Measurement

The standard addresses the classification, recognition and measurement of financial instruments in the financial statements. This standard requires all financial instruments within its scope, including derivatives, to be included in the Company's balance sheet and measured either at fair value on initial recognition or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are recognized in the statements of operations.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to the adoption date are recognized by adjusting accumulated other comprehensive income.

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings;

- Available-for-sale financial assets are measured at fair value based on quoted market prices. Investment in equity instruments classified as available-for-sale that does not have a quoted market price in an active market is measured at cost. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet either by disposition or permanent impairment at which time the realized gain or loss is transferred to net earnings;

- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise; and

- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

In accordance with the new standard, the Company has classified its marketable securities as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with realized gains or losses recorded in net earnings and unrealized gains or losses recorded in other comprehensive income.

This change in accounting policy resulted in an increase of $837,000 in the carrying value of its marketable securities on initial adoption.

The Company's royalty receivable from disposition of subsidiary is classified as loans and receivables. It is measured at amortized cost and is amortized to interest income using the effective interest rate method. This change in accounting policy resulted in a decrease of $38,000 in the carrying value of its royalty receivable from disposition of subsidiary on initial adoption.

Its investment in shares of Aztec is classified as available-for-sale but such shares do not have a quoted market price in an active market and are therefore measured at cost.

(ii) CICA Handbook Section 3865 - Hedging

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. Section 3865, "Hedges" specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The Company currently does not have any hedges.

(iii) CICA Handbook Section 1530 - Comprehensive Income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

Accordingly, the Company now includes the account "accumulated other comprehensive income" in the shareholders' equity section of the consolidated balance sheet and the account "other comprehensive income" in the statements of operations.

New accounting pronouncements are as follows:

(i) Financial Instruments – Disclosures and Presentation, CICA Handbook Sections 3862 & 3863

The CICA issued Section 3862 on disclosures and Section 3863 on presentation. The two new CICA sections replace Section 3861 and set out additional financial instruments disclosure requirements while carrying forward unchanged its presentation requirements. These sections are applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

(ii) Assessing Going Concern, CICA Handbook Section 1400

In June 2007, CICA Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual periods beginning on or after January 1, 2008.

(iii) Capital Disclosures, CICA Handbook Section 1535

CICA Section 1535 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. This section requires additional disclosures relating to capital management strategies.

The Company will adopt the standards on January 1, 2008, and is evaluating the impact of these new standards on its financial position and results of operations.

The Company does not expect the adoption of the standards to result in any material changes to the Company's financial statements.

1.14 Financial Instruments and Other Instruments

Items 1.13 provide further details of financial instruments.

The Company's investments in marketable securities as at December 31, 2007 are as follows:

(in $000s)	December 31, 2007
Investment in shares of companies, at cost	$ 44
Unrealized foreign exchange losses	(2)
Unrealized losses in market values	(26)
	$ 16

The closing market prices on the stock exchanges are used as the basis for the determination of the fair values of the shareholdings held as marketable securities as at the reporting date. The Company classifies its marketable securities as available-for-sale financial instruments.

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

(a) may be found on SEDAR at www.sedar.com;

(b) may be found in the Company's annual information form; and

(c) is also provided in the Company's audited consolidated financial statements for the year ended December 31, 2007.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the year ended December 31, 2007 are as follows:

	Number of Shares	Amount (in $000s)
Balance at December 31, 2006	68,470,476	$ 55,629
Issued:		
Private placement	2,200,000	1,039
Property acquisition	45,000	24
Exercise of options	830,000	530
Exercise of share appreciation rights	189,029	106
Provision for flow-through shares	-	(2,039)
Balance at December 31, 2007	71,734,505	$ 55,289

At March 25, 2008, there were 71,734,505 common shares issued and outstanding.

At December 31, 2007, the Company had outstanding stock options to purchase an aggregate 7,074,000 common shares as follows:

	December 31, 2007	
	Number of Shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	7,929,000	$0.54
Granted	2,190,000	$0.54
Exercised	(830,000)	$0.44
Converted to stock appreciation rights on exercise	(410,000)	$0.37
Expired	(1,805,000)	$0.65
Outstanding, end of year	7,074,000	$0.54
Exercise price range (CAD$)	$0.25 - $1.00	

Of the options granted in 2007, options for 500,000 common shares with an exercise price of CAD$0.54 and an expiry date of June 15, 2012 have vesting provisions in which options for 250,000 common shares vest on June 15, 2008 and the balance of 250,000 vest on June 15, 2009.

At March 25, 2008, stock options for 6,884,000 common shares remain outstanding.

At December 31, 2007, the Company had outstanding warrants to purchase an aggregate of 1,100,000 common shares as follows:

(expressed in United States dollars)

Exercise Prices (CAD$)	Expiry Dates	Outstanding at December 31, 2006	Issued	Exercised	Expired	Outstanding at December 31, 2007
$0.82	March 17, 2007	231,000	-	-	(231,000)	-
$1.25	October 18, 2007	2,150,000	-	-	(2,150,000)	-
$0.82	October 18, 2007	247,800	-	-	(247,800)	-
$0.95	October 18, 2007	350,000	-	-	(350,000)	-
$0.65	July 24, 2008	-	1,100,000	-	-	1,100,000
		2,978,800	1,100,000	-	(2,978,800)	1,100,000

At March 25, 2008, warrants for 1,100,000 common shares remain outstanding.

1.16 Outlook

Although it currently has sufficient capital to satisfy existing operating and administrative expenses in the short term, the Company will continue to depend upon equity capital to finance its existing projects. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

1.17 Risk Factors

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

Exploration and Development Risks

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

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

Financing Risks

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

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

Estimates of Mineral Deposits

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

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

Mineral Prices

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

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

Title Matters

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

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

Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

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

Reclamation

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

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

Third Party Reliance

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

Volatility of Shares Could Cause Investor Loss

The market price of a publicly traded stock, especially a junior issuer like the Company, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of the market for junior resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of the common shares on the TSX and NASD-OTC suggests that the Company's shares will continue to be volatile. Therefore, investors could suffer significant losses if the Company's shares are depressed or illiquid when an investor seeks liquidity and needs to sell the Company's shares.

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At December 31, 2007, the Company had 71,734,505 common shares and 7,074,000 share purchase options and 1,100,000 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, 2007, dilutive securities represented approximately 11% of the Company's issued shares. Certain of these dilutive securities are exercisable at prices below the December 31, 2007 closing market price of CAD$0.36 for the Company's shares and, accordingly, will result in dilution to existing shareholders if exercised.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's audited consolidated financial statements for the year ended December 31, 2007 and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Controls over Financial Reporting

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting ("ICOFR") or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have assessed the design of ICOFR and identified certain weaknesses.

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

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

Notwithstanding this weakness, management concluded that the financial statements for the year ended December 31, 2007 fairly present the Company's financial position and the results of its operations for the year then ended.

Changes in Internal Controls over Financial Reporting

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