



Second Quarter Report

Condensed Consolidated Interim Financial Statements

(expressed in thousands of United States dollars)

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

SHAREHOLDER UPDATE

Review of the Second Quarter and Outlook for the Third Quarter of Fiscal 2011

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

Q2 Review

- An updated pre-tax, undiscounted NPV for the New Polaris gold mine project in northwestern British Columbia jumped to CA\$281 million based on a US\$1200 gold price
- Canarc signed option agreements to purchase 100% interests in two adjacent gold properties in the Windfall Hills area of central British Columbia
- The Company staked three additional gold properties totalling 17,175 hectares northeast of Canarc's recently acquired Windfall Hills properties in central BC
- Canarc sold its interest in the Relief Canyon assay lab in Nevada for US\$600,000 plus costs
- The Company held its Annual General meeting for Shareholders on June 7, 2011

During the 2nd Quarter, Canarc commissioned and received an updated NI 43-101 preliminary economic assessment report by Moose Mountain Technical Services for the New Polaris gold mine project in northwestern British Columbia. The estimated project economics for Canarc to build and operate a 600 tonne per day gold mine, averaging 72,000 ozs gold per year, at New Polaris appear to be very robust thanks to a lower cut-off grade and a higher gold price.

Using updated parameters in the base case economic model for the gold price (US\$1200 per oz), \$CA/\$US exchange rate (1.00), cash costs (US\$481 per oz) and cut-off grade (7 grams per tonne), the updated Moose Mountain PEA generates a discounted (5%) after-tax Net Present Value ("NPV") of CA\$129.8 million with an after-tax Internal Rate of Return ("IRR") of 31.4% and a 2.5 year pay-back period. On a pre-tax basis, the undiscounted life-of-mine cash flow totals CA\$280.8 million with a 38.1% IRR and a 2.4 year pay-back period.

Canarc's recent acquisition of options to purchase two adjacent gold properties in the Windfall Hills area, located 65 kilometers (km) south of Burns Lake and 90 km northwest of Richfield Ventures' recent gold discovery in central BC will be a new focus for the Company in 2011. Canarc plans an initial exploration program followed by diamond drilling to test several high priority geochemical and geophysical targets.

The Windfall Hills properties are situated within the same geological belt of Tertiary volcanic rocks as Richfield's Blackwater gold discovery. Richfield Ventures delineated a 4 million oz gold resource earlier this year and subsequently received a friendly take-over bid by New Gold for CAD\$10.38 per share, valuing the company at more than CAD\$550 million.

In addition, Canarc staked three gold properties northeast of the Windfall Hills properties. All three properties targeted geochemical anomalies within the favorable Ootsa Lake Group rhyolitic volcanic rocks where they are cut by northeast and northwest-trending structures, similar to the Blackwater-Davidson gold discovery. The projects are accessible via gravel logging roads so property exploration should be rapid and cost-effective.

In Q3, 2011, Canarc sold its interest in the Relief Canyon assay lab in Nevada for US\$600,000 plus costs. At the Company's AGM held on June 7, 2011, Messrs. Bradford Cooke, Bruce Bried, Derek Bullock, Leonard Harris, and William Price were re-elected to the Board of Directors for the ensuing year. Canarc also appointed Mr. Gregg Wilson as Vice-President of Investor Relations. The Company has granted 2,220,000 million stock options with an exercise price of CAD\$0.135 and which are exercisable for a period of five years and subject to vesting provisions.

Q3 Outlook

In the 3rd Quarter, Canarc hopes to conclude discussions with parties interested in acquiring an interest in the New Polaris gold property by financing the initial mine development and a feasibility study. Work has commenced on the application for an underground development and exploration program at New Polaris to commence later this year subject to securing a partner for the project.

Canarc has initiated a Phase 1 exploration program on its Windfall Hills project to re-establish the geological and geochemical grid controls from previous work and conduct a focused geochemical sampling program over known target areas. Results of this work along with preliminary exploration work over the remainder of the claims will help define targets for drilling in 2011.

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

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

Canarc Resource Corp. is a growth-oriented, gold exploration company listed on the TSX (CCM) and the OTC-BB (CRCUF). Canarc is currently focused on advancing its New Polaris gold mine project in north-western British Columbia to the feasibility stage, exploring the large Tay LP property and acquiring attractive gold exploration and mining projects in North America. Barrick Gold Corp. is a shareholder.

CANARC RESOURCE CORP.

Per:

/s/ Bradford J. Cooke

Bradford J. Cooke
Chairman and C.E.O.

July 29, 2011

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.

**Notice of No Auditor Review of
Unaudited Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2011**

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

The accompanying unaudited condensed consolidated interim financial statements of Canarc Resource Corp. (the “Company”) for the three and six months ended June 30, 2011 (the “Financial Statements”) have been prepared by and are the responsibility of the Company’s management, and have not been reviewed by the Company’s auditors. The Financial Statements are stated in terms of United States dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 (“IAS 34”) and International Financial Reporting Standards 1 (“IFRS 1”), which are based on the principles of International Financial Reporting Standards (“IFRS”).

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

| | June 30, 2011 | 2010 | |
|--|------------------|--------------------------|------------------------|
| | | December 31 (Note 15) | January 1 (Note 15) |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 674 | \$ 592 | \$ 155 |
| Receivables and prepaids | 129 | 105 | 145 |
| Marketable securities (Note 5) | 65 | 25 | - |
| Royalty receivable - current portion (Note 6(b)) | 25 | 50 | 50 |
| Total Current Assets | 893 | 772 | 350 |
| NON-CURRENT ASSETS | | | |
| Mineral properties (Note 6) | 13,204 | 12,724 | 12,626 |
| Deposit on asset acquisition (Note 6(c)) | - | 300 | - |
| Equipment (Note 7) | 9 | 10 | 2 |
| Royalty receivable - long-term portion (Note 6(b)) | - | - | 46 |
| Long-term investments (Note 8) | 97 | 94 | 143 |
| Total Non-Current Assets | 13,310 | 13,128 | 12,817 |
| Total Assets | \$ 14,203 | \$ 13,900 | \$ 13,167 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 443 | \$ 532 | \$ 607 |
| Notes payable (Note 9) | 88 | 80 | 63 |
| Flow through obligations (Note 10) | 239 | 226 | 329 |
| Derivative liability for warrants (Note 11) | - | 1,049 | 177 |
| Total Current Liabilities | 770 | 1,887 | 1,176 |
| Deferred income tax | 123 | 120 | - |
| Total Liabilities | 893 | 2,007 | 1,176 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital (Note 12) | 58,196 | 57,685 | 56,436 |
| Reserve for share-based payments (Note 15) | 930 | 1,239 | 1,296 |
| Accumulated other comprehensive income | 405 | 10 | - |
| Deficit | (46,221) | (47,041) | (45,741) |
| Total Shareholders' Equity | 13,310 | 11,893 | 11,991 |
| Total Liabilities and Shareholders' Equity | \$ 14,203 | \$ 13,900 | \$ 13,167 |

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 6 and 10)

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income

(Unaudited – Prepared by Management)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|--------------|---------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Expenses: | | | | |
| Amortization | \$ 1 | \$ 1 | \$ 2 | \$ 1 |
| Corporate development | 13 | 3 | 33 | 6 |
| Employee and director remuneration (Note 13) | 109 | 91 | 234 | 200 |
| Foreign exchange loss (gain) | 15 | (31) | 15 | (9) |
| General and administrative | 45 | 53 | 138 | 112 |
| Shareholder relations | 30 | 9 | 51 | 26 |
| Share-based payments (Note 12(c)) | 65 | 13 | 67 | 39 |
| Loss before the undernoted | (278) | (139) | (540) | (375) |
| Interest and other investment income | 1 | - | 1 | - |
| Accretion of royalty receivable | - | 1 | - | 2 |
| Gain from long term investment | - | 162 | - | 162 |
| Unrealized gain of derivative warrant liability | - | 62 | - | 149 |
| Interest and finance charges | (3) | (2) | (5) | (3) |
| Due diligence cost on asset acquisition (Note 6(c)) | - | - | (60) | - |
| (Loss) income before income tax | (280) | 84 | (604) | (65) |
| Deferred income tax recovery | - | - | 1 | 113 |
| Net (loss) income for the period | (280) | 84 | (603) | 48 |
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss) on available-for-sale securities (Note 5) | (62) | - | 39 | - |
| Comprehensive (loss) income for the period | \$ (342) | \$ 84 | \$ (564) | \$ 48 |
| Basic and diluted (loss) income per share | \$ (0.01) | \$ - | \$ (0.01) | \$ - |
| Weighted average number of shares outstanding | 93,544,518 | 81,969,655 | 92,604,573 | 81,969,655 |

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

| | Fiscal Year ended December 31, 2010 | | | | | |
|--|-------------------------------------|------------------|---------------------------------------|------------------|-----------------------------------|------------------|
| | Six Months ended June 30, 2011 | | Six Months ended December 31, 2010 | | Six Months ended June 30, 2010 | |
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Share capital: | | | | | | |
| Balance, beginning of period | 90,985,890 | \$ 57,685 | 81,969,655 | \$ 56,323 | 81,969,655 | \$ 56,436 |
| Issued: | | | | | | |
| Private placement | - | - | 8,500,000 | 1,244 | - | - |
| Conversion of convertible debenture (Note 6(c)) | 1,282,051 | 300 | - | - | - | - |
| Exercise of stock options | 44,000 | 7 | 20,000 | 3 | - | - |
| Exercise of warrants | 1,313,650 | 205 | 275,000 | 67 | - | - |
| Property acquisition (Note 6(a)(ii)) | - | - | 221,235 | 24 | - | - |
| Provision for flow-through shares (Note 12(b)) | - | (1) | - | 24 | - | (113) |
| Balance, end of period | 93,625,591 | 58,196 | 90,985,890 | 57,685 | 81,969,655 | 56,323 |
| Reserve for share-based payments: | | | | | | |
| Balance, beginning of period | | 1,239 | | 1,333 | | 1,296 |
| Share-based payments for the period | | 67 | | 104 | | 39 |
| Fair value from exercise of stock options | | (3) | | (1) | | - |
| Forfeiture of stock options | | (373) | | (197) | | (2) |
| Balance, end of period | | 930 | | 1,239 | | 1,333 |
| Accumulated other comprehensive (loss) income: | | | | | | |
| Balance, beginning of period | | 10 | | - | | - |
| Unrealized gain on available-for-sale securities | | 39 | | 10 | | - |
| Currency translation loss from change in functional currency | | 356 | | - | | - |
| Balance, end of period | | 405 | | 10 | | - |
| Deficit: | | | | | | |
| Balance, beginning of period | | (47,041) | | (45,691) | | (45,741) |
| Reserve for derivative warrant liability | | 1,049 | | - | | - |
| Foreign exchange on expired stock options | | 1 | | - | | - |
| Forfeiture of stock options | | 373 | | 197 | | 2 |
| Net (loss) income for the period | | (603) | | (1,547) | | 48 |
| Balance, end of period | | (46,221) | | (47,041) | | (45,691) |
| Total Shareholders' Equity | | \$ 13,310 | | \$ 11,893 | | \$ 11,965 |

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

| | Six Months Ended June 30, | |
|--|---------------------------|--------------|
| | 2011 | 2010 |
| Cash provided from (used for): | | |
| Operations: | | |
| (Loss) income for the period | \$ (603) | \$ 48 |
| Items not involving cash: | | |
| Accretion of royalty receivables | - | (2) |
| Accrued interest | 5 | 3 |
| Amortization | 2 | 1 |
| Share-based payments | 67 | 39 |
| Gain on disposition of long term investments | - | (162) |
| Deferred income tax recovery | (1) | (113) |
| Unrealized gain on derivative liability for warrants | - | (149) |
| Unrealized currency translation gain | 2 | (2) |
| | (528) | (337) |
| Changes in non-cash working capital items: | | |
| Receivables and prepaids | (24) | 56 |
| Accounts payable and accrued liabilities | (89) | 28 |
| Flow through obligations | 13 | (13) |
| Cash used by operating activities | (628) | (266) |
| Financing: | | |
| Issuance of common shares, net of share issuance costs | 509 | - |
| Investing: | | |
| Royalty receivable | 25 | 25 |
| Proceeds from disposition of long term investments | - | 193 |
| Mineral properties, net of recoveries | (124) | (14) |
| Disposition of asset held for sale, net of acquisition | 300 | - |
| Cash provided from investing activities | 201 | 204 |
| Increase (decrease) in cash | 82 | (62) |
| Cash, beginning of period | 592 | 155 |
| Cash, end of period | \$ 674 | \$ 93 |

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

| | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2011 | 2010 |
| Non-cash financing and investing activities: | | |
| Change from U.S. dollar to Canadian dollar functional currency: | | |
| Derivative liability for warrants | \$ 1,049 | \$ - |
| Cumulative translation adjustment | 356 | - |
| Advance applied to acquisition of asset held for sale | 300 | - |
| Fair value of stock options allocated to shares issued on exercise of stock options | 3 | - |
| Forfeiture adjustment for stock options | 373 | 2 |
| Income taxes paid | - | - |
| Interest paid | - | - |

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

1. Nature of Operations and Going Concern

Canarc Resource Corp. (the “Company”), a company incorporated under the laws of British Columbia, 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 and receive necessary permitting for the exploration and development of its properties, and upon future profitable production or proceeds from the disposition thereof.

The Company has incurred significant net losses of \$603,000 (June 30, 2010 – net income of \$48,000) for the six months ended June 30, 2011, and has a deficit of \$46 million as at June 30, 2011 (December 31, 2010 - \$47 million). Furthermore, the Company has working capital of \$123,000 as at June 30, 2011 (December 31, 2010 – working capital deficiency of \$1,115,000), which is not sufficient to achieve the Company’s planned business objectives. These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management would seek to raise the necessary capital to meet its planned business objectives. There can be no assurance that management’s plans will be successful. 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 and such adjustments could be material.

2. Significant Accounting Policies

(a) Basis of presentation:

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”) and International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting (“IFRS 1”) with an adoption date of January 1, 2011 and a transition date of January 1, 2010, based on the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements do not include all of the information required for annual financial statements. Therefore, these condensed consolidated interim financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements and the notes thereto for the year ended December 31, 2010 and the accounting policies included in Note 2 to the Company’s unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2011. These unaudited condensed consolidated interim financial statements have been prepared consistently with the accounting policies and practices set out therein.

These are the Company’s second condensed consolidated interim financial statements for the second quarter of the period covered by the first consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011. The impact of the transition from Canadian generally accepted accounting principles (“Canadian GAAP”) to IFRS is explained in Note 15.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(a) Basis of presentation: (continued)

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments which are classified as available-for-sale financial assets and derivative financial liability, which are stated at their fair values. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies in Note 2 have been applied in preparing the condensed consolidated interim financial statements for the six months ended June 30, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the six months ended June 30, 2010, the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian GAAP to IFRS, and at December 31, 2010. The accounting policies have been applied consistently by the Company and its subsidiaries.

(b) Currency translation:

Effective January 1, 2011, the Company's financial functional currency changed from the United States dollar to the Canadian dollar but continues to maintain its reporting currency in the United States dollar.

Prior to January 1, 2011 when the functional currency was in the United States dollar, accounts denominated in currencies other than the United States dollar have been translated using the temporal method 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 condensed consolidated interim statements of comprehensive loss in the period in which they occur.

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

- Revenue and expense items at the rate of exchange in effect on the transaction date;
- Assets and liabilities at the exchange rate as the balance sheet date; and
- Shareholders' equity items at historical exchange rates.

All amounts are then translated from the Canadian dollar functional currency to the United States dollar reporting currency for each period using the current method the exchange rate at the end of each reporting period.

Exchange gains and losses are recorded as cumulative translation adjustment which is included as a component of shareholders' equity.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(c) Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries and its 40% owned investee, Benzdorp Gold N.V., which is proportionately consolidated. All significant intercompany transactions and balances are eliminated on consolidation.

(d) Financial instruments:

(i) Financial assets:

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

(ii) Financial liabilities:

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(d) Financial instruments: (continued)

(ii) Financial liabilities: (continued)

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the income statement over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include trade accounts payable, note payables, other payables, advances from non-controlling interest, deferred credits, and loans.

Derivative financial liabilities

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

(e) Mineral properties:

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

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

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

CANARC RESOURCE CORP.

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(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(f) Equipment:

Equipment is recorded at cost and, for equipment subject to amortization, the Company uses the declining balance method at rates varying from 10% to 30% annually.

(g) Proceeds on unit offerings:

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

(h) Flow-through common shares:

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

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

(i) Share-based payment:

The Company has a stock option plan that is described in Note 12. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded value is transferred to deficit.

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(j) Environmental rehabilitation:

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

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

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

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

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

(k) Earnings (loss) per share:

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

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2. Significant Accounting Policies (continued)

(l) Critical accounting estimates:

The preparation of financial statements requires management to make estimates and assumptions 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 determining the recoverability of mineral property interests and property, plant and equipment, the determination of accrued liabilities and accrued site remediation, rates of amortization for mineral property and equipment, the variables used in the determination of the fair value of stock options granted and warrants issued, and the determination of the valuation allowance for deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(m) Provisions:

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

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

3. Management of Capital

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

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

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

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3. Management of Capital (continued)

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

There were no changes in the Company's approach to capital management during the six months ended June 30, 2011.

4. Management of Financial Risk

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

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

The Company's long term investment in shares of Aztec Metals Corp. ("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.

The fair values of the Company's receivables, accounts payable and accrued liabilities, notes payable, and flow through obligation approximate their carrying values due to the short terms to maturity. Cash and marketable securities are measured at fair values using level 1 inputs. Disclosure is not made of the fair value of the long-term investments as the shares do not have a quoted market price in an active market. The fair value of the royalty receivable approximates its carrying value as it was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The royalty receivable is level 3 in the fair value hierarchy as it is based on unobservable inputs. Derivative liability for warrants is level 3 in the fair value hierarchy as it is also based on unobservable inputs.

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

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4. Management of Financial Risk (continued)

(a) Credit risk:

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

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractual/taxes receivables from government agencies are not considered financial instruments. The royalty receivable is due from an unrelated company, and the Company has not taken any steps to mitigate the credit risk associated with this receivable (Note 6(b)).

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company will require significant additional funding to meet its short-term liabilities, flow through obligations and administrative overhead costs, and to maintain its mineral property interests in 2011.

Accounts payable and accrued liabilities are due in accordance with normal terms of trade, and the notes payables are due on demand.

(c) Market risk:

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

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4. Management of Financial Risk (continued)

(c) Market risk: (continued)

(i) Foreign currency risk:

The Company's mineral properties and operations are in Canada, and would subject it to foreign currency fluctuations. A certain portion of its operating expenses are incurred in Canadian dollars, and fluctuations in U.S. dollars would impact the cumulative translation adjustment of the Company and the values of its assets and liabilities as its financial statements are stated in U.S. dollars.

At June 30, 2011, the Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

| | Held in Canadian dollars (stated in U.S. dollars) |
|--|--|
| Cash | \$ 37 |
| Receivables and prepaids | 129 |
| Marketable securities | 65 |
| Mineral properties | 13,204 |
| Equipment | 9 |
| Long-term investments | 97 |
| Accounts payable and accrued liabilities | (352) |
| Notes payable | (88) |
| Flow through obligation | (239) |
| Deferred income tax liability | (123) |
| Net assets | <u>\$ 12,739</u> |

Based upon the above net exposure as at June 30, 2011 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$1.27 million in cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

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

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5. Marketable Securities

| | June 30, 2011 | December , 2010 |
|--|---------------|-----------------|
| Investment in shares of companies, at cost | \$ 14 | \$ 14 |
| Change in fair value | 49 | 10 |
| Foreign currency translation adjustment | 2 | 1 |
| | <u>\$ 65</u> | <u>\$ 25</u> |

The quoted market value of shares of companies was \$65,000 at June 30, 2011.

6. Mineral Properties

| | British Columbia | | | Yukon | Total |
|---|-------------------------------|------------------------------------|----------------------------------|---------------------------|-----------|
| | New Polaris (Note 6(a)(i)) | Windfall Hills (Note 6(a)(iii)) | Devil's Thumb (Note 6(a)(iv)) | Tay-LP (Note 6(a)(ii)) | |
| Acquisition Costs: | | | | | |
| Balance, January 1, 2010 | \$ 3,605 | \$ - | \$ - | \$ 25 | \$ 3,630 |
| Additions | - | - | - | 49 | 49 |
| Balance, December 31, 2010 | 3,605 | - | - | 74 | 3,679 |
| Additions and adjustments from change in functional currency | 6 | 75 | 7 | 2 | 90 |
| Balance, June 30, 2011 | 3,611 | 75 | 7 | 76 | 3,769 |
| Deferred Exploration Expenditures: | | | | | |
| Balance, January 1, 2010 | 8,556 | - | - | 440 | 8,996 |
| Additions, net of recoveries | 104 | - | - | (55) | 49 |
| Balance, December 31, 2010 | 8,660 | - | - | 385 | 9,045 |
| Additions and adjustments from change in functional currency | 368 | - | - | 22 | 390 |
| Balance, June 30, 2011 | 9,028 | - | - | 407 | 9,435 |
| Mineral property interests, June 30, 2011 | \$ 12,639 | \$ 75 | \$ 7 | \$ 483 | \$ 13,204 |

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6. Mineral Properties (continued)

(a) Canada:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at June 30, 2011 include a reclamation bond for CAD\$250,000.

(ii) Tay-LP:

On August 24, 2009, the Company entered into an option agreement with Ross River Minerals Inc. and Ross River Gold Ltd. (collectively, “Ross River”) to acquire a 100% interest in the Tay-LP gold property, located in Yukon, by paying CAD\$1 million in cash and/or shares and spending CAD\$1.5 million on exploration over a three-year period which can occur in two stages. In the first stage, the Company can earn a 51% interest by paying CAD\$150,000 in cash and spending CAD\$900,000 on exploration on or before October 31, 2011. In the second stage, the Company can earn an additional 49%, thereby totalling a 100% interest, by paying CAD\$850,000 in cash or common shares at the Company’s discretion and spending CAD\$600,000 on exploration on or before October 31, 2012. If the Company does not proceed with the second stage, then a joint venture would be formed. The Company shall pay to the optionors a gold bonus equal to CAD\$1 per ounce (“oz”) of gold for all proven and probable gold reserves and measured and indicated gold resources to a maximum of 1 million oz gold. The option agreement is subject to a NSR totalling 3% which can be reduced to 1.5% by payments totalling US\$1.95 million. Commencing on or before October 31, 2009 and continuing on or before October 31 of each subsequent year until the property is put into commercial production, the Company shall pay to the NSR holders annual advance NSR royalty payments totalling CAD\$25,000 or that number of common shares of the Company and which shall be deducted from NSR obligations. The NSR of 3% shall be subject to maximum total payments based on one million payable ounces of gold being mined by commercial production but will be reduced to 500,000 payable ounces of gold if the NSR was reduced to 1.5%. The Company made cash payments of CAD\$50,000 in October 2010 and CAD\$20,000 in August 2009. In October 2010, the Company issued 221,235 common shares (2009 - 160,250 common shares) at a value of CAD\$0.113 (2009 - CAD\$0.156) per common share as the annual advance NSR royalty for CAD\$25,000 for the Tay-LP property.

In late March 2010, the Company entered into an option agreement with Cap-Ex Ventures Ltd. (“Cap-Ex”) whereby Cap-Ex can acquire 50% of the Company’s interest in the Tay-LP gold property by paying CAD\$100,000 of which CAD\$25,000 have been received, issuing 200,000 common shares of which 100,000 shares have been issued, incurring exploration expenditures of CAD\$675,000 by October 31, 2011, and maintaining the Company’s underlying option agreement in good standing until October 2011. In April 2010, Cap-Ex made a cash payment of CAD\$30,000 directly to Ross River. Cap-Ex terminated the option agreement in March 2011.

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6. Mineral Properties (continued)

(a) Canada: (continued)

(iii) Windfall Hills:

In April 2011, the Company entered into two option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia. The Company can acquire a 100% interest in the Atna properties by making US\$750,000 in cash payments over a 4 year period (US\$50,000 paid), honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting the vendor a 2% NSR production royalty.

The Company can acquire a 100% interest in the Dunn properties by making CAD\$250,000 in cash payments over a 4 year period (CAD\$15,000 paid), and a final bonus payment based on all gold resources estimated in an independent NI 43-101 technical report. The formula for the bonus payment is US\$30 per oz for measured resources, US\$20 per oz for indicated resources, and US\$10 per oz for inferred resources.

(iv) Devil's Thumb:

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

(b) Sara Kreek, Suriname:

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

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 June 30, 2011.

| | | |
|---|----|------|
| Present value of expected cash flows from royalties as at January 1, 2009 | \$ | 138 |
| Add: Accretion for the year | | 8 |
| Less: Royalty received during the year | | (50) |
| Present value of expected cash flows from royalties as at December 31, 2009 | | 96 |
| Add: Accretion for the year | | 4 |
| Less: Royalty received during the year | | (50) |
| Present value of expected cash flows from royalties as at December 31, 2010 | | 50 |
| Less: Royalty received during the period | | (25) |
| Less: Current portion of royalty receivable as at June 30, 2011 | | (25) |
| Long-term portion of royalty receivable as at June 30, 2011 | \$ | - |

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6. Mineral Properties (continued)

(c) Relief Canyon, United States:

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

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

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

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

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6. Mineral Properties (continued)

(d) Expenditure options:

As at June 30, 2011, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

| | Option Payments (CAD\$000s) | Option Payments (US\$000s) | Exploration Commitments (1) (CAD\$000s) | Advance Royalty Payments (CAD\$000s) | Net Smelter Reduction (US\$000s) | Number of Shares |
|--|-----------------------------------|----------------------------------|---|--|--|---------------------|
| New Polaris (Note 6(a)(i)): | | | | | | |
| Net profit interest reduction or buydown | | | | | | 150,000 |
| Tay-LP (Note 6(a)(ii)): | | | | | | |
| October 31, 2011 | \$ 50 | | \$ 230 | | | |
| October 31, 2012 | 850 | | 600 | | | |
| Annual advance royalty payments until commercial production | | | | \$ 25 | | |
| Net smelter reduction from 3% to 1.5% | | | | | \$ 1,950 | |
| Windfall Hills (Note 6(a)(iii)): | | | | | | |
| Atna properties: | | | | | | |
| April 12, 2012 | | 100 | | | | |
| April 12, 2013 | | 150 | | | | |
| April 12, 2014 | | 200 | | | | |
| April 12, 2015 | | 250 | | | | |
| Dunn properties: | | | | | | |
| April 20, 2012 | 25 | | | | | |
| April 20, 2013 | 35 | | | | | |
| April 20, 2014 | 50 | | | | | |
| April 20, 2015 | 125 | | | | | |
| | \$ 1,135 | \$ 700 | \$ 830 | \$ 25 | \$ 1,950 | 150,000 |

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

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

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6. Mineral Properties (continued)

(e) Title to mineral property interests:

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

(f) Realization of assets:

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

(g) Environmental:

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

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

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

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7. Equipment

| | Cost | Accumulated Amortization | Net Book Value |
|----------------------------|--------|-----------------------------|-------------------|
| Balance, January 1, 2010 | \$ 140 | \$ 138 | \$ 2 |
| Additions | 10 | - | 10 |
| Dispositions | (140) | (138) | (2) |
| Balance, December 31, 2010 | 10 | - | 10 |
| Additions | 1 | 2 | (1) |
| Balance, June 30, 2011 | \$ 11 | \$ 2 | \$ 9 |

8. Long-Term Investments

As at June 30, 2011, the Company had an interest of 9% in Aztec (December 31, 2010 – 9%).

9. Notes Payable

In May 2009, the Company received CAD\$62,030 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bore an interest rate of 9% per annum which was increased to 12% effective September 1, 2010, and were previously secured by the Company's shareholdings in Caza Gold Corp. ("Caza") at CAD\$0.25 per share of Caza which has been replaced by a loan bonus of 12% payable upon repayment effective September 1, 2010. As at June 30, 2011, the Company accrued CAD\$15,036 in interests and CAD\$7,444 in loan bonuses.

10. Flow Through Obligation

Pursuant to an audit by the Canada Revenue Agency (the "CRA") which was completed in June 2010, CRA disallowed approximately CAD\$1.01 million in exploration expenditures incurred in 2007 as Canadian exploration expenditures ("CEE") of which approximately CAD\$795,000 as being disqualified for CEE for flow-through purposes. The Company accrued liabilities of approximately CAD\$175,000 for estimated indemnities related to the disqualified CEE for flow-through purposes and CAD\$56,000 in accrued interests related to the indemnities. Should the estimate change in the future, it may affect future results of operations and cash flows.

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11. Derivative Liability for Warrants

| | | |
|--|----|---------|
| Balance, December 31, 2010 | \$ | 1,049 |
| Reserve for derivative liability for warrants due to change in functional currency | | (1,049) |
| Balance, June 30, 2011 | \$ | - |

Effective January 1, 2011, the Company's functional currency changed from the U.S. dollar to the Canadian dollar, and has issued and outstanding warrants that have exercise prices which are denominated in Canadian dollar which is the same as its functional currency in fiscal 2011. These warrants are now considered indexed to the Company's common shares and are no longer treated as derivative liabilities.

12. Share Capital

(a) Authorized:

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

(b) Issued:

The Company issued a convertible debenture for CAD\$300,000 to Effisolar for the interest free loan from Effisolar, which was then converted into 1,282,051 common shares of the Company on March 2, 2011. Note 6(c) provides further details.

In February 2011, the Company renounced CAD\$4,761 in exploration expenditures from the proceeds of the flow-through private placements in 2009, resulting in the recognition of a future income tax recovery of approximately US\$1,201.

(c) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, directors and consultants to acquire up to 16,335,000 common shares, of which options for 8,150,000 common shares are outstanding as at June 30, 2011. The exercise price of each option cannot be lower than the last recorded sale of a board lot on the Toronto Stock Exchange ("TSX") during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the TSX based on the last five trading days before the date of the grant. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the board at the time the options are granted.

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

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12. Share Capital (continued)

(c) Stock option plan: (continued)

The continuity of stock options for the six months ended June 30, 2011 is as follows:

| | June 30, 2011 | |
|----------------------------------|------------------|---|
| | Number of Shares | Weighted average exercise price (CAD\$) |
| Outstanding, beginning of period | 9,410,000 | \$0.31 |
| Exercised | (44,000) | \$0.10 |
| Forfeited | (16,000) | \$0.10 |
| Expired | (1,200,000) | \$0.69 |
| Outstanding, end of period | 8,150,000 | \$0.26 |

The following table summarizes information about stock options exercisable and outstanding at June 30, 2011:

| Price Intervals (CAD\$) | Options Outstanding | | | Options Exercisable | | |
|-------------------------|-------------------------------------|---|--|-------------------------------------|---|--|
| | Number Outstanding at June 30, 2011 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) | Number Exercisable at June 30, 2011 | Weighted Average Remaining Contractual Life (Number of Years) | Weighted Average Exercise Prices (CAD\$) |
| \$0.10 - \$0.24 | 4,280,000 | 3.8 | \$0.10 | 2,340,000 | 3.5 | \$0.11 |
| \$0.25 - \$0.49 | 2,480,000 | 1.7 | \$0.34 | 2,480,000 | 1.7 | \$0.34 |
| \$0.50 - \$0.74 | 1,390,000 | 0.9 | \$0.59 | 1,390,000 | 0.9 | \$0.59 |
| | 8,150,000 | 2.6 | \$0.26 | 6,210,000 | 2.2 | \$0.31 |

During the six months ended June 30, 2011, the Company recognized share-based payments of \$67,000, net of forfeitures, related to stock options.

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12. Share Capital (continued)

(d) Warrants:

At June 30, 2011, the Company had outstanding warrants as follows:

| Exercise Prices (CAD\$) | Expiry Dates | Oustanding at December 31, 2010 | Issued | Exercised | Expired | Oustanding at June 30, 2011 |
|-------------------------|------------------|---------------------------------|--------|-------------|-------------|-----------------------------|
| \$0.15 | April 22, 2011 | 39,410 | - | (31,675) | (7,735) | - |
| \$0.15 | October 22, 2011 | 202,160 | - | - | - | 202,160 |
| \$0.15 | April 22, 2011 | 2,319,140 | - | (1,185,975) | (1,133,165) | - |
| \$0.165 | May 9, 2011 | 128,410 | - | (96,000) | (32,410) | - |
| \$0.22 | June 13, 2012 | 4,250,000 | - | - | - | 4,250,000 |
| | | 6,939,120 | - | (1,313,650) | (1,173,310) | 4,452,160 |

(e) Common shares reserved for issuance at June 30, 2011:

| | Number of Shares |
|----------------------------|------------------|
| Stock options (Note 12(c)) | 8,150,000 |
| Warrants (Note 12(d)) | 4,452,160 |
| Balance, June 30, 2011 | 12,602,160 |

(f) Shareholder rights plan:

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

13. Related Party Transactions

Except as disclosed elsewhere in the condensed consolidated financial statements, general and administrative costs during the six months ended June 30, 2011 include:

- CAD\$24,776 of salaries to an employee who is a director;
- CAD\$20,000 for directors' fees. As at June 30, 2011, the Company accrued CAD\$128,659 in directors fees included in accounts payable;
- CAD\$35,693 in legal fees to a law firm in which a senior officer of the Company is a partner. As at June 30, 2011, the Company owed CAD\$43,295 to the law firm;
- CAD\$75,917 in office rent and salary allocations recovered from companies sharing certain common directors. As at June 30, 2011, the Company was owed CAD\$14,639 from such companies; and
- CAD\$46,300 in office rent and salary allocations incurred to a company sharing certain common directors. As at June 30, 2011, the Company owed CAD\$6,024 to the company.

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

14. Segment Disclosures

The Company has one operating segment, being mineral exploration, with all assets located in Canada as at June 30, 2011.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS

These are the Company's second condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements to be presented in accordance with IFRS for the year to end December 31, 2011.

The accounting policies in Note 2 have been applied in preparing the condensed consolidated interim financial statements for the six months ended June 30, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the six months ended June 30, 2010, the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian GAAP to IFRS and at December 31, 2010.

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

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

Business combinations

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

Fair value or revaluation as deemed cost

The Company has used the amount determined under a previous GAAP revaluation as the deemed cost for certain assets. The Company elected the exemption for certain assets which were written down under Canadian GAAP, as the revaluation was broadly comparable to fair value under IFRS. The carrying value of those assets on transition to IFRS is therefore, consistent with the Canadian GAAP carrying value on the transition date.

Share-based payments

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(b) Adjustments on transition to IFRS:

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

(i) Warrants:

Under Canadian GAAP, the Company classified warrants which were exercisable in Canadian dollars to purchase common shares as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares at an exercise price which is stated in a currency other than the Company's functional currency are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes to initial recognition changed to operations. The Company has determined fair value using the Black-Scholes option pricing model.

(ii) Share-based payments:

Under Canadian GAAP, the Company accounts for forfeitures of stock option as they occur. For IFRS, estimates of forfeitures are initially recognized when stock options are granted and subsequently adjusted for actual forfeitures as they occur. The Company has recognized vesting of stock options on an accelerated grading basis which is similar to IFRS. On the transition date of January 1, 2010, the Company recognized IFRS transition provisions for unvested stock options.

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

- (c) The effect of the differences between Canadian GAAP and IFRS on select accounts in the statements of financial position and the statements of comprehensive loss is summarized as follows:

| | 2010 | | |
|---|-----------------|-----------------|-----------------|
| | December 31, | June 30, | January 1, |
| Total Liabilities under Canadian GAAP | \$ 959 | \$ 1,016 | \$ 999 |
| Adjustments to transition to IFRS: | | | |
| Derivative liability for warrants (Note 15(b)(i)) | 1,049 | 28 | 177 |
| Total Liabilities under IFRS | \$ 2,008 | \$ 1,044 | \$ 1,176 |

| | 2010 | | |
|---|------------------|------------------|------------------|
| | December 31, | June 30, | January 1, |
| Share Capital under Canadian GAAP | \$ 57,660 | \$ 56,323 | \$ 56,436 |
| Adjustments to transition to IFRS: | | | |
| Exercise of warrants which are derivative liabilities (Note 15(b)(i)) | 24 | - | - |
| Exercise of stock options (Note 15(b)(ii)) | 1 | - | - |
| Share Capital under IFRS | \$ 57,685 | \$ 56,323 | \$ 56,436 |

| | 2010 | | |
|--|--------------|-------------|-------------|
| | December 31, | June 30, | January 1, |
| Contributed Surplus under Canadian GAAP | \$ 2,483 | \$ 2,383 | \$ 2,354 |
| Adjustments to transition to IFRS: | | | |
| Transferred to deficit for expired unexercised share-based payments (Note 15(b)(ii)) | (1,257) | (1,060) | (1,058) |
| Transferred to reserve for share-based payments (Note 15(b)(ii)) | (1,226) | (1,323) | (1,296) |
| Contributed Surplus under IFRS | \$ - | \$ - | \$ - |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

- (c) The effect of the differences between Canadian GAAP and IFRS on select accounts in the statements of financial position and the statements of comprehensive loss is summarized as follows: (continued)

| | 2010 | | |
|--|-----------------|-----------------|-----------------|
| | December 31, | June 30, | January 1, |
| Reserve for Share-based Payments: | | | |
| Adjustments to transition to IFRS: | | | |
| Transferred from contributed surplus for unexercised share-based payments (Note 15(b)(ii)) | \$ 1,296 | \$ 1,296 | \$ 1,296 |
| Share-based payments for the period (Note 15(b)(ii)) | 143 | 39 | - |
| Exercise of stock options (Note 15(b)(ii)) | (1) | - | - |
| Forfeiture of stock options (Note 15(b)(ii)) | (199) | (2) | - |
| Reserve for Share-based Payments under IFRS | \$ 1,239 | \$ 1,333 | \$ 1,296 |

| | 2010 | | |
|--|--------------------|--------------------|--------------------|
| | December 31, | June 30, | January 1, |
| Deficit under Canadian GAAP | \$ (47,212) | \$ (46,714) | \$ (46,622) |
| Adjustments to transition to IFRS: | | | |
| Derivative liability for warrants (Note 15(b)(i)) | (1,074) | (28) | (177) |
| Transferred from contributed surplus for expired unexercised share-based payments (Note 15(b)(ii)) | 1,058 | 1,058 | 1,058 |
| Share-based payments for the period (Note 15(b)(ii)) | (13) | (10) | - |
| Forfeiture of share-based payments (Note 15(b)(ii)) | 199 | 2 | - |
| Foreign exchange | 1 | 1 | - |
| Deficit under IFRS | \$ (47,041) | \$ (45,691) | \$ (45,741) |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(c) The effect of the differences between Canadian GAAP and IFRS on select accounts in the statements of financial position and the statements of comprehensive loss is summarized as follows: (continued)

| | 2010 | | |
|--|----------------------------|------------------------------|--------------------------------|
| | Year ended December 31, | Six Months ended June 30, | Three Months ended June 30, |
| Comprehensive (Loss) Income under Canadian GAAP | \$ (580) | \$ (92) | \$ 20 |
| Adjustments to transition to IFRS: | | | |
| Unrealized (loss) gain from derivative liability for warrants (Note 15(b)(i)) | (896) | 149 | 62 |
| Share-based payments (Note 15(b)(ii)) | (13) | (10) | (1) |
| Foreign exchange | - | 1 | 3 |
| Comprehensive Loss under IFRS | \$ (1,489) | \$ 48 | \$ 84 |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements:

A reconciliation of the above noted changes is included in these following Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Loss for the dates noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

Transitional Consolidated Statement of Financial Position – January 1, 2010

Consolidated Interim Statement of Financial Position Reconciliation – June 30, 2010

Consolidated Interim Statement of Comprehensive Loss Reconciliation – Three months ended June 30, 2010

Consolidated Interim Statement of Comprehensive Loss Reconciliation – Six months ended June 30, 2010

Consolidated Statement of Financial Position Reconciliation – December 31, 2010

Consolidated Statement of Comprehensive Loss Reconciliation – December 31, 2010

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

| | Notes | January 1, 2010 | | |
|---|-------------------|------------------|---------------------------------|-----------|
| | | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | | \$ 155 | \$ - | \$ 155 |
| Receivables and prepaids | | 145 | | 145 |
| Royalty receivable - current portion | | 50 | | 50 |
| Total Current Assets | | 350 | - | 350 |
| NON-CURRENT ASSETS | | | | |
| Mineral properties | | 12,626 | | 12,626 |
| Equipment | | 2 | | 2 |
| Royalty receivable - long-term portion | | 46 | | 46 |
| Long-term investments | | 143 | | 143 |
| Total Non-Current Assets | | 12,817 | - | 12,817 |
| Total Assets | | \$ 13,167 | \$ - | \$ 13,167 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | | \$ 607 | \$ - | \$ 607 |
| Notes payable | | 63 | | 63 |
| Flow through obligation | | 329 | | 329 |
| Derivative liability for warrants | 15(b)(i) | - | 177 | 177 |
| Total Current Liabilities | | 999 | 177 | 1,176 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | | 56,436 | | 56,436 |
| Contributed surplus | 15(b)(ii) | 2,354 | (2,354) | - |
| Reserve for share-based payments | 15(b)(ii) | - | 1,296 | 1,296 |
| Deficit | 15(b)(i) and (ii) | (46,622) | 881 | (45,741) |
| Total Shareholders' Equity | | 12,168 | (177) | 11,991 |
| Total Liabilities and Shareholders' Equity | | \$ 13,167 | \$ - | \$ 13,167 |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

(ii) The June 30, 2010 Canadian GAAP consolidated interim statement of financial position has been reconciled to IFRS as follows:

| | Notes | June 30, 2010 | | |
|---|-------------------|---------------|------------------------------|-----------|
| | | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | | \$ 93 | \$ - | \$ 93 |
| Receivables and prepaids | | 89 | | 89 |
| Royalty receivable - current portion | | 25 | | 25 |
| Total Current Assets | | 207 | - | 207 |
| NON-CURRENT ASSETS | | | | |
| Mineral properties | | 12,640 | | 12,640 |
| Equipment | | 1 | | 1 |
| Royalty receivable - long-term portion | | 48 | | 48 |
| Long-term investments | | 112 | | 112 |
| Total Non-Current Assets | | 12,801 | - | 12,801 |
| Total Assets | | \$ 13,008 | \$ - | \$ 13,008 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | | \$ 635 | \$ - | \$ 635 |
| Notes payable | | 65 | | 65 |
| Flow through obligation | | 316 | | 316 |
| Derivate liability for warrants | 15(b)(i) | - | 28 | 28 |
| Total Current Liabilities | | 1,016 | 28 | 1,044 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | | 56,323 | | 56,323 |
| Contributed surplus | 15(b)(ii) | 2,383 | (2,383) | - |
| Reserve for share-based payments | 15(b)(ii) | - | 1,333 | 1,333 |
| Deficit | 15(b)(i) and (ii) | (46,714) | 1,022 | (45,692) |
| Total Shareholders' Equity | | 11,992 | (28) | 11,964 |
| Total Liabilities and Shareholders' Equity | | \$ 13,008 | \$ - | \$ 13,008 |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

(iii) The Canadian GAAP consolidated interim statement of comprehensive loss for the three months ended June 30, 2010 has been reconciled to IFRS as follows:

| | Notes | June 30, 2010 | | IFRS |
|--|-----------|---------------|------------------------------|------------|
| | | Canadian GAAP | Effect of Transition to IFRS | |
| Expenses: | | | | |
| Amortization | | \$ 1 | \$ - | \$ 1 |
| Corporate development | | 3 | - | 3 |
| Employee and director remuneration | | 91 | | 91 |
| Foreign exchange loss (gain) | | (31) | (3) | (34) |
| General and administrative | | 56 | | 56 |
| Shareholder relations | | 9 | | 9 |
| Stock-based compensation | 15(b)(ii) | 12 | 1 | 13 |
| Loss before the undernoted | | (141) | 2 | (139) |
| Accretion of royalty receivable | | 1 | | 1 |
| Gain from long term investments | | 162 | | 162 |
| Interest expense | | (2) | | (2) |
| Unrealized gain from derivative liability for warrants | 15(b)(i) | - | 62 | 62 |
| Net loss for the period | | \$ 20 | \$ 64 | \$ 84 |
| Basic and diluted loss per share | | \$ - | \$ - | \$ - |
| Weighted average number of shares outstanding | | 81,969,655 | | 81,969,655 |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

(iv) The Canadian GAAP consolidated interim statement of comprehensive loss for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

| | Notes | June 30, 2010 | | |
|--|-----------|---------------|------------------------------|------------|
| | | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| Expenses: | | | | |
| Amortization | | \$ 1 | \$ - | \$ 1 |
| Corporate development | | 6 | - | 6 |
| Employee and director remuneration | | 200 | | 200 |
| Foreign exchange loss (gain) | | (9) | (1) | (10) |
| General and administrative | | 113 | | 113 |
| Shareholder relations | | 26 | | 26 |
| Stock-based compensation | 15(b)(ii) | 29 | 10 | 39 |
| Loss before the undernoted | | (366) | (9) | (375) |
| Accretion of royalty receivable | | 2 | | 2 |
| Gain from long term investments | | 162 | | 162 |
| Interest expense | | (3) | | (3) |
| Unrealized gain from derivative liability for warrants | 15(b)(i) | - | 149 | 149 |
| Loss before income tax | | (205) | 140 | (65) |
| Future income tax recovery | | 113 | | 113 |
| Net loss for the period | | \$ (92) | \$ 140 | \$ 48 |
| Basic and diluted loss per share | | \$ - | \$ - | \$ - |
| Weighted average number of shares outstanding | | 81,969,655 | | 81,969,655 |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

| | Notes | December 31, 2010 | | |
|---|-------------------|-------------------|------------------------------|------------------|
| | | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | | \$ 592 | \$ - | \$ 592 |
| Receivables and prepaids | | 105 | | 105 |
| Marketable securities | | 25 | | 25 |
| Royalty receivable - current portion | | 50 | | 50 |
| Total Current Assets | | 772 | - | 772 |
| NON-CURRENT ASSETS | | | | |
| Mineral properties | | 12,724 | | 12,724 |
| Deposit on asset acquisition | | 300 | | 300 |
| Equipment | | 10 | | 10 |
| Royalty receivable - long-term portion | | - | | - |
| Long-term investments | | 94 | | 94 |
| Total Non-Current Assets | | 13,128 | - | 13,128 |
| Total Assets | | \$ 13,900 | \$ - | \$ 13,900 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | | \$ 532 | \$ - | \$ 532 |
| Notes payable | | 81 | | 81 |
| Flow through obligation | | 226 | | 226 |
| Derivative liability for warrants | 15(b)(ii) | - | 1,049 | 1,049 |
| Total Current Liabilities | | 839 | 1,049 | 1,888 |
| Future income tax liability | | 120 | | 120 |
| Total Liabilities | | 959 | 1,049 | 2,008 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 15(b)(ii) | 57,660 | 25 | 57,685 |
| Contributed surplus | 15(b)(ii) | 2,483 | (2,483) | - |
| Accumulated other comprehensive income | | 10 | | 10 |
| Reserve for share-based payments | 15(b)(ii) | - | 1,239 | 1,239 |
| Deficit | 15(b)(i) and (ii) | (47,212) | 170 | (47,042) |
| Total Shareholders' Equity | | 12,941 | (1,049) | 11,892 |
| Total Liabilities and Shareholders' Equity | | \$ 13,900 | \$ - | \$ 13,900 |

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2011

(Unaudited – Prepared by Management)

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

15. Transition to IFRS (continued)

(d) Reconciliation to previously reported financial statements: (continued)

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

| | Notes | December 31, 2010 | | |
|---|-----------|-------------------|---------------------------------|------------|
| | | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| Expenses: | | | | |
| Amortization | | \$ 1 | \$ - | \$ 1 |
| Corporate development | | 12 | | 12 |
| Employee and director remuneration | | 383 | | 383 |
| Foreign exchange loss | | 43 | | 43 |
| General and administrative | | 308 | | 308 |
| Shareholder relations | | 62 | | 62 |
| Stock-based compensation | 15(b)(ii) | 130 | 13 | 143 |
| Loss before the undernoted | | (939) | (13) | (952) |
| Gain on disposition of long-term investment | | 257 | | 257 |
| Accretion of royalty receivable | | 4 | | 4 |
| Write-off of equipment | | (1) | | (1) |
| Unrealized loss from derivative liability for warrants | 15(b)(i) | - | (896) | (896) |
| Due diligence costs on asset acquisition | | (20) | | (20) |
| Interest expense | | (14) | | (14) |
| Flow through financing costs | | 150 | | 150 |
| Loss before income tax | | (563) | (909) | (1,472) |
| Future income tax expense | | (27) | | (27) |
| Net loss for the year | | (590) | (909) | (1,499) |
| Other comprehensive (loss) income: | | | | |
| Unrealized gain (loss) on available-for-sale securities | | 10 | | 10 |
| Comprehensive loss for the year | | \$ (580) | \$ (909) | \$ (1,489) |
| Basic and diluted loss per share | | \$ (0.01) | | \$ (0.02) |
| Weighted average number of common shares outstanding | | 82,446,825 | | 82,446,825 |

HEAD OFFICE

#301 – 700 West Pender Street
Vancouver, BC, Canada, V6C 1G8

Telephone: (604) 685-9700

Facsimile: (604) 685-9744

Website: www.canarc.net

DIRECTORS

Bradford Cooke
Bruce Bried
Derek Bullock
Leonard Harris
William Price

OFFICERS

Bradford Cooke ~ Chairman and Chief Executive Officer
Garry Biles ~ President and Chief Operating Officer
James Moors ~ Vice-President, Exploration
Gregg Wilson ~ Vice-President, Investor Relations
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

Smythe Ratcliffe LLP
7th Floor, 355 Burrard Street
Vancouver, BC, Canada, V6C 2G8

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



Second Quarter Report

Management Discussion and Analysis

(expressed in thousands of United States dollars)

Three and Six Months ended June 30, 2011

CANARC RESOURCE CORP.
(the “Company”)

Second Quarter Report

Management’s Discussion and Analysis
For the Three and Six Months Ended June 30, 2011

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 unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2011, all of which are available at the SEDAR website at www.sedar.com.

Financial information in this MD&A is prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”) and International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting (“IFRS 1”) with an adoption date of January 1, 2011 and a transition date of January 1, 2010, based on the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of August 12, 2011 unless otherwise indicated.

1.1 Background

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

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

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1.2 Overall Performance

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

New Polaris property (British Columbia, Canada)

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

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

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

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

MEASURED UNDILUTED RESOURCE

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

INDICATED UNDILUTED RESOURCE

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

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MEASURED PLUS INDICATED UNDILUTED RESOURCE

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

INFERRED UNDILUTED RESOURCE

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

* ton equals short dry ton

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

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

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

The base case mine model in the New Polaris Preliminary Economic Report is summarized below:

| | |
|---------------------|--|
| Scheduled Resources | 223,000 tonnes measured grading 11.9 gpt Au and 833,000 tonnes of indicated grading 11.6 gpt Au (after dilution) and 1,132,000 tonnes inferred grading 10.8 gpt Au (after dilution) and a 7 gpt cutoff |
| Production Rate | 600 tonnes per day |
| Grade | 11.3 grams per tonne (diluted 13%) |
| Recoveries | 91% gold into concentrate |
| Average Output | 72,000 oz gold per year |
| Mine Life | 10 years |

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The updated preliminary economic parameters are as follows:

| | |
|-------------------------|---|
| Gold Price | US\$ 1200 per oz |
| Exchange Rate | US\$ 1.00 = CAD\$ 1.00 |
| Capital Cost | CAD\$ 101.1 million |
| Cash Cost | US\$ 481 per oz (excluding off-site costs) |
| Cash Flow (LoM) | <u>After-Tax</u> CAD\$188.1 million |
| NPV (5%) | CAD\$129.8 million |
| NPV (8%) | CAD\$103.7 million |
| Internal Rate of Return | <u>Pre-Tax</u> 38.1% <u>After Tax</u> 31.4% |
| Payback Period | 2.4 years 2.5 years |

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

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

| New Polaris AFTER TAX CASH FLOW SENSITIVITY ANALYSIS | | | |
|--|---------------------------|--------------------------|--------------------------|
| Description of Sensitivity | Cash Flow CAD\$ (000)s | NPV @ 5% CAD\$ (000)s | NPV @ 8% CAD\$ (000)s |
| Gold US\$1,000/oz -17% | \$104,287 | \$63,920 | \$45,788 |
| Gold US\$1,100/oz -8% | \$146,197 | \$96,981 | \$74,907 |
| Base Case US\$1,200/oz | \$188,107 | \$129,819 | \$103,707 |
| Gold US\$1,300/oz +8% | \$230,017 | \$162,657 | \$132,507 |
| Gold US\$1,400/oz +17% | \$271,927 | \$195,347 | \$161,090 |
| Grade -10% | \$137,815 | \$90,403 | \$69,132 |
| Grade -5% | \$162,961 | \$110,116 | \$86,427 |
| Base Case Grade 11.25 gpt | \$188,107 | \$129,819 | \$103,707 |
| Grade +5% | \$213,253 | \$149,522 | \$120,987 |
| Grade +10% | \$238,399 | \$169,225 | \$138,267 |
| Capital Cost -10% | \$193,775 | \$135,816 | \$109,850 |
| Capital Cost -5% | \$190,941 | \$132,817 | \$106,778 |
| Base Case \$101M Capital | \$188,107 | \$129,819 | \$103,707 |
| Capital Cost +5% | \$185,273 | \$126,821 | \$100,635 |
| Capital Cost +10% | \$182,440 | \$123,822 | \$97,564 |

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

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

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

The Company has initiated its efforts on the application for an underground development and exploration program at the New Polaris project to commence later this year subject to securing a partner for the project and financing.

Tay-LP property (Yukon, Canada)

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

Cash payments of CAD\$20,000 were made in August 2009, CAD\$30,000 in April 2010 and CAD\$50,000 in October 2010. On November 4, 2009, the Company issued 160,250 common shares at a value of CAD\$0.156 per share as the annual advance NSR royalty for CAD\$25,000 for the Tay-LP property, and 221,235 shares at a value of CAD\$0.113 per common share in October 2010.

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

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expenditures of CAD\$675,000, and maintaining the Company's underlying option agreement in good standing until October 2011. Cap-Ex terminated the option agreement in March 2011.

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

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

The Company expects to prioritize new targets for drilling in 2011.

Relief Canyon project (Nevada, USA)

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

To finance the acquisition, the Company arranged a CAD\$12 million bridge loan with Effisolar Energy Corporation ("Effisolar"), subject to Effisolar's due diligence, execution of definitive loan documents and regulatory and exchange approvals. The bridge loan was to close on or before February 3, 2011, mature in one year, bear simple annual interest rate of 12%, and secured by a first charge on the Relief Canyon gold mine assets. The Company would issue a closing bonus of one million common shares to Effisolar and would have the right to repay the loan at any time after 6 months. If the Company elected not to proceed with the purchase of the Relief Canyon gold mine assets whereby the acquisition of the commercial assay laboratory would then need to be financed, the Company arranged a separate CAD\$300,000 convertible loan with Effisolar, subject to Effisolar's due diligence, execution of definitive loan documents and regulatory and exchange approvals. At the Company's election, the convertible loan was to close on or before February 3, 2011, mature in one month, bear no interest and automatically convert into common shares of the Company based on the 10 day average closing price on the Toronto Stock Exchange ("TSX").

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

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

Windfall Hills property (British Columbia, Canada)

In April 2011, the Company entered into two option agreements to purchase 100% interests in two adjacent gold properties located in British Columbia. The Company can acquire a 100% interest in the Atna properties by making US\$750,000 in

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cash payments over a 4 year period (US\$50,000 paid), honouring a pre-existing 1.5% net smelter return ("NSR") production royalty that can be purchased for CAD\$1 million, and granting the vendor a 2% NSR production royalty.

The Company can acquire a 100% interest in the Dunn properties by making CAD\$250,000 in cash payments over a 4 year period (CAD\$15,000 paid), and a final bonus payment based on all gold resources estimated in an independent NI 43-101 technical report. The formula for the bonus payment is US\$30 per oz for measured resources, US\$20 per oz for indicated resources, and US\$10 per oz for inferred resources.

The Company has initiated a Phase 1 exploration program on its Windfall Hills project to re-establish the geological and geochemical grid controls from previous work and conduct a focused geochemical sampling program over known target areas. Results of this work along with preliminary exploration work over the remainder of the claims will help define targets for drilling in 2011.

Devil's Thumb property (British Columbia, Canada)

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

SaraKreek project (Suriname)

The Company previously held 80% of the shares of Sara Kreek Resource Corporation N.V. ("Sara Kreek Resource"), the company that holds the Sara Kreek concession in the Republic of Suriname. On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Suriname Wylap Development N.V. ("Wylap Development") to transfer the Company's interest in Sara Kreek Resource. In settlement for all claims, loans and advances owed to the Company, the Company received a cash payment of \$400,000 in 2006, and 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 has received \$50,000 in annual royalties since 2006. In June 2011, the Company received \$25,000 as the semi-annual royalty for 2011 for the project.

Other Matters

At the Company's Annual General Meeting held on June 7, 2011, Messrs. Bradford Cooke, William Price, Derek Bullock, Leonard Harris and Bruce Bried were re-elected as Directors of the Company for the ensuing. Shareholder approval was also provided for the Company's Shareholder Rights Plan.

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

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

The Shareholders Update included in the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2011 provides further review of the Company's overall performance for the second quarter and outlook for the third quarter of fiscal 2011.

1.3 Selected Annual Information

All financial information is prepared in accordance with IAS 34 and IFRS 1 based on principles of IFRS, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

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| (in \$000s except per share amounts) | Year Ended December 31, | |
|--|-------------------------|--------|
| | 2010 | |
| Total revenues | \$ | - |
| Loss before discontinued operations and extraordinary items: | | |
| (i) Total | \$ | 1,499 |
| (ii) Basic per share | \$ | (0.02) |
| (iii) Fully diluted per share | \$ | (0.02) |
| Net loss: | | |
| (i) Total | \$ | 1,499 |
| (ii) Basic per share | \$ | (0.02) |
| (iii) Fully diluted per share | \$ | (0.02) |
| Total assets | \$ | 13,900 |
| Total long-term liabilities | \$ | 120 |
| Dividends per share | \$ | - |

1.4 Results of Operations

Second Quarter of Fiscal 2011 – Six months ended June 30, 2011 compared with June 30, 2010

The Company incurred a net loss of approximately \$603,000 for the six months ended June 30, 2011 as opposed to a net income of approximately \$48,000 for the same period in fiscal 2010. Operating losses for each of the first two quarters of fiscal 2011 were higher than each of the respective first two quarters in 2010, reflecting the continual activities and efforts of the Company in pursuing projects of merits and project generation as gold prices reached new highs in 2011 as well as in seeking partners for its mineral property interests. Such efforts culminated in the accepted bid for the Relief Canyon project in early December 2010 which resulted in the Company's acquisition of an assay laboratory which the Company in turn subsequently sold for full recovery of all out-of-pocket expenses. Corporate development activities were also successful in the acquisition of option interests in the Windfall Hills properties and the staking of additional properties nearby.

Given that the Company does not have any operating revenues, the primary contributing factors for the net income during the six months ended June 30, 2010 were the gain of \$162,000 from disposition of its interests in long term investments, unrealized gain from derivative liability of \$149,000 and the future income tax recovery of \$113,000. In April 2010, the Company disposed of shares of Caza Gold Corp. which are available-for-sale financial assets and were recorded as cost but such shares did not have a quoted market price at that time and such investments were consequently recorded at cost. In 2010, as its functional currency was U.S. dollars but the exercise prices of its warrants were stated in Canadian dollars, the Company recognized derivative liabilities for its warrants, and any reduction of the fair values of its derivative liability attributable to unexpired warrants would be recognized as unrealized gains. Effective January 1, 2011, the Company's functional currency changed from the U.S. dollar to the Canadian dollar whereby there were no longer currency differences between the Company's exercise prices of its warrants and its functional currency. Although it changed its functional currency, the Company continued to use the U.S. dollar as its reporting currency, and any foreign currency translation adjustments are recognized in equity and not in operations. The future income tax recovery is a provision for the recognition at the date of actual renunciation being February 24, 2010, 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 2009, the Company raised flow-through equity financing from a private placement for approximately CAD\$480,000 of which CAD\$475,239 were

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renounced in February 2010. On February 22, 2011, the Company renounced CAD\$4,761 in exploration expenditures for flow through purposes, resulting in a future income tax recovery of \$1,000.

Remuneration for employees were higher in 2011 as the Company focused continued due diligence efforts in analyzing gold projects for acquisition purposes, so as to capitalize on the upward trends in the gold market. Efforts in the first quarter of fiscal 2011 were also focused on an NI 43-101 technical report for the New Polaris gold project which resulted in a preliminary economic assessment, the New Polaris Preliminary Economic Report, which supported the project's economics. Higher employee expenses were also attributed to staffing activities for conversion in accounting standards from Canadian GAAP to international financial reporting standards, for an underground development and exploration program at the New Polaris project, and for staking additional properties in British Columbia.

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

Shareholder relations activities increased in 2011 so as to promote greater awareness of the profile of the Company and its portfolio of projects, especially its New Polaris project with its revised preliminary economic assessment which indicated conceptually the project's stronger financial viability due to heightened gold prices.

Share-based payments are from the vesting of stock options as no stock options were granted during each of the two comparative periods. Share-based payments were higher in 2011 than in 2010 as there were a greater cumulative number of stock options being subject to vesting provisions in the current period than in the prior periods.

The Company continues to accrue interests on its demand loans which bore interest rates that increased from 9% per annum to 12% per annum effective September 1, 2010.

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

The Company also recognized an unrealized loss of \$62,000 in the second quarter on its available-for-sale financial assets which were received for its optioned mineral property interest in Tay-LP with Cap-Ex which affected comprehensive loss, but still recognized an unrealized gain of \$39,000 for the six month period ended June 30, 2011.

The Company has no sources of operating revenues.

As at June 30, 2011, the Company has mineral property interests which are comprised of the following:

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| (US\$000s) | British Columbia | | | Yukon | | Total |
|---|------------------|----------------|---------------|--------|-----------|-------|
| | New Polaris | Windfall Hills | Devil's Thumb | Tay-LP | | |
| Acquisition Costs: | | | | | | |
| Balance, January 1, 2010 | \$ 3,605 | \$ - | \$ - | \$ 25 | \$ 3,630 | |
| Additions | - | - | - | 49 | 49 | |
| Balance, December 31, 2010 | 3,605 | - | - | 74 | 3,679 | |
| Additions and adjustments from change in functional currency | 6 | 75 | 7 | 2 | 90 | |
| Balance, June 30, 2011 | 3,611 | 75 | 7 | 76 | 3,769 | |
| Deferred Exploration Expenditures: | | | | | | |
| Balance, January 1, 2010 | 8,556 | - | - | 440 | 8,996 | |
| Additions, net of recoveries | 104 | - | - | (55) | 49 | |
| Balance, December 31, 2010 | 8,660 | - | - | 385 | 9,045 | |
| Additions and adjustments from change in functional currency | 368 | - | - | 22 | 390 | |
| Balance, June 30, 2011 | 9,028 | - | - | 407 | 9,435 | |
| Mineral property interests, June 30, 2011 | \$ 12,639 | \$ 75 | \$ 7 | \$ 483 | \$ 13,204 | |

At June 30, 2011, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

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| | Option Payments (CAD\$000s) | Option Payments (US\$000s) | Exploration Commitments (1) (CAD\$000s) | Advance Royalty Payments (CAD\$000s) | Net Smelter Reduction (US\$000s) | Number of Shares |
|--|-----------------------------------|----------------------------------|---|--|--|---------------------|
| New Polaris: | | | | | | |
| Net profit interest reduction or buydown | | | | | | 150,000 |
| Tay-LP: | | | | | | |
| October 31, 2011 | \$ 50 | | \$ 230 | | | |
| October 31, 2012 | 850 | | 600 | | | |
| Annual advance royalty payments until commercial production | | | | \$ 25 | | |
| Net smelter reduction from 3% to 1.5% | | | | | \$ 1,950 | |
| Windfall Hills: | | | | | | |
| Atna properties: | | | | | | |
| April 12, 2012 | | 100 | | | | |
| April 12, 2013 | | 150 | | | | |
| April 12, 2014 | | 200 | | | | |
| April 12, 2015 | | 250 | | | | |
| Dunn properties: | | | | | | |
| April 20, 2012 | 25 | | | | | |
| April 20, 2013 | 35 | | | | | |
| April 20, 2014 | 50 | | | | | |
| April 20, 2015 | 125 | | | | | |
| | \$ 1,135 | \$ 700 | \$ 830 | \$ 25 | \$ 1,950 | 150,000 |

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

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

1.5 Summary of Quarterly Results

Quarterly financial information for fiscals 2011 and 2010 is prepared in accordance with IAS 34 and IFRS 1 based on principles of IFRS, and for fiscal 2009 in accordance with Canadian 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, June 30, 2011:

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| (in \$000s except per share amounts) | IFRS | | | | | | Canadian GAAP | | |
|--|-----------|-----------|------------|-----------|-----------|-----------|---------------|-----------|------|
| | 2011 | | 2010 | | | | 2009 | | |
| | June 30 | Mar 31 | Dec 31 | Sept 30 | June 30 | Mar 31 | Dec 31 | Sept 30 | |
| Total revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| (Loss) income before discontinued discontinued operations and extraordinary items: | | | | | | | | | |
| (i) Total | \$ (280) | \$ (323) | \$ (1,576) | \$ 29 | \$ 84 | \$ (36) | \$ (964) | \$ (291) | |
| (ii) Basic per share | \$ (0.01) | \$ - | \$ (0.02) | \$ - | \$ - | \$ - | \$ (0.02) | \$ - | |
| (iii) Fully diluted per share | \$ (0.01) | \$ - | \$ (0.02) | \$ - | \$ - | \$ - | \$ (0.02) | \$ - | |
| Net (loss) income: | | | | | | | | | |
| (i) Total | \$ (280) | \$ (323) | \$ (1,576) | \$ 29 | \$ 84 | \$ (36) | \$ (964) | \$ (291) | |
| (ii) Basic per share | \$ (0.01) | \$ - | \$ (0.02) | \$ - | \$ - | \$ - | \$ (0.02) | \$ - | |
| (iii) Fully diluted per share | \$ (0.01) | \$ - | \$ (0.02) | \$ - | \$ - | \$ - | \$ (0.02) | \$ - | |
| Total assets | \$ 14,203 | \$ 14,349 | \$ 13,900 | \$ 13,016 | \$ 13,008 | \$ 12,989 | \$ 13,215 | \$ 13,086 | |
| Total long-term liabilities | \$ 123 | \$ 123 | \$ 120 | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Dividends per share | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |

1.6 Liquidity and Capital Resources

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

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

| (in \$000s) | June 30, 2011 | December 31, 2010 |
|------------------------------|------------------|----------------------|
| Cash | \$ 674 | \$ 592 |
| Working capital (deficiency) | \$ 123 | \$ (1,116) |

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

In May 2009, the Company received CAD\$62,030 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 9% per annum which was increased to 12% effective September 1, 2010, and were secured by the Company's previous shareholdings in Caza at CAD\$0.25 per share of Caza which has been replaced by a loan bonus of 12% payable upon repayment effective September 1, 2010. As at June 30, 2011, the Company accrued CAD\$15,036 in interests and CAD\$7,444 in loan bonuses

In February 2011, the Company issued a convertible debenture for CAD\$300,000 to Effisolar for the interest free loan from Effisolar, which was then converted into 1,282,051 common shares of the Company on March 2, 2011.

During the first quarter of fiscal 2011, the Company's marketable securities recognized an unrealized gain of \$101,000 but then recognized an unrealized loss of \$62,000 in the second quarter as its quoted market value of its available-for-sale financial assets decreased, resulting in a net unrealized gain of \$39,000 for the six month period ended June 30, 2011.

At December 31, 2010, a derivative liability of \$1,049,000 for warrants was recognized whereas no derivative liability was recognized due to the change in the Company's functional currency from U.S. dollars to Canadian dollars effective January 1, 2011. This was a primary factor in the change in the Company's working capital in 2011.

The working capital of \$123,000 at June 30, 2011 includes the notes payable with accrued interests and accrued loan bonus totalling \$88,000 due to certain directors and an officer of the Company and flow through indemnities of \$239,000.

The deferred income tax liability of \$123,000 is attributable to the higher accounting basis of its mineral properties relative to their respective tax basis.

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

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 June 30, 2011. 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

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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

Except as disclosed elsewhere in the MD&A, general and administrative costs during the six months ended June 30, 2011 include:

- CAD\$24,776 of salaries to an employee who is a director;
- CAD\$20,000 for directors' fees. As at June 30, 2011, the Company accrued CAD\$128,659 in directors fees included in accounts payable;
- CAD\$35,693 in legal fees to a law firm in which a senior officer of the Company is a partner. As at June 30, 2011, the Company owed CAD\$43,295 to the law firm;
- CAD\$75,917 in office rent and salary allocations recovered from companies sharing certain common directors. As at June 30, 2011, the Company was owed CAD\$14,639 from such companies; and
- CAD\$46,300 in office rent and salary allocations incurred to a company sharing certain common directors. As at June 30, 2011, the Company owed CAD\$6,024 to the company.

Amounts which are incurred to related parties are in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to non-related parties. The Company shares common office facilities, employee and administrative support, and office sundry amongst companies with certain common director(s), and such allocations to the Company are on a full cost recovery basis. Any balances due to related parties are payable on demand.

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

1.10 Second Quarter

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

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to collectability of receivables, mineral properties, balances of accrued liabilities, determination of reclamation obligations, fair values of financial instruments, valuation allowances for future income tax assets, corporate income tax indemnities payable, derivative liabilities for warrants, and assumptions used in determining the fair value of non-

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cash stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

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

Pursuant to an audit by the Canada Revenue Agency (the "CRA") which was completed in June 2010, CRA disallowed approximately CAD\$1.01 million in exploration expenditures incurred in 2007 as Canadian exploration expenditures ("CEE") of which approximately CAD\$795,000 as being disqualified for CEE for flow-through purposes. The Company accrued liabilities of approximately CAD\$175,000 for estimated indemnities related to the disqualified CEE for flow-through purposes and CAD\$56,000 in accrued interests related to the indemnities. Should the estimate change in the future, it may affect future results of operations and cash flows.

1.13 Changes in Accounting Policies Including Initial Adoption

International Financial Reporting Standards ("IFRS")

The Company's Second Quarter Report for fiscal 2011 includes the Company's unaudited condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements to be presented in accordance with IFRS for the year to end December 31, 2011.

IFRS 34 and IFRS 1 based on the principles of IFRS have been applied in preparing the condensed consolidated interim financial statements for the six months ended June 30, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the six months ended June 30, 2010, the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian GAAP to IFRS and at December 31, 2010.

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

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

Business combinations

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

Fair value or revaluation as deemed cost

The Company has used the amount determined under a previous GAAP revaluation as the deemed cost for certain assets. The Company elected the exemption for certain assets which were written down under Canadian GAAP, as

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the revaluation was broadly comparable to fair value under IFRS. The carrying value of those assets on transition to IFRS is therefore, consistent with the Canadian GAAP carrying value on the transition date.

Share-based payments

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

(b) Adjustments on transition to IFRS:

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

(i) Warrants:

Under Canadian GAAP, the Company classified warrants which were exercisable in Canadian dollars to purchase common shares as equity instruments. Under IFRS, warrants issued by the Company to purchase common shares at an exercise price which is stated in a currency other than the Company's functional currency are considered derivative financial liabilities. Such warrants are required to be measured and recognized at fair value with changes to initial recognition changed to operations. The Company has determined fair value using the Black-Scholes option pricing model.

(ii) Share-based payments:

Under Canadian GAAP, the Company accounts for forfeitures of stock option as they occur. For IFRS, estimates of forfeitures are initially recognized when stock options are granted and subsequently adjusted for actual forfeitures as they occur. The Company has recognized vesting of stock options on an accelerated grading basis which is similar to IFRS. On the transition date of January 1, 2010, the Company recognized IFRS transition provisions for unvested stock options.

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

(c) The effect of the differences between Canadian GAAP and IFRS on select accounts in the statements of financial position and the statements of comprehensive loss is summarized as follows:

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| | 2010 | | |
|---------------------------------------|--------------|----------|------------|
| | December 31, | June 30, | January 1, |
| Total Liabilities under Canadian GAAP | \$ 959 | \$ 1,016 | \$ 999 |
| Adjustments to transition to IFRS: | | | |
| Derivative liability for warrants | 1,049 | 28 | 177 |
| Total Liabilities under IFRS | \$ 2,008 | \$ 1,044 | \$ 1,176 |

| | 2010 | | |
|---|--------------|-----------|------------|
| | December 31, | June 30, | January 1, |
| Share Capital under Canadian GAAP | \$ 57,660 | \$ 56,323 | \$ 56,436 |
| Adjustments to transition to IFRS: | | | |
| Exercise of warrants which are derivative liabilities | 24 | - | - |
| Exercise of stock options | 1 | - | - |
| Share Capital under IFRS | \$ 57,685 | \$ 56,323 | \$ 56,436 |

| | 2010 | | |
|---|--------------|----------|------------|
| | December 31, | June 30, | January 1, |
| Contributed Surplus under Canadian GAAP | \$ 2,483 | \$ 2,383 | \$ 2,354 |
| Adjustments to transition to IFRS: | | | |
| Transferred to deficit for expired unexercised share-based payments | (1,257) | (1,060) | (1,058) |
| Transferred to reserve for share-based payments | (1,226) | (1,323) | (1,296) |
| Contributed Surplus under IFRS | \$ - | \$ - | \$ - |

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| | 2010 | | |
|---|--------------|----------|------------|
| | December 31, | June 30, | January 1, |
| Reserve for Share-based Payments: | | | |
| Adjustments to transition to IFRS: | | | |
| Transferred from contributed surplus for unexercised share-based payments | \$ 1,296 | \$ 1,296 | \$ 1,296 |
| Share-based payments for the period | 143 | 39 | - |
| Exercise of stock options | (1) | - | - |
| Forfeiture of stock options | (199) | (2) | - |
| Reserve for Share-based Payments under IFRS | \$ 1,239 | \$ 1,333 | \$ 1,296 |

| | 2010 | | |
|---|--------------|-------------|-------------|
| | December 31, | June 30, | January 1, |
| Deficit under Canadian GAAP | \$ (47,212) | \$ (46,714) | \$ (46,622) |
| Adjustments to transition to IFRS: | | | |
| Derivative liability for warrants | (1,074) | (28) | (177) |
| Transferred from contributed surplus for expired unexercised share-based payments | 1,058 | 1,058 | 1,058 |
| Share-based payments for the period | (13) | (10) | - |
| Forfeiture of share-based payments | 199 | 2 | - |
| Foreign exchange | 1 | 1 | - |
| Deficit under IFRS | \$ (47,041) | \$ (45,691) | \$ (45,741) |

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| | 2010 | | |
|---|--------------|------------------|--------------------|
| | Year ended | Six Months ended | Three Months ended |
| | December 31, | June 30, | June 30, |
| Comprehensive (Loss) Income under Canadian GAAP | \$ (580) | \$ (92) | \$ 20 |
| Adjustments to transition to IFRS: | | | |
| Unrealized (loss) gain from derivative liability for warrants | (896) | 149 | 62 |
| Share-based payments | (13) | (10) | (1) |
| Foreign exchange | - | 1 | 3 |
| Comprehensive Loss under IFRS | \$ (1,489) | \$ 48 | \$ 84 |

(d) Reconciliation to previously reported financial statements:

A reconciliation of the above noted changes is included in these following Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Loss for the dates noted below. The effects of transition from Canadian GAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

Transitional Consolidated Statement of Financial Position – January 1, 2010

Consolidated Interim Statement of Financial Position Reconciliation – June 30, 2010

Consolidated Interim Statement of Comprehensive Loss Reconciliation – Three months ended June 30, 2010

Consolidated Interim Statement of Comprehensive Loss Reconciliation – Six months ended June 30, 2010

Consolidated Statement of Financial Position Reconciliation – December 31, 2010

Consolidated Statement of Comprehensive Loss Reconciliation – December 31, 2010

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

| | January 1, 2010 | | |
|---|------------------|---------------------------------|------------------|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 155 | \$ - | \$ 155 |
| Receivables and prepaids | 145 | | 145 |
| Royalty receivable - current portion | 50 | | 50 |
| Total Current Assets | 350 | - | 350 |
| NON-CURRENT ASSETS | | | |
| Mineral properties | 12,626 | | 12,626 |
| Equipment | 2 | | 2 |
| Royalty receivable - long-term portion | 46 | | 46 |
| Long-term investments | 143 | | 143 |
| Total Non-Current Assets | 12,817 | - | 12,817 |
| Total Assets | \$ 13,167 | \$ - | \$ 13,167 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 607 | \$ - | \$ 607 |
| Notes payable | 63 | | 63 |
| Flow through obligation | 329 | | 329 |
| Derivative liability for warrants | - | 177 | 177 |
| Total Current Liabilities | 999 | 177 | 1,176 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 56,436 | | 56,436 |
| Contributed surplus | 2,354 | (2,354) | - |
| Reserve for share-based payments | - | 1,296 | 1,296 |
| Deficit | (46,622) | 881 | (45,741) |
| Total Shareholders' Equity | 12,168 | (177) | 11,991 |
| Total Liabilities and Shareholders' Equity | \$ 13,167 | \$ - | \$ 13,167 |

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- (ii) The June 30, 2010 Canadian GAAP consolidated interim statement of financial position has been reconciled to IFRS as follows:

| | June 30, 2010 | | |
|---|------------------|---------------------------------|-----------|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 93 | \$ - | \$ 93 |
| Receivables and prepaids | 89 | | 89 |
| Royalty receivable - current portion | 25 | | 25 |
| Total Current Assets | 207 | - | 207 |
| NON-CURRENT ASSETS | | | |
| Mineral properties | 12,640 | | 12,640 |
| Equipment | 1 | | 1 |
| Royalty receivable - long-term portion | 48 | | 48 |
| Long-term investments | 112 | | 112 |
| Total Non-Current Assets | 12,801 | - | 12,801 |
| Total Assets | \$ 13,008 | \$ - | \$ 13,008 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 635 | \$ - | \$ 635 |
| Notes payable | 65 | | 65 |
| Flow through obligation | 316 | | 316 |
| Derivate liability for warrants | - | 28 | 28 |
| Total Current Liabilities | 1,016 | 28 | 1,044 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 56,323 | | 56,323 |
| Contributed surplus | 2,383 | (2,383) | - |
| Reserve for share-based payments | - | 1,333 | 1,333 |
| Deficit | (46,714) | 1,022 | (45,692) |
| Total Shareholders' Equity | 11,992 | (28) | 11,964 |
| Total Liabilities and Shareholders' Equity | \$ 13,008 | \$ - | \$ 13,008 |

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- (iii) The Canadian GAAP consolidated interim statement of comprehensive loss for the three months ended June 30, 2010 has been reconciled to IFRS as follows:

| | June 30, 2010 | | |
|--|------------------|---------------------------------|------------|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| Expenses: | | | |
| Amortization | \$ 1 | \$ - | \$ 1 |
| Corporate development | 3 | - | 3 |
| Employee and director remuneration | 91 | | 91 |
| Foreign exchange loss (gain) | (31) | (3) | (34) |
| General and administrative | 56 | | 56 |
| Shareholder relations | 9 | | 9 |
| Stock-based compensation | 12 | 1 | 13 |
| Loss before the undernoted | (141) | 2 | (139) |
| Accretion of royalty receivable | 1 | | 1 |
| Gain from long term investments | 162 | | 162 |
| Interest expense | (2) | | (2) |
| Unrealized gain from derivative liability for warrants | - | 62 | 62 |
| Net loss for the period | \$ 20 | \$ 64 | \$ 84 |
| Basic and diluted loss per share | \$ - | | \$ - |
| Weighted average number of shares outstanding | 81,969,655 | | 81,969,655 |

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- (iv) The Canadian GAAP consolidated interim statement of comprehensive loss for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

| | June 30, 2010 | | |
|--|------------------|---------------------------------|------------|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| Expenses: | | | |
| Amortization | \$ 1 | \$ - | \$ 1 |
| Corporate development | 6 | - | 6 |
| Employee and director remuneration | 200 | | 200 |
| Foreign exchange loss (gain) | (9) | (1) | (10) |
| General and administrative | 113 | | 113 |
| Shareholder relations | 26 | | 26 |
| Stock-based compensation | 29 | 10 | 39 |
| Loss before the undernoted | (366) | (9) | (375) |
| Accretion of royalty receivable | 2 | | 2 |
| Gain from long term investments | 162 | | 162 |
| Interest expense | (3) | | (3) |
| Unrealized gain from derivative liability for warrants | - | 149 | 149 |
| Loss before income tax | (205) | 140 | (65) |
| Future income tax recovery | 113 | | 113 |
| Net loss for the period | \$ (92) | \$ 140 | \$ 48 |
| Basic and diluted loss per share | \$ - | \$ - | \$ - |
| Weighted average number of shares outstanding | 81,969,655 | | 81,969,655 |

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

| | December 31, 2010 | | |
|---|-------------------|---------------------------------|-----------|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 592 | \$ - | \$ 592 |
| Receivables and prepaids | 105 | | 105 |
| Marketable securities | 25 | | 25 |
| Royalty receivable - current portion | 50 | | 50 |
| Total Current Assets | 772 | - | 772 |
| NON-CURRENT ASSETS | | | |
| Mineral properties | 12,724 | | 12,724 |
| Deposit on asset acquisition | 300 | | 300 |
| Equipment | 10 | | 10 |
| Royalty receivable - long-term portion | - | | - |
| Long-term investments | 94 | | 94 |
| Total Non-Current Assets | 13,128 | - | 13,128 |
| Total Assets | \$ 13,900 | \$ - | \$ 13,900 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 532 | \$ - | \$ 532 |
| Notes payable | 81 | | 81 |
| Flow through obligation | 226 | | 226 |
| Derivative liability for warrants | - | 1,049 | 1,049 |
| Total Current Liabilities | 839 | 1,049 | 1,888 |
| Future income tax liability | 120 | | 120 |
| Total Liabilities | 959 | 1,049 | 2,008 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 57,660 | 25 | 57,685 |
| Contributed surplus | 2,483 | (2,483) | - |
| Accumulated other comprehensive income | 10 | | 10 |
| Reserve for share-based payments | - | 1,239 | 1,239 |
| Deficit | (47,212) | 170 | (47,042) |
| Total Shareholders' Equity | 12,941 | (1,049) | 11,892 |
| Total Liabilities and Shareholders' Equity | \$ 13,900 | \$ - | \$ 13,900 |

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

| | December 31, 2010 | | |
|---|-------------------|---------------------------------|------------|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS |
| Expenses: | | | |
| Amortization | \$ 1 | \$ - | \$ 1 |
| Corporate development | 12 | | 12 |
| Employee and director remuneration | 383 | | 383 |
| Foreign exchange loss | 43 | | 43 |
| General and administrative | 308 | | 308 |
| Shareholder relations | 62 | | 62 |
| Stock-based compensation | 130 | 13 | 143 |
| Loss before the undernoted | (939) | (13) | (952) |
| Gain on disposition of long-term investment | 257 | | 257 |
| Accretion of royalty receivable | 4 | | 4 |
| Write-off of equipment | (1) | | (1) |
| Unrealized loss from derivative liability for warrants | - | (896) | (896) |
| Due diligence costs on asset acquisition | (20) | | (20) |
| Interest expense | (14) | | (14) |
| Flow through financing costs | 150 | | 150 |
| Loss before income tax | (563) | (909) | (1,472) |
| Future income tax expense | (27) | | (27) |
| Net loss for the year | (590) | (909) | (1,499) |
| Other comprehensive (loss) income: | | | |
| Unrealized gain (loss) on available-for-sale securities | 10 | | 10 |
| Comprehensive loss for the year | \$ (580) | \$ (909) | \$ (1,489) |
| Basic and diluted loss per share | \$ (0.01) | | \$ (0.02) |
| Weighted average number of common shares outstanding | 82,446,825 | | 82,446,825 |

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1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as financial assets at fair value through profit or loss,
- marketable securities and long term investments as available-for-sale financial assets,
- receivables as loans and receivables,
- royalties receivable as loans and receivables,
- accounts payable and accrued liabilities, notes payables and flow through obligations as borrowings and other financial liabilities, and
- derivative liability for warrants as derivative financial liabilities.

Management of Financial Risk

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

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

The fair values of the Company's receivables, accounts payable and accrued liabilities, notes payable and flow through obligations approximate their carrying values due to the short terms to maturity. Cash and marketable securities are measured at fair values using level 1 inputs. Disclosure is not made of the fair value of the long-term investments as the shares do not have a quoted market price in an active market. The fair value of the royalty receivable approximates its carrying value as it was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The royalty receivable is level 3 in the fair value hierarchy as it is based on unobservable inputs. The Company has classified its derivative liability for warrants as derivative financial liabilities and are measured at fair value. All gains and losses are included in operations in the period in which they arise. Derivative liability for warrants is level 3 in the fair value hierarchy as it is also based on unobservable inputs.

(a) Credit risk:

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

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Any receivables from government usually bear no risk. The royalty receivable is due from an unrelated company, and the Company has not taken any steps to mitigate the credit risk associated with this receivable.

(b) Liquidity risk:

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

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The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company will require significant additional funding to meet its short-term liabilities, flow-through obligations and administrative overhead costs, and to maintain its mineral property interests in 2011.

Accounts payable and accrued liabilities are due in accordance with normal terms of trade, and the notes payables are due on demand.

(c) Market risk:

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

(i) Foreign currency risk:

The Company's mineral properties and operations are in Canada, and would subject it to foreign currency fluctuations. A certain portion of its operating expenses are incurred in Canadian dollars, and fluctuations in U.S. dollars would impact the cumulative translation adjustment of the Company and the values of its assets and liabilities as its financial statements are stated in U.S. dollars.

At June 30, 2011, the Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

| | Held in Canadian dollars (stated in U.S. dollars) |
|--|--|
| Cash | \$ 37 |
| Receivables and prepaids | 129 |
| Marketable securities | 65 |
| Mineral properties | 13,204 |
| Equipment | 9 |
| Long-term investments | 97 |
| Accounts payable and accrued liabilities | (352) |
| Notes payable | (88) |
| Flow through obligation | (239) |
| Deferred income tax liability | (123) |
| Net assets | \$ 12,739 |

Based upon the above net exposure as at June 30, 2011 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$1.27 million in cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest

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rates impact on the value of cash equivalents. Interest rate risk is not significant to the Company as it has no cash equivalents at period-end and the notes payable are stated at a fixed interest rate.

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 unaudited condensed consolidated interim financial statements for the six months ended June 30, 2011.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the six months ended June 30, 2011 are as follows:

| | Number of Shares | Amount (in \$000s) |
|-------------------------------------|------------------|-----------------------|
| Balance at December 31, 2010 | 90,985,890 | \$ 57,685 |
| Issued: | | |
| Conversion of convertible debenture | 1,282,051 | 300 |
| Exercise of options | 44,000 | 7 |
| Exercise of warrants | 1,313,650 | 205 |
| Provision for flow-through shares | - | (1) |
| Balance at June 30, 2011 | 93,625,591 | \$ 58,196 |

At August 12, 2011, there were 93,625,591 common shares issued and outstanding.

At June 30, 2011, the Company had outstanding stock options to purchase an aggregate 8,150,000 common shares as follows:

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| | June 30, 2011 | |
|----------------------------------|---------------------|---|
| | Number of Shares | Weighted average exercise price (CAD\$) |
| Outstanding, beginning of period | 9,410,000 | \$0.31 |
| Exercised | (44,000) | \$0.10 |
| Forfeited | (16,000) | \$0.10 |
| Expired | (1,200,000) | \$0.69 |
| Outstanding, end of period | 8,150,000 | \$0.26 |

At June 30, 2011, 8,150,000 options are outstanding of which 6,210,000 options are exercisable.

At August 12, 2011, stock options for 10,370,000 common shares remain outstanding.

At June 30, 2011, the Company had outstanding warrants as follows:

| Exercise Prices (CAD\$) | Expiry Dates | Oustanding at December 31, 2010 | Issued | Exercised | Expired | Oustanding at June 30, 2011 |
|-------------------------------|------------------|------------------------------------|--------|-------------|-------------|--------------------------------|
| \$0.15 | April 22, 2011 | 39,410 | - | (31,675) | (7,735) | - |
| \$0.15 | October 22, 2011 | 202,160 | - | - | - | 202,160 |
| \$0.15 | April 22, 2011 | 2,319,140 | - | (1,185,975) | (1,133,165) | - |
| \$0.165 | May 9, 2011 | 128,410 | - | (96,000) | (32,410) | - |
| \$0.22 | June 13, 2012 | 4,250,000 | - | - | - | 4,250,000 |
| | | 6,939,120 | - | (1,313,650) | (1,173,310) | 4,452,160 |

At August 12, 2011, warrants for 4,452,160 common shares are outstanding.

1.16 Outlook

The Company will continue to depend upon equity financings to continue exploration work on its mineral property interests and to meet its administrative overhead costs for the 2011 fiscal year. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

1.17 Risk Factors

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

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Exploration and Development Risks

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

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

Financing Risks

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

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

Estimates of Mineral Deposits

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

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

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Mineral Prices

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

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

Title Matters

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

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

Conflicts of Interest

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

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

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Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

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

Reclamation

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

Foreign Countries and Regulatory Requirements

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

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Currency Fluctuation and Foreign Exchange Controls

The Company maintains a portion of its funds in U.S. dollar denominated accounts. Certain of the Company's property and related contracts may be denominated in U.S. dollars. The Company's operations in countries other than Canada are normally carried out in the currency of that country and make the Company subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. In addition 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 June 30, 2011, the Company had 93,625,591 common shares and 8,150,000 share purchase options and 4,452,160 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 June 30, 2011, securities that could be dilutive represented approximately 13.5% of the Company's issued shares. Certain of these dilutive securities were exercisable at prices below the June 30, 2011 closing market price of CAD\$0.14 for the Company's shares, which would accordingly result in dilution to existing shareholders if exercised.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's unaudited condensed consolidated interim financial statements for the six months ended June 30, 2011 and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of the Company's internal disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the Company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management

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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.

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.

Management concluded that the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2011 fairly present the Company's financial position and the results of its operations for the period then ended.

Changes in Internal Controls over Financial Reporting

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