



First Quarter Report

Condensed Consolidated Interim Financial Statements

(expressed in thousands of United States dollars)

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

SHAREHOLDER UPDATE

Review of First Quarter and Outlook for the Second 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 First Quarter and its plans for the Second Quarter of fiscal 2011.

Q1 Review

- Management elected not to proceed with the acquisition of the Relief Canyon Gold Mine but did complete the purchase of the assay laboratory associated with the Nevada project
- An updated Preliminary Economic Assessment of the New Polaris gold mine project was completed to reflect the higher gold price
- Canarc received its Yukon Tay-LP project back from Cap-Ex Ventures in order for them to focus on their iron ore properties
- Management's pursuit of new opportunities resulted in the acquisition of the Windfall Hills gold project in central British Columbia

Canarc decided not to proceed with acquisition of the Relief Canyon gold mine project in Nevada. The main issues related to the facts were that the known gold resource is only an inferred resource, it was not yet fully permitted for mining, and it partly occupied the property adjacent to the subject property and Canarc was unable to acquire that property on commercially acceptable terms.

The Company did however complete the purchase of a fully built, permitted and operating commercial assay laboratory located near the Relief Canyon mine-site. The lab purchase included 5 acres of zoned commercial land, certain water rights, two industrial buildings including a large warehouse/storage facility, and a fully furnished 300 sample per day analytical laboratory. Canarc has received expressions of interest from other mining companies regarding the future use, expansion and ownership of the lab. 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.

Based on higher precious metal prices 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. Given the conceptual nature of the PEA, there is no certainty that the preliminary economic assessment will be realized. However, Moose Mountain concludes that "The Updated Preliminary Economic Assessment indicates that the New Polaris base case has potential for positive results and therefore further work is recommended to optimize the project and complete a feasibility study".

Cap-Ex Ventures Ltd. cancelled their option to earn a 50% interest in the Tay LP property, located within the Tintina Gold Belt in the Yukon Territory, to focus on their iron ore properties. Canarc holds an option to earn up to a 100% interest in Tay LP from Ross River Minerals Inc. The property enjoys good road access, favourable gold geology, multiple exploration targets, and strong potential to make new gold discoveries. The Tay-LP property consists of 413 claims covering a 20 km-long by 4 km-wide belt of gold prospects (8,000 hectares) on which several million dollars have been spent on exploration since 1984.

Q2 Outlook

Canarc's recent acquisition of two adjacent gold properties in the Windfall Hills area, located 65 kilometers (km) south of Burns Lake and 90 km northwest of Richfield Ventures' Blackwater gold discovery in central BC will be a focus of management in order to define the 2011 exploration program and budget, which will include diamond drilling to test several high priority geochemical and geophysical targets.

These properties, together called the "Windfall Hills" gold project, are situated within the same geological belt of Tertiary volcanic rocks as Richfield's Blackwater gold discovery. Richfield Ventures is currently the subject of a friendly take-over bid by New Gold for \$10.38 per share, valuing the company at more than \$550 million.

Additionally, with the return of Canarc's Tay-LP project, management plans a thorough review of the historic data including the results from the 470 kilometer airborne geophysical survey that Cap-Ex completed last summer. That survey successfully identified several new EM conductors and magnetic anomalies within prospective geological settings.

Gold mineralization at Tay-LP shares some geological similarities with other recent gold discoveries within the Tintina Gold Belt, such as the Rau property of Atac Resources (ATC: TSX-V) and the Ketzka River gold deposit of Yukon-Nevada Gold (YNG: TSX), which is located only 18 km east of Tay-LP.

Management continues to seek strategic alternatives such as a joint venture or other means to advance the New Polaris high grade gold project to mine development and a full feasibility study. Discussions are currently underway with several interested parties.

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.

May 31, 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
Condensed Unaudited Consolidated Interim Financial Statements
For the Three Months Ended March 31, 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 condensed unaudited consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed unaudited consolidated interim financial statements have not been reviewed by an auditor.

The accompanying condensed unaudited consolidated interim financial statements of Canarc Resource Corp. (the "Company") for the three months ended March 31, 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 Financial Reporting Standards ("IFRS").

CANARC RESOURCE CORP.

Condensed Consolidated Statements of Financial Position

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	March 31, 2011	2010	
		December 31 (Note 15)	January 1 (Note 15)
ASSETS			
CURRENT ASSETS			
Cash	\$ 302	\$ 592	\$ 155
Receivables and prepaids	128	105	145
Marketable securities (Note 5)	129	25	-
Royalty receivable - current portion (Note 6(b))	50	50	50
Total Current Assets	609	772	350
NON-CURRENT ASSETS			
Mineral properties (Note 6)	13,036	12,724	12,626
Deposit on asset acquisition (Note 6(c))	-	300	-
Equipment (Note 7)	10	10	2
Asset held for sale (Note 6(c))	600	-	-
Royalty receivable - long-term portion (Note 6(b))	-	-	46
Long-term investments (Note 8)	94	94	143
Total Non-Current Assets	13,740	13,128	12,817
Total Assets	\$ 14,349	\$ 13,900	\$ 13,167
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 541	\$ 532	\$ 607
Notes payable (Note 9)	85	81	63
Flow through obligation (Note 10)	232	226	329
Derivative liability for warrants (Note 11)	-	1,049	177
Total Current Liabilities	858	1,888	1,176
Deferred income tax	123	120	-
Total Liabilities	981	2,008	1,176
SHAREHOLDERS' EQUITY			
Share capital (Note 12)	58,056	57,685	56,436
Reserve for share-based payments (Note 15)	1,279	1,239	1,296
Accumulated other comprehensive (loss) income	(729)	10	-
Deficit	(45,238)	(47,042)	(45,741)
Total Shareholders' Equity	13,368	11,892	11,991
Total Liabilities and Shareholders' Equity	\$ 14,349	\$ 13,900	\$ 13,167

Nature of operations and going concern (Note 1)

Commitments and contingencies (Notes 6 and 10)

Subsequent event (Notes 6(a)(iii) and (c))

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

CANARC RESOURCE CORP.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited – Prepared by Management)

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

	Three Months Ended March 31,	
	2011	2010
Expenses:		
Amortization	\$ 1	\$ -
Corporate development	20	3
Employee and director remuneration (Note 13)	125	109
Foreign exchange loss (gain)	-	22
General and administrative	93	59
Shareholder relations	21	17
Share-based payments (Note12(c))	2	26
Loss before the undernoted	(262)	(236)
Accretion of royalty receiveable	-	1
Unrealized gain of derivative warrant liability	-	87
Interest expense	(2)	(1)
Due diligence cost on asset acquisition (Note 6(c))	(60)	-
Loss before income tax	(324)	(149)
Future income tax recovery	1	113
Net loss for the period	(323)	(36)
Other comprehensive income:		
Unrealized gain on available-for-sale securities (Note 5)	101	-
Comprehensive loss for the period	\$ (222)	\$ (36)
Basic and diluted loss per share	\$ -	\$ -
Weighted average number of shares outstanding	91,118,495	81,969,655

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

CANARC RESOURCE CORP.

Condensed Consolidated Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months ended		Nine Months ended		Three Months ended	
	March 31, 2011		December 31, 2010		March 31, 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	301	-	-	-	-
Exercise of stock options	44,000	7	20,000	3	-	-
Exercise of warrants	414,705	64	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	92,726,646	58,056	90,985,890	57,685	81,969,655	56,323
Reserve for share-based payments:						
Balance, beginning of period		1,239		1,313		1,296
Share-based payments for the period		2		123		26
Fair value from exercise of stock options		(3)		(1)		-
Forfeiture adjustment of stock options		41		(196)		(9)
Balance, end of period		1,279		1,239		1,313
Accumulated other comprehensive (loss) income:						
Balance, beginning of period		10		-		-
Unrealized gain on available-for-sale securities		101		10		-
Currency translation loss from change in functional currency		(840)		-		-
Balance, end of period		(729)		10		-
Deficit:						
Balance, beginning of period		(47,042)		(45,768)		(45,741)
Change from U.S. dollar to Canadian dollar functional currency:						
Currency translation adjustment from change in functional currency		1,119		-		-
Reserve for derivative warrant liability		1,049		-		-
Foreign exchange on expired stock options		-		(1)		2
Forfeiture adjustment of stock options		(41)		196		9
Net loss for the period		(323)		(1,469)		(36)
Balance, end of period		(45,238)		(47,042)		(45,766)
Total Shareholders' Equity		\$ 13,368		\$ 11,892		\$ 11,870

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

CANARC RESOURCE CORP.

Condensed Consolidated Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months Ended March 31,	
	2011	2010
Cash provided from (used for):		
Operations:		
Loss for the period	\$ (323)	\$ (36)
Items not involving cash:		
Accretion of royalty receivables	-	(1)
Accrued interest	2	1
Amortization	1	-
Share-based payments	2	25
Future income tax recovery	(1)	(113)
Unrealized gain on derivative liability for warrants	-	(87)
Unrealized currency translation gain	-	5
	(319)	(206)
Changes in non-cash working capital items:		
Receivables and prepaids	(23)	56
Accounts payable and accrued liabilities	(3)	19
Income taxes payable	-	8
Cash used by operating activities	(345)	(123)
Financing:		
Issuance of common shares, net of share issuance costs	369	-
Investing:		
Mineral properties, net of recoveries	(14)	4
Acquisition of asset held for sale	(300)	-
Cash used by (provided from) investing activities	(314)	4
Decrease in cash	(290)	(119)
Cash, beginning of period	592	155
Cash, end of period	\$ 302	\$ 36

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

CANARC RESOURCE CORP.

Condensed Consolidated Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months Ended March 31,	
	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	840	-
Unrealized foreign exchange gain	279	-
Advance applied to equipment acquisition	300	-
Fair value of stock options allocated to shares issued on exercise of stock options	3	-
Forfeiture adjustment for stock options	41	-
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 Financial Statements

Three Months ended March 31, 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 \$323,000 (March 31, 2010 - \$36,000) and has a deficit of \$45 million at March 31, 2011 (December 31, 2010 - \$47 million). Furthermore, the Company has working capital deficiency of \$249,000 as at March 31, 2011 (December 31, 2010 - \$1,116,000), 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 is actively seeking 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 Financial Reporting Standards (“IFRS”) with an adoption date of January 1, 2011 and a transition date of January 1, 2010.

These are the Company’s first IFRS condensed consolidated financial statements for the first quarter of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian generally accepted accounting principles (“Canadian GAAP”) to IFRS is explained in Note 15.

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 condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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)

The accounting policies in Note 2 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the three months ended March 31, 2011, 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 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.

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

(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.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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:

(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.

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Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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.

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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 future tax liability.

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

(i) Stock-based compensation plan:

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 share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve 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 stock-based compensation 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.

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Three Months ended March 31, 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 the income statement 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.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 2011

(Unaudited – Prepared by Management)

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

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 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 future 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 three months ended March 31, 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 7(c)(i)).

(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 March 31, 2011, the Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

	Held in Canadian dollars (stated in U.S. dollars)
Cash	\$ 302
Receivables and prepaids	128
Marketable securities	129
Mineral properties	13,036
Equipment	610
Long-term investments	94
Accounts payable and accrued liabilities	(541)
Notes payable	(85)
Flow through obligation	(232)
Future income tax liability	(123)
Net assets	<u>\$ 13,318</u>

Based upon the above net exposure as at March 31, 2011 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$1.3 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

	March 31, 2011
Investment in shares of companies, at cost	\$ 14
Change in fair value	115
	\$ 129

The quoted market value of shares of companies was \$129,000 at March 31, 2011.

6. Mineral Properties

	British Columbia New Polaris (Note 6(a)(i))	Yukon Tay-LP (Note 6(a)(ii))	Total
Acquisition Costs:			
Balance, January 1, 2010	\$ 3,605	\$ 25	\$ 3,630
Additions	-	49	49
Balance, December 31, 2010	3,605	74	3,679
Additions and adjustments from change in functional currency	305	2	307
Balance, March 31, 2011	3,910	76	3,986
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	(12)	17	5
Balance, March 31, 2011	8,648	402	9,050
Mineral property interests, March 31, 2011	\$ 12,558	\$ 478	\$ 13,036

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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 December 31, 2010 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. 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% 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.

(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 March 31, 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		<u>96</u>
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		<u>50</u>
Less: Current portion of royalty receivable as at March 31, 2011		(50)
Long-term portion of royalty receivable as at March 31, 2011	\$	<u>-</u>

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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 entered into an agreement for sale 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 March 31, 2011, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

	Option Payments (CAD\$000s)	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	\$ 238			
October 31, 2012	850	600			
Annual advance royalty payments until commercial production			\$ 25		
Net smelter reduction from 3% to 1.5%				\$ 1,950	
	\$ 900	\$ 838	\$ 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.

(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.

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6. Mineral Properties (continued)

(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.

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	1	-
Balance, March 31, 2011	\$ 11	\$ 1	\$ 10

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8. Long-Term Investments

As at March 31, 2011, the Company had an interest of 9% in Aztec.

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. ("Caz") 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. The Company accrued CAD\$2,170 in interest for the three months ended March 31, 2011.

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\$53,000 in accrued interests related to the indemnities. Should the estimate change in the future, it may affect future results of operations and cash flows.

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, March 31, 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 and is the same as its new functional currency. These warrants are now considered indexed to the Company's common shares and are no longer treated as derivative liabilities.

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12. Share Capital

(a) Authorized:

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

(b) Issued:

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 9,350,000 common shares are outstanding as at March 31, 2011. The exercise price of each option cannot be lower than the last recorded sale of a board lot on the TSX during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the TSX based on the last five trading days before the date of the grant. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the board at the time the options are granted.

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

The continuity of stock options for the three months ended March 31, 2011 is as follows:

	March 31, 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
Outstanding, end of period	9,350,000	\$0.31

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12. Share Capital (continued)

(c) Stock option plan: (continued)

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

Price Intervals (CAD\$)	Options Outstanding			Options Exercisable		
	Number Outstanding at Mar 31, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)	Number Exercisable at Mar 31, 2011	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.10 - \$0.24	4,280,000	4.0	\$0.10	2,340,000	3.8	\$0.11
\$0.25 - \$0.49	2,480,000	1.9	\$0.34	2,480,000	1.9	\$0.34
\$0.50 - \$0.74	2,590,000	0.7	\$0.63	2,590,000	0.7	\$0.63
	<u>9,350,000</u>	2.5	\$0.31	<u>7,410,000</u>	2.1	\$0.37

During the three months ended March 31, 2011, the Company recognized stock-based compensation of \$2,000, net of forfeitures.

(d) Warrants:

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

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at March 31, 2011
\$0.15	April 22, 2011	39,410	-	(31,675)	-	7,735
\$0.15	October 22, 2011	202,160	-	-	-	202,160
\$0.15	April 22, 2011	2,319,140	-	(361,530)	-	1,957,610
\$0.165	May 9, 2011	128,410	-	(21,500)	-	106,910
\$0.220	June 13, 2012	4,250,000	-	-	-	4,250,000
		<u>6,939,120</u>	-	<u>(414,705)</u>	-	<u>6,524,415</u>

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12. Share Capital (continued)

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

	Number of Shares
Property agreements (Note 6(d))	150,000
Stock options (Note 12(c))	9,350,000
Warrants (Note 12(d))	6,524,415
Balance, March 31, 2011	16,024,415

(f) Shareholder rights plan:

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

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13. Related Party Transactions

Except as disclosed elsewhere in the condensed consolidated financial statements, general and administrative costs during the three months ended March 31, 2011 include:

- CAD\$12,266 of salaries to an employee who is a director;
- CAD\$10,000 for directors' fees. As at March 31, 2011, the Company accrued CAD\$118,659 in directors fees included in accounts payable;
- CAD\$14,486 in legal fees to a law firm in which a senior officer of the Company is a partner. As at March 31, 2011, the Company owed CAD\$69,857 to the law firm;
- CAD\$30,157 in office rent and salary allocations recovered from companies sharing certain common directors. As at March 31, 2011, the Company was owed CAD\$15,971 from such companies; and
- CAD\$25,900 in office rent and salary allocations incurred to a company sharing certain common directors. As at March 31, 2011, the Company owed CAD\$33,846 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 assets located in Canada and the United States, as follows:

	March 31, 2011		
	Canada	U.S.A	Total
Mineral property interests	\$ 13,036	\$ -	\$ 13,036
Equipment	10	-	10
Asset held for sale	-	600	600
Total assets	13,749	600	14,349

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15. Transition to IFRS

These are the Company's first 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 three months ended March 31, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the three months ended March 31, 2011, 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 Financial Statements

Three Months ended March 31, 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 compensation whereby amounts included in reserve for share-based payments for expired unexercised stock options are transferred to deficit.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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,	March 31,	January 1,
Total Liabilities under Canadian GAAP	\$ 959	\$ 1,029	\$ 999
Adjustments to transition to IFRS:			
Derivative liability for warrants (Note 15(b)(i))	1,049	90	177
Total Liabilities under IFRS	\$ 2,008	\$ 1,119	\$ 1,176

	2010		
	December 31,	March 31,	January 1,
Contributed Surplus under Canadian GAAP	\$ 2,483	\$ 2,371	\$ 2,354
Adjustments to transition to IFRS:			
Transferred to deficit for expired unexercised stock-based compensation (Note 15(b)(ii))	(1,261)	(1,067)	(1,058)
Transferred to reserve for share-based payments (Note 15(b)(ii))	(1,222)	(1,304)	(1,296)
Contributed Surplus under IFRS	\$ -	\$ -	\$ -

	2010		
	December 31,	March 31,	January 1,
Reserve for share-based payments:			
Adjustments to transition to IFRS:			
Transferred from contributed surplus for unexercised stock-based compensation (Note 15(b)(ii))	\$ 1,222	\$ 1,304	\$ 1,296
Stock-based compensation for the period (Note 15(b)(ii))	17	9	-
Reserve for share-based payments under IFRS	\$ 1,239	\$ 1,313	\$ 1,296

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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,	March 31,	January 1,
Deficit under Canadian GAAP	\$ (47,212)	\$ (46,734)	\$ (46,622)
Adjustments to transition to IFRS:			
Derivative liability for warrants (Note 15(b)(i))	(1,074)	(91)	(177)
Transferred from contributed surplus for expired unexercised stock-based compensation (Note 15(b)(ii))	1,261	1,067	1,058
Stock-based compensation for the period (Note 15(b)(ii))	(17)	(9)	-
Deficit under IFRS	\$ (47,042)	\$ (45,767)	\$ (45,741)

	2010	
	December 31,	March 31,
Comprehensive loss under Canadian GAAP	\$ (580)	\$ (112)
Adjustments to transition to IFRS:		
Unrealized (loss) gain from derivative liability for warrants (Note 15(b)(i))	(896)	87
Stock-based compensation (Note 15(b)(ii))	(19)	(9)
Foreign exchange	-	(2)
Comprehensive loss under IFRS	\$ (1,495)	\$ (36)

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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 – March 31, 2010

Consolidated Interim Statement of Comprehensive Loss Reconciliation – March 31, 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 Financial Statements

Three Months ended March 31, 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 Financial Statements

Three Months ended March 31, 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 March 31, 2010 Canadian GAAP consolidated interim statement of financial position has been reconciled to IFRS as follows:

	Notes	March 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
CURRENT ASSETS				
Cash		\$ 36	\$ -	\$ 36
Receivables and prepaids		89		89
Royalty receivable - current portion		50		50
Total Current Assets		175	-	175
NON-CURRENT ASSETS				
Mineral properties		12,622		12,622
Equipment		2		2
Royalty receivable - long-term portion		47		47
Long-term investments		143		143
Total Non-Current Assets		12,814	-	12,814
Total Assets		\$ 12,989	\$ -	\$ 12,989
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities		\$ 626	\$ -	\$ 626
Notes payable		66		66
Flow through obligation		337		337
Derivate liability for warrants	15(b)(i)	-	90	90
Total Current Liabilities		1,029	90	1,119
SHAREHOLDERS' EQUITY				
Share capital		56,323		56,323
Contributed surplus	15(b)(ii)	2,371	(2,371)	-
Reserve for share-based payments	15(b)(ii)	-	1,313	1,313
Deficit	15(b)(i) and (ii)	(46,734)	968	(45,766)
Total Shareholders' Equity		11,960	(90)	11,870
Total Liabilities and Shareholders' Equity		\$ 12,989	\$ -	\$ 12,989

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Financial Statements

Three Months ended March 31, 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 March 31, 2010 has been reconciled to IFRS as follows:

	Notes	March 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:				
Corporate development		\$ 3	\$ -	\$ 3
Employee and director remuneration		109		109
Foreign exchange loss (gain)		22		22
General and administrative		57		57
Shareholder relations		17		17
Stock-based compensation	15(b)(ii)	17	9	26
Loss before the undernoted		(225)	(9)	(234)
Accretion of royalty receivable		1		1
Interest expense		(1)		(1)
Unrealized gain from derivative liability for warrants	15(b)(i)	-	85	85
Loss before income tax		(225)	76	(149)
Future income tax recovery		113		113
Net loss for the period		\$ (112)	\$ 76	\$ (36)
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 Financial Statements

Three Months ended March 31, 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 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 Financial Statements

Three Months ended March 31, 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 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	19	149
Loss before the undernoted		(939)	(19)	(958)
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)	(915)	(1,478)
Future income tax expense		(27)		(27)
Net loss for the year		(590)	(915)	(1,505)
Other comprehensive (loss) income:				
Unrealized gain (loss) on available-for-sale securities		10		10
Comprehensive loss for the year		\$ (580)	\$ (915)	\$ (1,495)
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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Trading Symbols
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OTC-BB: CRCUF
DBFrankfurt: CAN



First Quarter Report

Management Discussion and Analysis

(expressed in thousands of United States dollars)

Three Months ended March 31, 2011

CANARC RESOURCE CORP.
(the “Company”)

First Quarter Report

**Management’s Discussion and Analysis
For the Three Months Ended March 31, 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 months ended March 31, 2011, all of which are available at the SEDAR website at www.sedar.com.

All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRS”), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of June 10, 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. The Company currently only owns a direct interest in the precious metal property, known as the New Polaris property in British Columbia, Canada, and an option to purchase the Tay-LP property, Yukon, and the Windfall Hills property, British Columbia.

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.

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%.

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Three Months ended March 31, 2011

(expressed in United States dollars)

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 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 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.

1.2 Overall Performance

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.

New Polaris property

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

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Three Months ended March 31, 2011

(expressed in United States dollars)

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

INDICATED UNDILUTED RESOURCE

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

MEASURED PLUS INDICATED UNDILUTED RESOURCE

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

INFERRED UNDILUTED RESOURCE

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

* ton equals short dry ton

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

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In April 2011, the Company completed an updated NI 43-101 preliminary economic assessment report by Moose Mountain Technical Services ("Moose Mountain") for the New Polaris gold project ("Moose Mountain Technical 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 Moose Mountain Technical 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 the conceptual nature of the PEA, there is no certainty that the preliminary economic assessment will be realized.

The base case mine model in the Moose Mountain Technical 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

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

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Gold US\$1,100/oz -8%	\$146,197	\$96,981	\$74,907
Base Case US\$1,200/oz	\$188,107	\$129,819	\$103,707
Gold US\$1,300/oz +8%	\$230,017	\$162,657	\$132,507
Gold US\$1,400/oz +17%	\$271,927	\$195,347	\$161,090
Grade -10%	\$137,815	\$90,403	\$69,132
Grade -5%	\$162,961	\$110,116	\$86,427
Base Case Grade 11.25 gpt	\$188,107	\$129,819	\$103,707
Grade +5%	\$213,253	\$149,522	\$120,987
Grade +10%	\$238,399	\$169,225	\$138,267
Capital Cost -10%	\$193,775	\$135,816	\$109,850
Capital Cost -5%	\$190,941	\$132,817	\$106,778
Base Case \$101M Capital	\$188,107	\$129,819	\$103,707
Capital Cost +5%	\$185,273	\$126,821	\$100,635
Capital Cost +10%	\$182,440	\$123,822	\$97,564
Operating Cost -10%	\$208,383	\$145,818	\$117,799
Operating Cost -5%	\$198,245	\$137,819	\$110,753
Base Case	\$188,107	\$129,819	\$103,707
Operating Cost +5%	\$177,969	\$121,819	\$96,661
Operating Cost +10%	\$167,831	\$113,820	\$89,614
Exchange rate \$0.90 -10%	\$238,750	\$169,523	\$138,540
Exchange rate \$0.95 -5%	\$212,104	\$148,633	\$120,213
Base Case \$1.00	\$188,107	\$129,819	\$103,707
Exchange rate \$1.05 +5%	\$166,384	\$112,788	\$88,765
Exchange rate \$1.10 +10%	\$146,625	\$97,297	\$75,174

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

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

Tay-LP property

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. 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 common shares at a value of CAD\$0.113 per share in October 2010.

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

In 2010, Cap-Ex completed a 470 kilometer airborne geophysical survey at Tay LP which successfully 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 expect to prioritize new targets for drilling in 2011.

Relief Canyon project

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

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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% 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.

In May 2011, the Company staked 13,870 hectares gold property located northeast of the Windfall Hills property.

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.

The Shareholders Update included in the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011 provides further review of the Company's overall performance for the first quarter and outlook for the second quarter of fiscal 2011.

1.3 Selected Annual Information

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

(in \$000s except per share amounts)	Year Ended December 31, 2010	
Total revenues	\$	-
Loss before discontinued operations and extraordinary items:		
(i) Total	\$	1,505
(ii) Basic per share	\$	(0.02)
(iii) Fully diluted per share	\$	(0.02)
Net loss:		
(i) Total	\$	1,505
(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	\$	-

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1.4 Results of Operations

First Quarter of Fiscal 2011 – Three months ended March 31, 2011 compared with March 31, 2010

The Company incurred a net loss of approximately \$323,000 for the three months ended March 31, 2011 which is significantly higher than the net loss of approximately \$36,000 for the same period in fiscal 2010. However operating losses for the first quarter of fiscal 2011 were nominally higher than 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.

The primary contributing factors for the lower net loss in the first quarter of fiscal 2010 was unrealized gain from derivative liability of \$87,000 and the future income tax recovery of \$113,000. 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 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 slightly higher in the current period 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 Moose Mountain Technical Report, which supported the project's economics. General and administrative expenses were commensurately higher due to legal fees incurred in the Company's acquisition of the assay laboratory in February 2011 including all title and permitting issues, and due to the convertible debenture with Effisolar in February 2011 which was converted into common shares in March 2011. Shareholder relations expenses were comparable for both periods in 2011 and 2010.

Stock-based compensation is from the vesting of stock options as no stock options were granted during each of the two comparative periods. Stock-based compensation was lower in 2011 than in 2010 due to cancellation of stock options from employee turnover issues which reverses previously recognized cumulative stock-based compensation expense for unvested stock options in the current period.

The Company continues to accrue interest attributable to demand loans.

The Company also recognized an unrealized gain 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.

The Company has no sources of operating revenues.

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

(US\$000s)	March 31, 2011		
	British Columbia New Polaris	Yukon Tay-LP	Total
Acquisition Costs:			
Balance, January 1, 2010	\$ 3,605	\$ 25	\$ 3,630
Additions	-	49	49
Balance, December 31, 2010	3,605	74	3,679
Additions and adjustments from change in functional currency	305	2	307
Balance, March 31, 2011	3,910	76	3,986
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	(12)	17	5
Balance, March 31, 2011	8,648	402	9,050
Mineral property interests, March 31, 2011	\$ 12,558	\$ 478	\$ 13,036

At March 31, 2011, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option Payments (CAD\$000s)	Exploration Commitments (1) (CAD\$000s)	Advance Royalty Payments (CAD\$000s)	Net Smelter Reduction (US\$000s)	Shares
New Polaris:					
Net profit interest reduction or buydown					150,000
Tay-LP:					
October 31, 2011	\$ 50	\$ 238			
October 31, 2012	850	600			
Annual advance royalty payments until commercial production			\$ 25		
Net smelter reduction from 3% to 1.5%				\$ 1,950	
	\$ 900	\$ 838	\$ 25	\$ 1,950	150,000

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- (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 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, March 31, 2011:

(in \$000s except per share amounts)	IFRS					Canadian GAAP		
	2011	2010				2009		
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Loss) income before discontinued discontinued operations and extraordinary items:								
(i) Total	\$ (323)	\$ (1,576)	\$ 29	\$ 78	\$ (36)	\$ (964)	\$ (291)	\$ (175)
(ii) Basic per share	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.02)	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.02)	\$ -	\$ -
Net (loss) income:								
(i) Total	\$ (323)	\$ (1,576)	\$ 29	\$ 78	\$ (36)	\$ (964)	\$ (291)	\$ (175)
(ii) Basic per share	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.02)	\$ -	\$ -
(iii) Fully diluted per share	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.02)	\$ -	\$ -
Total assets	\$ 14,349	\$ 13,900	\$ 13,016	\$ 13,008	\$ 12,989	\$ 13,215	\$ 13,086	\$ 12,688
Total long-term liabilities	\$ 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.

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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)	March 31, 2011	December 31, 2010
Cash	\$ 302	\$ 592
Working capital (deficiency)	\$ (249)	\$ (1,116)

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 March 31, 2011, cumulative interest of CAD\$12,775 and loan bonus of CAD\$7,444 have been accrued.

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.

At December 31, 2010, a derivative liability of \$1,049,000 for warrants was recognized whereas at March 31, 2011 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 deficiency in the first quarter of 2011.

The working capital deficiency of \$249,000 at March 31, 2011 includes the notes payable with accrued interests and accrued loan bonus totalling \$85,000 due to certain directors and an officer of the Company and flow through indemnities of \$232,000.

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

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 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 March 31, 2011. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

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Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

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

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

1.9 Transactions with Related Parties

Except as disclosed elsewhere in the MD&A, general and administrative costs during the three months ended March 31, 2011 include:

- CAD\$12,266 of salaries to an employee who is a director;
- CAD\$10,000 for directors' fees. As at March 31, 2011, the Company accrued CAD\$118,659 in directors fees included in accounts payable;
- CAD\$14,486 in legal fees to a law firm in which a senior officer of the Company is a partner. As at March 31, 2011, the Company owed CAD\$69,857 to the law firm;
- CAD\$30,157 in office rent and salary allocations recovered from companies sharing certain common directors. As at March 31, 2011, the Company was owed CAD\$15,971 from such companies; and
- CAD\$25,900 in office rent and salary allocations incurred to a company sharing certain common directors. As at March 31, 2011, the Company owed CAD\$33,846 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 First Quarter

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

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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-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\$53,000 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 First Quarter Report for fiscal 2011 includes the Company's first 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 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2011, the comparative financial information presented in these condensed consolidated interim financial statements for the three months ended March 31, 2011, 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

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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.

(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 compensation whereby amounts included in reserve for share-based payments for expired unexercised stock options are transferred to deficit.

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- (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,	March 31,	January 1,
Total Liabilities under Canadian GAAP	\$ 959	\$ 1,029	\$ 999
Adjustments to transition to IFRS:			
Derivative liability for warrants	1,049	90	177
Total Liabilities under IFRS	\$ 2,008	\$ 1,119	\$ 1,176

	2010		
	December 31,	March 31,	January 1,
Contributed Surplus under Canadian GAAP	\$ 2,483	\$ 2,371	\$ 2,354
Adjustments to transition to IFRS:			
Transferred to deficit for expired unexercised stock-based compensation	(1,261)	(1,067)	(1,058)
Transferred to reserve for share-based payments	(1,222)	(1,304)	(1,296)
Contributed Surplus under IFRS	\$ -	\$ -	\$ -

	2010		
	December 31,	March 31,	January 1,
Reserve for stock-based compensation:			
Adjustments to transition to IFRS:			
Transferred from contributed surplus for unexercised stock-based compensation	\$ 1,222	\$ 1,304	\$ 1,296
Share-based payments for the period	17	9	-
Reserve for stock-based compensation under IFRS	\$ 1,239	\$ 1,313	\$ 1,296

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	2010		
	December 31,	March 31,	January 1,
Deficit under Canadian GAAP	\$ (47,212)	\$ (46,734)	\$ (46,622)
Adjustments to transition to IFRS:			
Derivative liability for warrants	(1,074)	(91)	(177)
Transferred from contributed surplus for expired unexercised stock-based compensation	1,261	1,067	1,058
Stock-based compensation for the period	(17)	(9)	-
Deficit under IFRS	\$ (47,042)	\$ (45,767)	\$ (45,741)

	2010	
	December 31,	March 31,
Comprehensive loss under Canadian GAAP	\$ (580)	\$ (112)
Adjustments to transition to IFRS:		
Unrealized (loss) gain from derivative liability for warrants	(896)	87
Stock-based compensation	(19)	(9)
Foreign exchange	-	(2)
Comprehensive loss under IFRS	\$ (1,495)	\$ (36)

(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 – March 31, 2010

Consolidated Interim Statement of Comprehensive Loss Reconciliation – March 31, 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 March 31, 2010 Canadian GAAP consolidated interim statement of financial position has been reconciled to IFRS as follows:

	March 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS			
CURRENT ASSETS			
Cash	\$ 36	\$ -	\$ 36
Receivables and prepaids	89		89
Royalty receivable - current portion	50		50
Total Current Assets	175	-	175
NON-CURRENT ASSETS			
Mineral properties	12,622		12,622
Equipment	2		2
Royalty receivable - long-term portion	47		47
Long-term investments	143		143
Total Non-Current Assets	12,814	-	12,814
Total Assets	\$ 12,989	\$ -	\$ 12,989
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 626	\$ -	\$ 626
Notes payable	66		66
Flow through obligation	337		337
Derivate liability for warrants	-	90	90
Total Current Liabilities	1,029	90	1,119
SHAREHOLDERS' EQUITY			
Share capital	56,323		56,323
Contributed surplus	2,371	(2,371)	-
Reserve for share-based payments	-	1,313	1,313
Deficit	(46,734)	968	(45,766)
Total Shareholders' Equity	11,960	(90)	11,870
Total Liabilities and Shareholders' Equity	\$ 12,989	\$ -	\$ 12,989

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- (iii) The Canadian GAAP consolidated interim statement of comprehensive loss for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

	March 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses:			
Corporate development	\$ 3	\$ -	\$ 3
Employee and director remuneration	109		109
Foreign exchange loss (gain)	22		22
General and administrative	57		57
Shareholder relations	17		17
Stock-based compensation	17	9	26
Loss before the undernoted	(225)	(9)	(234)
Accretion of royalty receivable	1		1
Interest expense	(1)		(1)
Unrealized gain from derivative liability for warrants	-	85	85
Loss before income tax	(225)	76	(149)
Future income tax recovery	113		113
Net loss for the period	\$ (112)	\$ 76	\$ (36)
Basic and diluted loss per share	\$ -	\$ -	\$ -
Weighted average number of shares outstanding	81,969,655		81,969,655

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- (iv) 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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- (v) 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	19	149
Loss before the undernoted	(939)	(19)	(958)
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)	(915)	(1,478)
Future income tax expense	(27)		(27)
Net loss for the year	(590)	(915)	(1,505)
Other comprehensive (loss) income:			
Unrealized gain (loss) on available-for-sale securities	10		10
Comprehensive loss for the year	\$ (580)	\$ (915)	\$ (1,495)
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 held-for-trading financial instruments.

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 held-for-trading financial instruments 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.

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

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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 March 31, 2011, the Company is exposed to currency risk for its U.S. dollar equivalent of assets and liabilities denominated in currencies other than U.S. dollars as follows:

	Held in Canadian dollars (stated in U.S. dollars)
Cash	\$ 302
Receivables and prepaids	128
Marketable securities	129
Mineral properties	13,036
Equipment	610
Long-term investments	94
Accounts payable and accrued liabilities	(541)
Notes payable	(85)
Flow through obligation	(232)
Future income tax liability	(123)
Net assets	<u>\$ 13,318</u>

Based upon the above net exposure as at March 31, 2011 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$1.3 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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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 condensed consolidated interim financial statements for the three months ended March 31, 2011.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the three months ended March 31, 2011 are as follows:

	Number of Shares	Amount
		(in \$000s)
Balance at December 31, 2010	90,985,890	\$ 57,685
Issued:		
Conversion of convertible debenture	1,282,051	301
Exercise of options	44,000	7
Exercise of warrants	414,705	64
Provision for flow-through shares	-	(1)
Balance at March 31, 2011	92,726,646	\$ 58,056

At June 10, 2011, there were 93,625,591 common shares issued and outstanding.

At March 31, 2011, the Company had outstanding stock options to purchase an aggregate 9,350,000 common shares as follows:

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	March 31, 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
Outstanding, end of period	9,350,000	\$0.31

At March 31, 2011, 9,350,000 options are outstanding of which 7,410,000 options are exercisable.

At June 10, 2011, stock options for 9,350,000 common shares remain outstanding.

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

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at March 31, 2011
\$0.15	April 22, 2011	39,410	-	(31,675)	-	7,735
\$0.15	October 22, 2011	202,160	-	-	-	202,160
\$0.15	April 22, 2011	2,319,140	-	(361,530)	-	1,957,610
\$0.165	May 9, 2011	128,410	-	(21,500)	-	106,910
\$0.220	June 13, 2012	4,250,000	-	-	-	4,250,000
		6,939,120	-	(414,705)	-	6,524,415

At June 10, 2011, warrants for 5,625,470 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.

Exploration and Development Risks

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

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

Financing Risks

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

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

Estimates of Mineral Deposits

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

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

Mineral Prices

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

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

Title Matters

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

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

Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

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

Reclamation

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

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(expressed in United States dollars)

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 March 31, 2011, the Company had 92,726,646 common shares and 9,350,000 share purchase options and 6,524,415 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 March 31, 2011, dilutive securities represented approximately 17% of the Company's issued shares. Certain of these dilutive securities were exercisable at prices below the March 31, 2011 closing market price of CAD\$0.17 for the Company's shares, this 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 three months ended March 31, 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 year in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

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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 three months ended March 31, 2011 fairly present the Company's financial position and the results of its operations for the period then ended.

Changes in Internal Controls over Financial Reporting

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