



CORPORATE PROFILE

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

By developing its principal asset, the high-grade New Polaris gold mine project in Canada, towards feasibility and production and by acquiring and exploring attractive gold exploration projects in Mexico and Suriname, Canarc is rapidly becoming a diversified gold explorer-developer-producer attractively priced for growth.

COMPETITIVE ADVANTAGES

- Canarc management has a successful track record of discovering gold mineralization.
- Core asset is the 1.15 million oz high-grade New Polaris gold deposit now entering the pre-feasibility stage.
- Recent acquisition of the Providencia gold-silver vein district in Mexico adds new exploration and production upside.
- Benzdorp project in Suriname has excellent potential for new gold discoveries.
- Experienced management team + strong project portfolio + healthy balance sheet = an emerging gold company geared for growth.

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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. Resource and production goals and forecasts may be based on data insufficient to support them. James Moors, P.Geo. and/or Bradford Cooke, P.Geo. are the Qualified Persons for the Company as required by NI 43-101. The Company expressly disclaims any obligation to update any forward-looking statements. We seek Safe Harbour.

HIGHLIGHTS 2006



Diamond drill rig testing the C vein system



54 tonnes of drill core from 2006 alone!



Channel sampling of gold mineralization in pork-knocker pits

New Polaris

- Drilled 24,394 m in 69 infill holes at 30 m spacing along the C vein system to define continuous high grade mineralization.
- New NI 43-101 compliant resource estimate delineated 519,000 oz measured and indicated in 1,288,000 tonnes grading 12.5 gpt and 636,000 oz gold inferred in 1,628,000 tonnes grading 12.2 gpt using a 6 gpt cutoff grade, still open for expansion.
- Intersected thickest vein mineralization yet, including 8.9 gpt gold over 35.0 m in hole 06-300SW-8.
- Discovered first-ever occurrence of visible gold, including 44.7 gpt gold over 6.2 m in hole 06-1615E-8.

Benzdorp

- Completed a 1860 km airborne geophysical survey and 136 km ground geochemical survey to identify 12 high priority gold prospect areas for follow-up work.
- Discovered MM vein grading 39.7 gpt gold over 2.0 m and several other mineralized vein prospects.

LETTER TO SHAREHOLDERS



Dear Canarc Shareholders,

I am pleased to report to you our achievements for 2006. The past year was one of great progress on Canarc's principal asset, the New Polaris mine project in British Columbia. We also made good headway on our other gold properties, as outlined below.

Gold posted another solid year of gains in 2006, closing at US\$638 per oz, up 23% on the year, and peaking at US\$722 per oz in April. Given the strong fundamentals (rising investment demand and tightening mine supply) and the weakening US dollar last year, gold remained in a firm uptrend typical of the now six year-old secular bull market.

Junior gold stocks followed gold higher in Q1, 2006, then fell with the now familiar late spring sell-off, but they closed generally higher at year-end. Canarc's share price rose 55% to test the CA \$0.90 mark in April and again in November and closed at CA\$0.78, up 35% on the year.

Last year, Canarc set out a new, three-pronged growth strategy to more aggressively create shareholder value. The primary goal was the advancement of its core asset, the New Polaris gold project in north-western B.C. through a major infill drilling program to establish a NI 43-101 compliant resource.

The New Polaris infill drilling program was expanded late last summer and yet was still successfully completed by year-end. Approximately US\$4.8 million was invested at New Polaris, mainly on drilling 24,394 m (80,033 ft) of core in 69 holes along the C vein system down to vertical depths of 577 m (1890 ft) below surface but also on fuel purchase and mobilization to the mine-site and related environmental, metallurgical and engineering studies.

The positive drill results established excellent continuity of the high grade gold mineralization, including the discovery of the first-ever occurrence of visible gold at New Polaris in three drill holes along the deep south-west margin of the drill grid, and the intersection of the widest veins yet at New Polaris along the deep north-east edge of the drill grid. In fact, six of the best ten gold intercepts ever drilled at New Polaris were completed in 2006.

As a result of the infill drilling program, a new NI 43-101 resource estimate delineated 519,000 oz measured and indicated in 1,288,000 tonnes grading 12.5 gpt and 636,000 oz gold inferred in 1,628,000 tonnes grading 12.2 gpt using a 6 gpt cutoff grade, still open for expansion.

Canarc also accomplished its second goal for 2006 of conducting more exploration work at the Benzorp gold project in Suriname in order to better define prospect areas for drilling.

Canarc completed a 1860 km airborne geophysical survey and a 136 km ground geochemical survey to identify 12 high priority gold prospect areas. Follow-up pork-knocker pit sampling discovered the MM vein grading 39.7 gpt gold over 2.0 m and several other mineralized vein prospects.

The third goal of acquiring at least one new gold project was still a work in progress at year-end. Management reviewed several attractive gold properties in Mexico last year and announced the acquisition of the historic Providencia gold-silver district in the state of Guanajuato, Mexico during the 1st Quarter of 2007.

This year, Canarc expects to accelerate its pace of project acquisitions, exploration and development as management pursues a three-pronged growth strategy to create a diversified gold explorer-developer-producer. With the secular bull market for gold still in place, Canarc's new focus should help to create substantial value for shareholders in 2007.

The conceptual mine plan and initial economic assessment for New Polaris should be completed in Q2, 2007. Subject to positive results, Canarc plans a feasibility program of environmental studies, dewatering the old mine workings (currently in progress), slashing out the 750 level, ramping down in the footwall to the 1050 level, driving a 300 m drift along the C vein and trial mining of a bulk sample.

The objectives of this work program will be to convert resources to proven and probable reserves around the new drift, estimate future mining costs, and complete metallurgical testing to finalize the process flow-sheet. This would allow Canarc to pursue a feasibility study, and government permitting in 2008 in anticipation of project financing and mine construction thereafter.

In addition to the New Polaris gold mine project, Canarc plans to pursue financing or a partner for the Benzdorp gold exploration project in 2007 in order to continue advancing the project through the next phase of drilling. Other material property acquisitions are currently being reviewed in

Mexico, with a view to accelerating Canarc's status as a diversified gold explorer, developer and producer.

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

CANARC RESOURCE CORP.

Bradford J. Cooke

April 16, 2007

Chairman and C.E.O.



New Polaris Gold Mine Project, Canada

Introduction

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



Visible gold in New Polaris core sample

Location and Access



New Polaris is located 100 km south of Atlin B.C.

History

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



Town site, circa 1950

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

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

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

2006 Program

In 2006, Canarc's main objective was to advance New Polaris to an updated NI 43-101 compliant resource estimate through a major infill drilling program. Approximately CA\$ 5.2 million was invested during the year, mainly for drilling 24,394 m (80,033 ft) of core in 69 holes along the vein system to vertical depths of 577 m (1890 ft) below surface, as well as related environmental, metallurgical and engineering studies.

The drill results established excellent continuity of the high grade gold mineralization, including the discovery of the first-ever occurrence of visible gold at New Polaris along the deep south-west margin of the drill grid, and the intersection of the widest veins yet at New Polaris along the deep north-east edge of the drill grid. In fact, six of the best gold intercepts ever drilled at New Polaris were completed in 2006, as shown in the attached table.



Infill drilling to depths of 600 m

New Polaris Select 2006 Drill Results

Hole (no.)	From (m)	Length (m)	Gold (gpt)	Length (ft)	Gold (opt)
06-300SW-8	303.30	35.0	8.9	114.8	0.26
Incl.	307.50	1.5	35.3	4.9	1.03
06-1615E-8	346.40	6.2	44.7	20.3	1.30
Incl.	350.80	1.0	108.0	3.3	3.18
06-1768E-1A	225.80	16.5	23.1	54.1	0.67
Incl.	237.00	2.3	48.6	7.5	1.42
06-1615E-9	439.50	12.4	16.1	40.7	0.47
Incl.	451.00	0.9	118.5	3.0	3.45
06-270SW-3	239.50	24.5	7.4	80.4	0.22
Incl.	242.15	0.85	30.4	2.8	0.88
061676E-5B	257.20	14.0	10.9	45.9	0.32
Incl.	260.60	0.9	44.7	3.0	1.30

True widths range from 60% to 90% of core lengths.

NI 43-101 Resources

A new NI 43-101 compliant resource estimate delineated 519,000 oz measured and indicated in 1,288,000 tonnes grading 12.5 gpt and 636,000 oz gold inferred in 1,628,000 tonnes grading 12.2 gpt using a 6 gpt cutoff grade. Greater than 95% of the measured and indicated resources are located within the C vein system where infill drilling programs were conducted over the past three years.

Inferred undiluted resources range from 697,000 to 571,000 oz of gold. Approximately 75% of the inferred resources are also located within the C vein system, with the remainder attributable to the Y19 and Y20 veins.



MEASURED UNDILUTED RESOURCE

Cutoff (g/tonne)	Grade (oz/ton)*	Mineralized Tonnage		Average Grade		Contained Gold Au (oz)
		(tonnes)	(tons)	(g/tonne)	(oz/ton)	
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 (g/tonne)	Grade (oz/ton)*	Mineralized Tonnage		Average Grade		Contained Gold Au (oz)
		(tonnes)	(tons)	(g/tonne)	(oz/ton)	
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 (g/tonne)	Grade (oz/ton)*	Mineralized Tonnage		Average Grade		Contained Gold Au (oz)
		(tonnes)	(tons)	(g/tonne)	(oz/ton)	
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 (g/tonne)	Grade (oz/ton)*	Mineralized Tonnage		Average Grade		Contained Gold Au (oz)
		(tonnes)	(tons)	(g/tonne)	(oz/ton)	
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

James Moors, B.Sc., P.Geo, Vice President, Exploration, is the Qualified Person responsible for the project QA/QC, infill drilling, and geological modelling on the New Polaris property. Gary Giroux, M.A.Sc., P.Eng. is the Qualified Person who prepared the updated NI 43-101 resource estimate.

2007 Plan

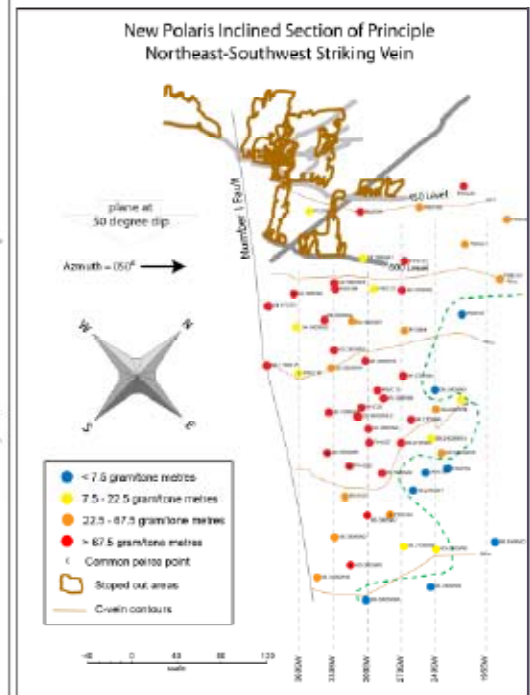
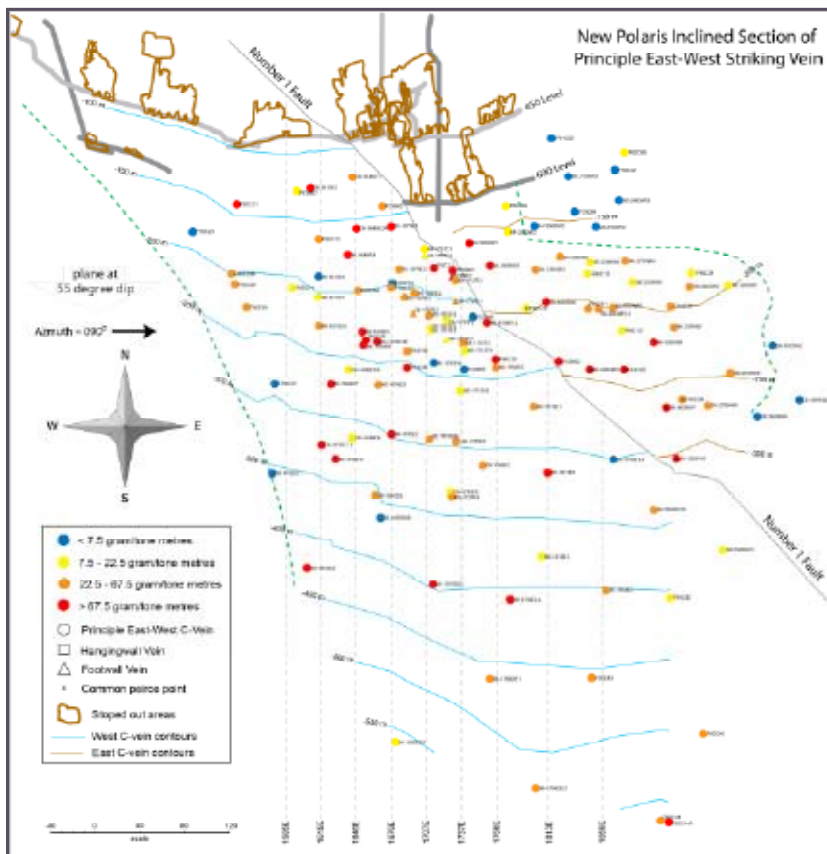
A preliminary economic assessment commenced at year-end, in order to refine the conceptual mine plan and initial project economics. Mine dewatering is now underway in anticipation of a major underground development program in 2007. The principal goals will be to establish proven and probable reserves, confirm mining costs, complete metallurgical testing and finalize the process flow sheet and environmental studies necessary for the feasibility study and project permitting in 2008.

Proposed work includes rehabilitation of the shaft and hoist, driving a 600 m decline, a 300 m drift and 150 m of raises, mining a 2500 bulk sample of ore, and shipping it out for test processing.



New Polaris - C Vein Long Section

Management and Directors underground at New Polaris



Benzdorp Gold Exploration Project, Suriname

Introduction

The Benzdorp gold project in southeastern Suriname covers one of the largest historic gold districts in the Guyana shield. Canarc holds an option with Grassalco, the state-owned mining company, to earn up to an 80% interest in the Benzdorp project. This huge 1,380 sq. km property, located 300 km southeast of Paramaribo, the capital city, encompasses the northern 20 km of the Benzdorp gold belt where past alluvial mine production has been estimated at over 1 million ounces of gold. There are currently more than 500 artisanal miners actively producing gold from virtually every creek draining the Benzdorp district.



Sampling pits excavated by pork-knockers

History

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

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

2006 Program

In 2006, Canarc revised its exploration strategy at Benzdorp to explore for high-grade, shear-related gold mineralization to complement the low grade, high tonnage porphyry-type gold mineralization at the JQA prospect. A CA \$1 million program was completed, consisting of an 1860 km high-resolution airborne geophysical survey and a 136 km geochemical soil sampling program. This work was focused over the greenstone belt along the eastern part of the Benzdorp property.

This data proved useful in interpreting the geological domains and structures in the area that could be related to gold mineralization. The geochemical data were compared with aeromagnetic and geological maps and highlighted 12 prospective target areas for follow-up.

The 2006 work program successfully defined an 7 km long elongate zone, containing six gold prospects within phyllitic sediments/tuffs and six mineralized felsic intrusions. The six phyllite-hosted prospects are mineralized shear-type quartz veins. Quartz-limonite-manganese veins and stockworks were found within all six felsic intrusion prospects.

Evidence for both high-grade, shear-hosted gold deposits similar to IAMGOLD's Gros Rosebel deposit and large tonnage, saprolite gold deposits like Kinross's Paracatu deposit are present on the property. Both these de-

posits are within the Guyana Shield. Given that Benzdorp is endowed with favorable geologic units for hosting world-class high-grade gold deposits, Benzdorp remains an under-explored and attractive gold exploration property.

2007 Plan

In 2007, Canarc will focus on more aggressive sampling of the many pork-knocker pits, an additional 58 km of geochemical soil sampling over prospective geophysical anomalies, and bulldozer trenching of attractive gold prospect areas. Once drill targets are well defined, a second phase of diamond drilling is proposed to test the top priority gold prospects.



Re-logging the JQA drill core

Bellavista Gold Mine, Costa Rica

Introduction

Bellavista is a new open-pit, heap leach gold mine owned and operated by Glencairn Gold Corporation near the town of Miramar, Costa Rica, some 80 km west of the capital city, San Jose. Canarc holds a royalty interest amounting to 5.7% of net profits during the 1st payback period, rising to 10.4% during the 2nd payback period and 20.2% of net profits thereafter.

History

Glencairn purchased the project from Wheaton River Minerals Ltd in October, 2002 and invested a further \$35 million to update the feasibility study, construct the processing plant and put the mine into production. The new Bellavista gold mine in Costa Rica poured its first gold bars in June and owner-operator Glencairn Gold declared commercial production in December 2005. Canarc acquired its royalty interest through the acquisition of Rembrandt Gold Mines, a previous owner of both the Bellavista and New Polaris projects.

Production

In 2006, Bellavista produced 38,830 oz gold at a realized gold price of US\$595 per oz and a cash operating cost of US\$316 per oz. Proven and probable reserves at year-end were 7,867,800 tonnes grading 1.44 gpt containing 365,500 oz gold. In addition, Glencairn reports measured and indicated resources of 421,300 oz grading 1.5 gpt within 8.7 million tonnes.

Plans

Canarc intends to commission an update of the independent valuation of its royalty in Bellavista and then seek a buyer for this royalty interest so it can put the capital to work developing its other gold property assets.



Bellavista open-pit mine



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canarc Resource Corp. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 16, 2007, except as to Note 4(d) which is as of March 20, 2007.



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

Consolidated Financial Statements

(expressed in thousands of United States dollars)

Years ended December 31, 2006, 2005 and 2004

Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,267	\$ 489
Marketable securities (Note 3)	522	899
Receivables and prepaids	105	48
Receivable from disposition of subsidiary - current portion (Note 4(c)(i))	50	-
	2,944	1,436
NONCURRENT ASSETS		
Mineral properties (Note 4)	15,224	9,658
Equipment (Note 5)	7	10
Receivable from disposition of subsidiary - long-term portion (Note 4(c)(i))	200	-
Long-term investment (Note 6)	72	78
	15,503	9,746
	\$ 18,447	\$ 11,182
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 235	\$ 235
SHAREHOLDERS' EQUITY		
Share capital (Note 7(a))	55,629	49,150
Contributed surplus (Note 7(b))	1,855	1,502
Deficit	(39,272)	(39,705)
	18,212	10,947
	\$ 18,447	\$ 11,182

Nature of operations (Note 1)

Commitments and contingencies (Note 4)

Subsequent events (Notes 4(d) and 7(c))

Refer to the accompanying notes to the consolidated financial statements.

Approved by the Directors:

/s/ *Bradford Cooke*

/s/ *Leonard Harris*

Director

Director

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

	Years ended December 31,		
	2006	2005	2004
Expenses:			
Amortization	\$ 3	\$ 4	\$ 5
Corporate development	294	8	16
Employee and director remuneration (Note 8)	429	137	201
Foreign exchange gain	(14)	(40)	(42)
General and administrative	337	317	336
Shareholder relations	307	113	153
Share appreciation rights	-	3	-
Stock-based compensation (Note 7(c))	454	432	639
Travel	-	7	63
Loss before the undernoted	(1,810)	(981)	(1,371)
Equity loss from investment in affiliated company	(6)	(3)	-
Gain on disposition of marketable securities	1,598	1,225	667
Gain on dilution from long term investment (Note 6)	-	621	-
Gain from disposition of subsidiary (Note 4(c)(i))	600	-	-
Investment and other income	81	2	13
Non-controlling interest	-	22	37
Write-down of marketable securities	(30)	(2)	(4)
Write-down of mineral properties	-	(170)	(3,143)
Write-off of debt due from affiliated company (Note 6)	-	(542)	-
Write-off of equipment	-	-	(212)
Income (loss) before income tax	433	172	(4,013)
Future income tax recovery (Note 7(a)(i))	-	143	-
Income (loss) for the year	433	315	(4,013)
Deficit, beginning of the year	(39,705)	(40,020)	(36,007)
Deficit, end of the year	\$ (39,272)	\$ (39,705)	\$ (40,020)
Basic and diluted earnings (loss) per share	\$ 0.01	\$ 0.01	\$ (0.07)
Weighted average number of shares outstanding	63,462,293	58,518,229	55,956,982

Refer to the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
(expressed in thousands of United States dollars)

	Years ended December 31,		
	2006	2005	2004
Cash provided from (used for):			
Operations:			
Income (loss) for the year	\$ 433	\$ 315	\$ (4,013)
Items not involving cash:			
Amortization	3	4	5
Equity loss from investment in affiliated company	6	3	-
Gain on disposition of marketable securities	(1,598)	(1,225)	(667)
Gain on dilution from long term investment	-	(621)	-
Gain on disposition of subsidiary (Note 4(c)(i))	(600)	-	-
Future income tax recovery	-	(143)	-
Non-controlling interest	-	-	(37)
Share appreciation rights	-	3	-
Stock-based compensation	454	432	639
Unrealized currency translation gain	(9)	(29)	(66)
Write-down of marketable securities	30	2	4
Write-down of mineral properties	-	170	3,143
Write-off of debt due from affiliated company (Note 6)	-	542	-
Write-off of equipment	-	-	212
	(1,281)	(547)	(780)
Changes in non-cash working capital items:			
Receivables and prepaids	(57)	67	(79)
Due to/from related parties	-	(118)	149
Accounts payable and accrued liabilities	-	(35)	(65)
	(1,338)	(633)	(775)
Financing:			
Issuance of common shares	6,378	38	1,253
Investing:			
Proceeds from disposal of marketable securities	2,452	2,009	1,245
Proceeds from disposition of subsidiary	450	-	-
Acquisition of marketable securities	(498)	(789)	(1,190)
Mineral properties, net of recoveries	(5,666)	(851)	(1,720)
	(3,262)	369	(1,665)
Increase (decrease) in cash and cash equivalents	1,778	(226)	(1,187)
Cash and cash equivalents, beginning of year	489	715	1,902
Cash and cash equivalents, end of year	\$ 2,267	\$ 489	\$ 715

Supplemental disclosure with respect to cash flows (Note 11).

Refer to the accompanying notes to the consolidated financial statements.

1. Nature of Operations

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

The Company has incurred significant operating losses and has an accumulated deficit of \$39,272,000 at December 31, 2006. Furthermore, the Company has working capital of \$2,709,000 as at December 31, 2006, which is not sufficient to achieve the Company's planned business objectives. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on the continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

- (a) Basis of presentation:
These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned except for:
- Sara Kreek Resource Corporation N.V. ("Sara Kreek Resource"), in which the Company previously held an 80% interest but was disposed in April 2006;
 - Aztec Metals Corp. ("Aztec"), in which the Company held a 63% interest as at December 31, 2004 and diluted its interest to 27% as at December 31, 2005 when its investment was accounted using the equity method (Note 6) and further diluted its interest to 19% on March 31, 2006 after which its investment was accounted using the cost method;
 - Carib Industries Ltd., in which the Company holds a 78.5% interest; and
 - its 40% owned investee, Benzdorp Gold N.V., which is proportionately consolidated.

All significant intercompany transactions and balances have been eliminated.

- (b) Cash and cash equivalents:
Cash and cash equivalents include cash and short-term liquid investments having terms to maturity when acquired of three months or less. Short-term investments having terms to maturity when acquired of greater than three months and less than one year are included in marketable securities.
- (c) Marketable securities:
Marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation. Share investments are carried at the lower of cost and quoted market value at the reporting date. Short-term deposits and other short-term investments are carried at the lower of cost plus accrued interest and quoted market value.
- (d) Mineral properties:
All costs related to investments in mineral properties are capitalized on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. T

2. Significant Accounting Policies - Mineral Properties (continued)

The costs related to a property from which there is production, together with the costs of mining equipment, will be amortized using the unit-of-production method. When there is little prospect of further work on a property being carried out by the Company or its partners or when a property is abandoned or when the capitalized costs are not considered to be economically recoverable, the related property costs are written down to the amount recoverable.

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

- (e) **Equipment:**
Equipment is recorded at cost and, for that equipment subject to amortization, the Company uses the declining balance method at rates varying from 20% to 30% annually. Amortization on equipment used directly on exploration projects is included in mineral properties.
- (f) **Long-term investment:**
Investment in shares of an affiliated company in which the Company's ownership is greater than 20% but no more than 50% is, where significant influence is present, accounted for by the equity method. Investment in shares in which the Company's ownership is less than 20%, where significant influence does not exist, is accounted for by the cost method.
- (g) **Stock-based compensation plan:**
The Company has a share option plan which is described in Note 7(c). The Company records all stock-based payments using the fair value method. Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged to operations over the vesting period. The offset is credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.
- (h) **Asset retirement obligations:**
Any statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, are recognized if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. No liability has been recorded as the Company is in the exploration and/or pre-feasibility stage for its properties and the fair value of the liability cannot be reasonably estimated at this stage.
- (i) **Income taxes:**
The Company follows the asset and liability method for accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.
- (j) **Earnings (loss) per share:**
Basic earnings (loss) per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the year. For all years presented, earnings (loss) available to common shareholders equals the reported earnings (loss). The Company uses the treasury stock method for calculating diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on

the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In the Company's case, diluted earnings (loss) per share presented is the same as basic earnings (loss) per share as the effect of outstanding options and warrants in the earnings (loss) per share calculation would be anti-dilutive.

(k) Foreign currency translation:

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

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

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

(l) Flow-through shares:

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

(m) Use of estimates:

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

(n) Fair value of financial instruments:

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

(o) Variable interest entities:

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG15") on a prospective basis. AcG15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. The adoption of this new standard had no effect on the consolidated financial statements as the Company does not have any VIE's.

(p) Comparative figures:

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

3. Marketable Securities

	2006	2005
Investment in shares of companies, at cost	\$ 497	\$ 893
Unrealized foreign exchange gains (cumulative write-downs)	25	6
	\$ 522	\$ 899

The quoted market value of shares of companies is \$1,359,000 at December 31, 2006 (2005 - \$2,470,000).

3. Marketable Securities (continued)

Investment in shares of companies includes shares of Endeavour Silver Corp. ("Endeavour"), a company which has certain directors in common with the Company. At December 31, 2006, these shares had a cost of \$367,000 (2005 - \$850,000), a carrying value of \$367,000 (2005 - \$850,000) and a quoted market value of \$1,156,000 (2005 - \$2,374,000). In 2005, the Company exercised 250,000 warrants of Endeavour with an exercise price of CAD\$0.35 and an expiry date of October 6, 2005, and also exercised 200,000 warrants with an exercise price of CAD\$2.00 and an expiry date of October 22, 2005. Endeavour's shares closed at CAD\$4.53 at the end of fiscal 2006.

4. Mineral Properties

	2006			2005		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
British Columbia:						
New Polaris (Note 4(a)(i))	\$ 3,605	\$ 6,077	\$ 9,682	\$ 3,605	\$ 1,229	\$ 4,834
Suriname:						
Sara Kreek (Note 4(c)(i))	-	-	-	100	-	100
Benzdorp (Note 4(c)(ii))	301	5,241	5,542	301	4,423	4,724
	\$ 3,906	\$ 11,318	\$ 15,224	\$ 4,006	\$ 5,652	\$ 9,658

(a) British Columbia:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2006 and 2005 include a reclamation bond for CAD\$249,000.

(ii) Eskay Creek:

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

(b) Bellavista, Costa Rica:

The Company holds a net profit interest in the Bellavista property, which is located near San Jose, Costa Rica. A property agreement giving Glencairn Gold Corporation ("Glencairn") the right to earn a 100% working interest in the property calls for pre-production payments to be made to the Company in the amount of \$117,750 annually up to and including the year commercial production commences. The pre-production payments for the years ended December 31, 2003 and 2002 were made by the previous property holder, Wheaton River Minerals Inc. ("Wheaton"), for cash of \$58,875 and the issuance of 529,000 common shares of Wheaton. Glencairn paid the Company \$120,546 in fiscal 2005. In December 2005, Glencairn declared commercial production in its Bellavista mine.

The Company has a net profit interest in Bellavista in which the Company is entitled to 5.67% of the net profits during the first payback period, as defined, then increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter, once commercial production commences. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Glencairn until \$317,741 in advance royalty payments are repaid.

(c) Suriname:

(i) Sara Kreek:

As at December 31, 2005, the Company held 80% of the shares of Sara Kreek Resource, the company that holds the Sara Kreek concession. The Company was to issue an additional 200,000 shares to the vendor, Suriname Wylap Development N.V., ("Wylap Development") upon completing a feasibility study and commencing commercial production of the underground deposits. In fiscal 2004, the property was written down by \$3,184,000 to a nominal

\$100,000 in accordance with Canadian generally accepted accounting principles. A loan to Wylap Development that was included in acquisition costs, with a principal balance of \$400,000 plus accrued interest remained outstanding as at December 31, 2005.

On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Wylap Development to transfer its interest in Sara Kreek Resource to Wylap Development. The Company received a cash payment of \$400,000 and 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, of which \$50,000 was received in 2006.

(ii) Benzdorp:

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

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

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

The exploration concessions for the Benzdorp property are due to expire in July 2007. An extension is available at the discretion of the Suriname Minister of Mines.

(d) Mexico:

(i) Providencia and San Felix:

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

(ii) Los Arrastres:

In March 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making \$2.5 million in cash payments and spending \$2 million on exploration over a 3 year period. The vendor will retain a 2% NSR and the Company has the right to reduce the NSR to 1% by paying \$1 million at any time.

4. Mineral Properties (continued)

(e) Expenditure options:

As at December 31, 2006, to maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments	Shares
Benzdorp (Note 4(c)(ii)):		
On commercial production ⁽ⁱ⁾	\$ 450	-
New Polaris (Note 4(a)(i)):		
Net profit interest reduction or buydown	-	150,000
	\$ 450	150,000

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

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

(f) Mineral properties contingencies:

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

5. Equipment

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 140	\$ 133	\$ 7	\$ 140	\$ 130	\$ 10

6. Long-Term Investment

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

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

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

7. Share Capital

(a) Authorized and issued:

In 2005, the Company increased its authorized share capital from 100,000,000 common shares without par value to unlimited common shares without par value.

The Company's issued share capital is as follows:

	Number of Shares	Amount
Balance at December 31, 2003	53,058,448	\$ 47,906
Issued:		
Private placements (Note 7(a)(i))	810,000	372
Exercise of warrants (Note 7(d))	4,090,000	786
Exercise of options (Note 7(c))	360,000	170
Balance at December 31, 2004	58,318,448	49,234
Issued:		
Exercise of options (Note 7(c))	220,000	56
Exercise of share appreciation rights	6,667	3
Provision for flow-through shares (Note 7(a)(i))	-	(143)
Balance at December 31, 2005	58,545,115	49,150
Issued:		
Private placements (Note 7(a)(ii))	9,380,361	6,201
Exercise of options (Note 7(c))	545,000	278
Balance at December 31, 2006	68,470,476	\$ 55,629

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

(i) In October 2004, the Company closed a private placement for 750,000 flow-through common shares at CAD\$0.65 per share for total proceeds of CAD\$487,500, which were expended in 2004. A finder's fee of 60,000 non-flow-through common shares was issued and has been shown on a net basis in share capital.

In February 2005, the Company renounced CAD\$487,500 in exploration expenditures from the proceeds of this flow-through private placement, resulting in an income tax recovery of \$143,321.

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

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

In October 2006, the Company closed two non-brokered private placements. The flow-through private placement was for 4,300,000 units at CAD\$0.82 per unit for gross proceeds of CAD\$3,526,000. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$1.25 until October 18, 2007. Finders'

7. Share Capital (continued)

fees comprised of CAD\$208,196 in cash and 247,800 warrants were issued; each warrant is exercisable to acquire one non-flow through common share at CAD\$0.82 until October 18, 2007 and a fair value of CAD\$44,604 which have been recorded in share capital on a net basis.

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

(b) Contributed surplus:

Balance at December 31, 2004	\$	1,088
Changes during the year:		
Exercise of options		(18)
Fair value of stock options recognized		432
Balance at December 31, 2005		1,502
Changes during the year:		
Exercise of options		(101)
Fair value of stock options recognized		454
Balance at December 31, 2006	\$	1,855

(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 18,374,095 common shares, of which options for 7,929,000 common shares are outstanding as at December 31, 2006. The exercise price of each option equals the high/low average price for the common shares on the Toronto Stock Exchange based on the last five trading days before the date of the grant. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the Board at the time the options are granted. At the discretion of the Board, certain option grants provide the holder the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the options.

The continuity of stock options for the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006		2005		2004	
	Number of Shares	Weighted average exercise price (CAD\$)	Number of Shares	Weighted average exercise price (CAD\$)	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of year	6,984,000	\$0.50	5,649,000	\$0.57	4,509,000	\$0.47
Granted	1,490,000	\$0.69	2,395,000	\$0.36	1,500,000	\$0.82
Exercised	(545,000)	\$0.37	(220,000)	\$0.19	(360,000)	\$0.34
Converted to stock appreciation rights on exercise	-	-	(20,000)	\$0.34	-	-
Expired	-	-	(820,000)	\$0.70	-	-
Outstanding, end of year	7,929,000	\$0.54	6,984,000	\$0.50	5,649,000	\$0.57
Exercise price range (CAD\$)	\$0.17 - \$1.00		\$0.17 - \$1.00		\$0.17 - \$1.05	

The following table summarizes information about stock options outstanding at December 31, 2006:

Price Intervals (CAD\$)	Options Outstanding and Exercisable		
	Number Outstanding and Exercisable at December 31, 2006	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.01 - \$0.24	80,000	0.04	\$0.17
\$0.25 - \$0.49	3,074,000	3.3	\$0.33
\$0.50 - \$0.74	4,029,500	2.5	\$0.64
\$0.75 - \$0.99	205,500	0.7	\$0.87
\$1.00 - \$1.24	540,000	2.2	\$1.00
	7,929,000	2.7	\$0.54

At December 31, 2006, 7,929,000 options are exercisable and expire at various dates from January 16, 2007 to June 29, 2011, with a weighted average remaining life of 2.7 years. During the year ended December 31, 2006, the Company recognized stock-based compensation of \$454,177 (2005 - \$432,424 and 2004 - \$638,808) based on the fair value of options granted on or after January 1, 2004 that were earned by the provision of services during the year.

Subsequent to the 2006 year end, stock options for 80,000 shares were exercised, and stock options for 310,000 shares were cancelled for the exercise of share appreciation rights. Also, stock options for 325,000 shares were granted.

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

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

	2006	2005	2004
Fair value of options granted during the year	\$0.30	\$0.18	\$0.43
Risk-free interest rate	3.32%	2.25%	2.90%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	66%	87%	94%
Expected option life in years	4	4	4

(d) Warrants:

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

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

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

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

At December 31, 2004, the Company had outstanding warrants to purchase an aggregate 2,348,750 common shares as follows:

Exercise Prices (CAD\$)	Expiry Dates	Oustanding at December 31, 2003	Issued	Exercised	Expired	Oustanding at December 31, 2004
\$0.20	May 17, 2004	3,000,000	-	(3,000,000)	-	-
\$0.21	April 8, 2004	465,000	-	(465,000)	-	-
\$0.50	September 10, 2004	625,000	-	(625,000)	-	-
\$0.63	February 4, 2005	625,000	-	-	-	625,000
\$1.25	November 13, 2005	133,750	-	-	-	133,750
\$1.10	November 13, 2005	1,540,000	-	-	-	1,540,000
\$1.25	December 30, 2005	50,000	-	-	-	50,000
		6,438,750	-	(4,090,000)	-	2,348,750

(e) Shares reserved for issuance:

	Number of Shares
Outstanding, December 31, 2006	68,470,476
Property agreements (Note 4(d))	150,000
Stock options (Note 7(c))	7,929,000
Warrants (Note 7(d))	2,978,800
Fully diluted, December 31, 2006	79,528,276

(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.

8. Related Party Transactions

General and administrative costs during 2006 include CAD\$38,000 (2005 - CAD\$Nil and 2004 - CAD\$Nil) of consulting fees charged by a company controlled by a director of the Company, and CAD\$99,208 (2005 - CAD\$59,385 and 2004 - CAD\$86,438) of salaries paid to a director. A law firm in which a senior officer is a partner charged fees totalling CAD\$159,594 in 2006 (2005 - CAD\$65,496 and 2004 - CAD\$66,197). Also, in fiscal 2006, the Company paid a total of CAD\$40,000 (2005 - CAD\$40,000 and 2004 - CAD\$34,500) to all directors in their capacity as Directors of the Company.

In April 2004, the Company participated in a private placement for 400,000 units of Endeavour at CAD\$1.60 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at an exercise price of CAD\$2.00 until October 22, 2005. The Company exercised these warrants in 2005 (Note 3).

In November 2003, the Company participated in a private placement for 500,000 units of Endeavour at CAD\$0.30 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at CAD\$0.35 until October 6, 2005. The Company exercised these warrants in 2005 (Note 3).

Details of transactions with Aztec are provided in Note 6.

9. Segment Disclosures

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

10. Income Taxes

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

	2006	2005	2004
Canadian statutory tax rates	36.12%	37.12%	38.62%
Income tax benefit (expense)	\$ (292)	\$ (64)	\$ 1,541
Permanent differences	26	350	(241)
Temporary differences	12	(77)	(1,936)
Change in valuation allowance	(140)	-	-
Exchange rate fluctuation	(253)	-	636
Resource and asset pool changes	25	-	-
Change in effective tax rates	622	(66)	-
Income tax (expense) recovery	\$ -	\$ 143	\$ -

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

10. Income Taxes (continued)

The significant components of the Company's future income tax assets as at December 31, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets:		
Resource properties	\$ 2,156	\$ 2,356
Equipment	347	368
Non-capital losses	1,009	936
Capital losses	34	27
Total future income tax assets	3,546	3,687
Valuation allowance	(3,546)	(3,687)
Future income tax assets, net	\$ -	\$ -

At December 31, 2006, the Company has non-capital losses for Canadian tax purposes of approximately \$2,969,000 which expire on various dates to 2013, and Canadian capital losses of approximately \$169,000 which are without expiry.

11. Supplemental Disclosure with respect to Cash Flows

	2006	2005	2004
Non-cash financing and investing activities:			
Fair value of stock options allocated to shares issued on exercise of:			
Share appreciation rights	\$ -	\$ 3	\$ -
Stock options	101	18	75

Management's Discussion and Analysis

For the Year Ended December 31, 2006

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2006, 2005 and 2004, all of which are available at the SEDAR website at www.sedar.com.

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

All information contained in the MD&A is as of March 23, 2007 unless otherwise indicated.

1.1 Background

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

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

The Company holds a 5.7% to 20.2% net profit interest in the Bellavista property, located near Miramar, Costa Rica. Glencairn Gold Corporation (“Glencairn”) owns a 100% working interest in the property, which is an open pit, heap leach, gold mine which is in commercial production. The Company has a net profit interest in Bellavista which entitles the Company to 5.67% of the net profits during the first payback period, increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Glencairn until \$317,741 in advance royalty payments are repaid.

Previously, the Company held 80% of the shares of Sara Kreek Resource Corporation N.V. (“Sara Kreek Resource”), the company that holds the Sara Kreek concession in the Republic of Suriname. On April 15, 2006, the Company entered into

a Settlement and Termination Agreement with its partner, Suriname Wylap Development N.V. ("Wylap Development"), to transfer the Company's interest in Sara Kreek Resource. In settlement for all claims, loans and advances owed to the Company, the Company received a cash payment of \$400,000, 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.

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

1.2 Overall Performance

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

Gold prices continued to show strength as the cumulative average increased from \$410 per ounce in fiscal 2004 to \$445 in fiscal 2005, \$603 in fiscal 2006 and \$649 in the first quarter of 2007, closing at \$656 on March 23, 2007. Gold prices achieved new highs in each of the past several years. In early 2004 prices hit a high of \$425, then reached a high of \$454 in December 2004, then another high of \$537 in late 2005 and then \$725 in May 2006.

New Polaris property

The closing of two flow-through private placements for approximately CAD\$3.5 million in March 2006 allowed the Company to proceed with a Phase 3 drilling program for the New Polaris property in 2006 which was completed in September 2006. The drilling program involved 58 holes totaling 18,342 metres of core with the objective of estimating a NI 43-101 compliant resource. The work program for 2006 also included additional environmental, metallurgical and engineering studies.

The results received to date from the infill drilling have been comparable in grade and thickness to the earlier drilled, widely spaced holes.

In October 2006, the Company closed two private placements for approximately CAD\$4.05 million of which CAD\$3.5 million relates to a flow-through financing. The flow-through financing was used to implement a Phase 4 work program for the property which would include:

- additional infill drilling of approximately 11 holes totalling 7,000 m;
- accelerate engineering, metallurgical and environmental studies for an initial economic assessment of the project; and
- mobilize 200 tonnes of fuel, mining equipment and supplies for a major underground dewatering and exploration program to commence in the fourth quarter of 2006.

The Company continues with its work program in 2007 which includes mine dewatering, underground development, diamond drilling, bulk sampling, metallurgical testing, environmental studies and related work necessary for a feasibility study.

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

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

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

MEASURED UNDILUTED RESOURCE

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

INDICATED UNDILUTED RESOURCE

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

MEASURED PLUS INDICATED UNDILUTED RESOURCE

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

* ton equals short dry ton

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

Benzdorp property

In 2006, the Company's exploration strategy at the Benzdorp property was to search for higher grade, shear-related gold mineralization to complement the lower grade, porphyry-related gold discovery at the JQA prospect area. Its exploration program consisted mainly of a high resolution airborne geophysical survey and a large geochemical soil sampling survey, over the 25 km long portion of the greenstone belt and gold district found along the eastern part of the Benzdorp property.

The airborne geophysical survey covered 1,860 km of line spaced 150 m apart and collected detailed magnetic and radiometric readings. This data was then modeled using different software programs to produce several maps showing the main geophysical domains and the interpreted geological domains and structures.

The ground geochemical survey covered 136 km of line spaced between 200 and 400 m apart and collected 5,191 soil samples for gold assay, as well as several hundred rock samples. The data were plotted over top of the aeromagnetic and geology maps in order to facilitate selection of the most prospective target areas. The Company then mapped and sampled the high priority target areas of prospective geology, geophysics and geochemistry.

The exploration program for 2007 may include ground geophysics, bulldozer trenching, additional soil geochemistry, and poknokkaer pit mapping and sampling so as to define targets for drilling later in 2007.

The exploration concessions for the Benzdorp property are due to expire in July 2007. An extension is available at the discretion of the Suriname Minister of Mines and the Company intends to submit the application for extension in the second quarter of 2007. The Company will continue to have the exclusive right to explore the Benzdorp concessions after the expiry date until there is a decision on the application to extend.

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

Bellavista property

The Company holds a 5.7% to 20.2% net profit interest in the Bellavista property located in Costa Rica, which is an open pit, heap leach, gold mine. Glencairn, owner and operator of the Bellavista mine in Costa Rica, declared commercial production in December 2005.

The Company has requested but has not yet received production information for 2006 from Glencairn.

Sara Kreek property

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

Providencia and San Felix properties

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

Los Arrastres property

In March 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making \$2.5 million in cash payments and spending \$2 million on exploration over a 3 year period. The vendor will retain a 2% NSR and the Company has the right to reduce the NSR to 1% by paying \$1 million at any time.

Other Matters

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

The Shareholders Update included in the Company's audited consolidated financial statements for the year ended December 31, 2006 provides further review of the Company's overall performance for fiscal 2006 and an outlook for fiscal 2007.

1.3 Selected Annual Information

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

(in \$000s except per share amounts)	For the Years Ended December 31,		
	2006	2005	2004
Total revenues	\$ -	\$ -	\$ -
Income (loss) before discontinued operations and extraordinary items:			
(i) Total	\$ 433	\$ 315	\$ (4,013)
(ii) Basic per share	\$ 0.01	\$ 0.01	\$ (0.07)
(iii) Fully diluted per share	\$ 0.01	\$ 0.01	\$ (0.07)
Net income (loss):			
(i) Total	\$ 433	\$ 315	\$ (4,013)
(ii) Basic per share	\$ 0.01	\$ 0.01	\$ (0.07)
(iii) Fully diluted per share	\$ 0.01	\$ 0.01	\$ (0.07)
Total assets	\$ 18,447	\$ 11,182	\$ 10,777
Total long-term liabilities	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -

1.4 Results of Operations

Fiscal Year 2006 – Year ended December 31, 2006 compared with December 31, 2005

The Company realized a nominally higher net income of \$433,000 for the year ended December 31, 2006 in comparison to a net income of \$315,000 for fiscal 2005. The principal contributing factor to the net incomes for both fiscal years is the gains of approximately \$1.6 million and \$1.2 million in 2006 and 2005, respectively, which were realized mainly from the disposition of shares of Endeavour Silver Corp. ("Endeavour"), a company with two common directors. In 2006, the Company also realized a gain of \$600,000 from the disposition of its interest in Sara Kreek Resource and the settlement arrangement with Wylap Development. In fiscal 2005, the net income was also attributable to the dilution gain of \$621,000 from the Company's investment in Aztec Metals Corp. ("Aztec") and the recognition of a future income tax recovery of \$143,000 from the renunciation of exploration expenditures for the New Polaris property, which were renounced in February 2005, but such gains were reduced by the write-off of property costs related to the Eskay Creek property which the Company continues to hold a one-third carried interest and by the write-off of amounts owed by Aztec.

Overall operating expenses in 2006 almost doubled relative to 2005, reflecting the commensurate heightened operating activities of the Company as management focused greater efforts on the planning, detailing and implementation of the drilling and de-watering programs for the New Polaris property and the exploration program for the Benzdorp property, which included additional personnel. Expenses for corporate development increased in the 2006 fiscal year to reflect active due diligence and property evaluations currently underway for Mexico and Peru to identify properties of merit for possible acquisitions. Given that certain accounts of the Company are stated in Canadian dollars, the appreciation of the Canadian dollar relative to the U.S. dollar during the first half of 2006 caused the recognition of foreign exchange gains for US\$ stated financial information, although the Canadian dollar depreciated in the latter half of 2006. Stock-based compensation results from the granting of stock options. General and administrative expenses and salaries continue to account for a significant portion of operating expenses, but were lower in the 2005 fiscal year.

Significant gains of approximately \$1.6 million were realized during 2006 from the disposition of marketable securities, primarily from the Company's shareholdings in Endeavour. Disposition of marketable securities provided proceeds of about \$2.45 million which financed the working capital needs of the Company.

In 2005, Aztec, previously a subsidiary of the Company and now only an affiliated company, proceeded with a reorganization involving a change of name, a five-to-one share consolidation, shares-for-debt settlements, and a private placement. Aztec's private placement in November 2005 diluted the Company's interest from 63% to 27% which was then further diluted to 19% in March 2006 by the closing of another private placement by Aztec.

The future income tax recovery in 2005 was for flow-through shares pursuant to the guidelines issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants under EIC 146. EIC 146 requires the recognition of a provision at the date of the actual renunciation being February 25, 2005, by a reduction in the amount included in share capital relating to the flow-through shares, for the future income taxes related to the deductions foregone by the Company. As a result of EIC 146, the Company realized an income tax recovery of \$143,321 in February 2005 when it renounced exploration expenditures which were financed and incurred in fiscal 2004.

As at December 31, 2006, the Company has mineral properties which are comprised of the following:

(in \$000s)	December 31, 2006		
	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris	\$ 3,605	\$ 6,077	\$ 9,682
Suriname:			
Benzdorp	301	5,241	5,542
	\$ 3,906	\$ 11,318	\$ 15,224

Expenditures of US\$4.8 million were incurred for New Polaris in 2006. The Phase 3 in-fill drilling program for the New Polaris property was financed from the CAD\$3.5 million flow-through private placements which closed in March 2006, and the de-watering program which was implemented in October 2006 was financed by the CAD\$3.5 million flow-through private placement which closed in that same month. As for the Benzdorp property, expenditures of \$818,000 were incurred which were financed in part from the proceeds from the settlement agreement for the Sara Kreek property.

At December 31, 2006, to maintain its interest and to fully exercise the options under various property agreements covering the properties located in British Columbia (Canada) and Suriname, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments	Shares
	(in \$000s)	
Benzdorp:		
On commercial production ⁽ⁱ⁾	\$ 450	-
New Polaris:		
Net profit interest buyout	-	150,000
	\$ 450	150,000

⁽ⁱ⁾ Payable on or before 30 days after the commencement of commercial production. These amounts may be reduced in the future as the Company determines which properties to continue to explore and which to abandon.

1.5 Summary of Quarterly Results

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

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, December 31, 2006:

(in \$000s except per share amounts)	2006				2005			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income (loss) before discontinued discontinued operations and extraordinary items:								
(i) Total	\$ (426)	\$ 148	\$ 15	\$ 696	\$ 598	\$ 95	\$ (483)	\$ 105
(ii) Basic per share	\$ -	\$ -	\$ -	\$ 0.01	\$ 0.01	\$ -	\$ (0.01)	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ 0.01	\$ -	\$ -	\$ (0.01)	\$ -
Net income (loss):								
(i) Total	\$ (426)	\$ 148	\$ 15	\$ 696	\$ 598	\$ 95	\$ (483)	\$ 105
(ii) Basic per share	\$ -	\$ -	\$ -	\$ 0.01	\$ 0.01	\$ -	\$ (0.01)	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ 0.01	\$ -	\$ -	\$ (0.01)	\$ -
Total assets	\$ 18,447	\$ 16,072	\$ 16,001	\$ 14,762	\$ 11,182	\$ 10,760	\$ 10,315	\$ 10,416
Total long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Gains from the disposition of marketable securities and from the disposition of subsidiary were the primary contributor to the realization of a net income for 2006. Gains from the disposition of marketable securities and a dilution gain from the reduction in the Company's interest in an affiliated company and the renunciation of exploration expenditures for flow through shares contributed to the realization of a net income in fiscal 2005. The Company has no sources of operating revenues.

1.6 Liquidity of Capital Resources

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

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

(in \$000s)	December 31,		
	2006	2005	2004
Cash and cash equivalents	\$ 2,267	\$ 489	\$ 715
Working capital	\$ 2,709	\$ 1,201	\$ 1,306

Ongoing operating expenses continue to reduce the Company's cash resources. The only source of equity financings in fiscal 2005 was from the exercise of stock options which provided proceeds of only CAD\$41,000 whereas the exercise of stock options in 2006 provided proceeds of CAD\$200,500.

In March 2006, the Company closed brokered and non-brokered private placements. The brokered private placement with Dundee Securities Corporation (the "Agent") was for 3,850,000 flow-through common shares at CAD\$0.82 per share for gross proceeds of CAD\$3,157,000. Agent's fees of CAD\$189,420 were comprised of CAD\$123,123 in cash and CAD\$66,297 in non-flow-through common shares, totalling 80,850 shares, at a deemed price of CAD\$0.82 per share. The Agent also received a compensation warrant exercisable for 231,000 non-flow-through common shares at an exercise price of CAD\$0.82 and with an expiry date of March 17, 2007. The non-brokered private placement was for 449,511 flow-through common shares at CAD\$0.82 per share for gross proceeds of CAD\$368,599. Finders' fees totalling CAD\$20,316 were paid.

Then in October 2006, the Company closed two non-brokered private placements. The flow-through private placement was for 4,300,000 units at CAD\$0.82 per unit for gross proceeds of CAD\$3,526,000. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$1.25 until October 18, 2007. Finders' fees comprised of CAD\$208,196 in cash and 247,800 warrants were issued; each warrant is exercisable to acquire one non-flow through common share at CAD\$0.82 until October 18, 2007. The non-flow through private placement was for 700,000 non-flow through units at CAD\$0.75 per unit for gross proceeds of CAD\$525,000. Each unit was comprised of one non-flow through common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at an exercise price of CAD\$0.95 until October 18, 2007. A finder's fee of CAD\$5,850 was paid.

Glencairn declared commercial production for the Bellavista property in December 2005, and therefore the Company no longer receives any pre-production payments.

Proceeds from the disposition of marketable securities provided another source of cash flows for the Company in which it realized proceeds of \$2.45 million in 2006 and \$2 million in 2005, primarily from the disposition of shares of Endeavour. At December 30, 2005, shares of Endeavour have a market price of CAD\$2.69 and at December 29, 2006 the market price was CAD\$4.53. As at March 23, 2007, the market price of Endeavour shares closed at CAD\$5.11 per share.

In 2006, the flow-through private placements financed the drilling and de-watering programs in the New Polaris property, and the non-flow-through private placement and proceeds from the disposition of marketable securities financed the operating and working capital needs of the Company. The settlement and disposition of Sara Kreek Resource helped finance part of the exploration expenditures for the Benzdorp property.

In March 2006, Aztec, an affiliated company, closed a private placement for 3,675,000 units at CAD\$0.30 per unit with each unit comprised of one common share and one-half of a share purchase warrant, which diluted the Company's interest in Aztec from 27% to 19%.

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 the Item 1.4, further details of contractual obligations are provided as at December 31, 2006. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

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

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

1.9 Transactions with Related Parties

General and administrative costs during 2006 include CAD\$38,000 (2005 - CAD\$Nil and 2004 - CAD\$Nil) of consulting fees charged by a company controlled by a director of the Company, and CAD\$99,208 (2005 - CAD\$59,385 and 2004 - CAD\$86,438) of salaries paid to a director. A law firm in which a senior officer is a partner charged fees totalling CAD\$159,594 in 2006 (2005 - CAD\$65,496 and 2004 - CAD\$66,197). Also, in fiscal 2006, the Company paid a total of CAD\$40,000 (2005 - CAD\$40,000 and 2004 - CAD\$34,500) to all directors in their capacity as Directors of the Company.

In April 2004, the Company participated in a private placement for 400,000 units of Endeavour at CAD\$1.60 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at an exercise price of CAD\$2.00 until October 22, 2005. The Company exercised these warrants in 2005.

In November 2003, the Company participated in a private placement for 500,000 units of Endeavour at CAD\$0.30 per unit. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant entitled the Company to acquire one common share at CAD\$0.35 until October 6, 2005. The Company exercised these warrants in 2005.

1.10 Fourth Quarter

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

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

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

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

1.13 Changes in Accounting Policies Including Initial Adoption

There were no changes in accounting policies including initial adoption in the 2006 fiscal year.

1.14 Financial Instruments and Other Instruments

There are no financial instruments or other instruments.

1.15 Other MD&A requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at www.sedar.com;
- (b) may be found in the Company's annual information form; and
- (c) is also provided in the Company's audited consolidated financial statements for the year ended December 31, 2006.

1.15.2 Additional Disclosure for Venture Issuers without Significant Revenue

- (a) capitalized or expensed exploration and development costs;
The required disclosure is presented in the notes to the Company's consolidated financial statements.
- (b) expensed research and development costs;
Not applicable.
- (c) deferred development costs;
Not applicable.
- (d) general and administrative expenses; and
The required disclosure is presented in the Company's consolidated financial statements.
- (e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);
None.

1.15.3 Outstanding Share Data

The Company's authorized share capital consists of unlimited common shares without par value. Changes in the Company's share capital for the year ended December 31, 2006 are as follows:

	Number of Shares	Amount (in \$000s)
Balance at December 31, 2005	58,545,115	\$ 49,150
Issued:		
Private placements	9,380,361	6,201
Exercise of options	545,000	278
Balance at September 30, 2006	68,470,476	\$ 55,629

At March 23, 2007, there were 68,708,893 common shares issued and outstanding.

At December 31, 2006, the Company had outstanding stock options to purchase an aggregate 7,929,000 common shares as follows:

	December 31, 2006	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	6,984,000	\$0.50
Granted	1,490,000	\$0.69
Exercised	(545,000)	\$0.37
Converted to stock appreciation rights on exercise	-	-
Expired	-	-
Outstanding, end of period	7,929,000	\$0.54
Exercise price range (CAD\$)	\$0.17 - \$1.00	

At March 23, 2007, stock options for 7,864,000 common shares remain outstanding.

At December 31, 2006, the Company had outstanding warrants to purchase an aggregate of 2,978,800 common shares as follows:

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

At March 23, 2007, warrants for 2,747,800 common shares remain outstanding.

1.16 Outlook

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

1.17 Risk Factors

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

Exploration and Development Risks

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

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

Financing Risks

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

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

Estimates of Mineral Deposits

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

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

Mineral Prices

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

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

Title Matters

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

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

Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

The Company maintains a portion of its funds in U.S. dollar denominated accounts. Certain of the Company's property and related contracts are denominated in U.S. dollars. The Company's operations in countries other than Canada are normally carried out in the currency of that country and make the Company subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. In addition future contracts may not be denominated in U.S. dollars and may expose the Company to foreign currency fluctuations and such

fluctuations may materially affect the Company's financial position and results. In addition, the Company is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its properties outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Company holds property interests and future impositions of such restrictions could have a materially adverse effect on the Company's future profitability or ability to pay dividends.

Third Party Reliance

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

Volatility of Shares Could Cause Investor Loss

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

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At December 31, 2006, the Company had 68,470,476 common shares and 7,929,000 share purchase options and 2,978,800 share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At December 31, 2006, dilutive securities represented approximately 16% of the Company's issued shares. Certain of these dilutive securities are exercisable at prices below the December 29, 2006 closing market price of CAD\$0.77 for the Company's shares and, accordingly, will result in dilution to existing shareholders if exercised.

1.18 Control and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's audited consolidated financial statements for the year ended December 31, 2006 and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Controls over Financial Reporting

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.

Management Team and Directors

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

Bradford Cooke, M.Sc., P.Geo., President, CEO and Director, is a professional geologist with 31 years experience in the mining industry, focusing on the financing, acquisition, exploration and development of mining projects world-wide.

Jack McClintock, B.Sc., MBA, President and COO from January 2006 to January 2007, is a professional geologist with 34 years experience in the exploration and mining business, both hands-on and in senior management, most recently with BHP Biliton as global Exploration Manager.

Philip Yee, M.B.A., C.P.A., C.G.A., Chief Financial Officer, is a certified general accountant with an MBA degree and 18 years experience in corporate management, regulatory reporting, accounting, auditing and taxation.

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

Bruce Bried, B.Sc., P.Eng., VP Mining, Apointed President and COO in January 2007, is a professional engineer with over 31 years experience in mine engineering, operations, and reclamation, especially for underground, high grade vein gold and silver mines in North America.

Garry Biles, P. Eng., Apointed VP Mining in March 2007, is a professional engineer with 34 years experience, most recently as the General Manager of the Bellavista gold mine for Glencairn Gold.

Gregg Wilson, M.SCI., Manager, Investor Relations, is a corporate communications professional with over 11 years experience in the natural resource sector as well as an extensive background in business administration and management.

Stewart Lockwood, L.L.B., M.B.A., Secretary and Legal Counsel, is a securities lawyer with an MBA degree and 22 years experience in corporate and securities law, business management and stock exchange listings.

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

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

Chris Theodoropoulos, L.L.B., Director, is a securities lawyer with over 21 years experience in mining, corporate and securities law, specializing in the start-up and management of resource companies and the resolution of commercial disputes.

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

Corporate Information

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Bradford Cooke
Chris Theodoropoulos
Derek Bullock
Leonard Harris
William Price

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Bruce Bried ~ President and Chief Operating Officer
Garry Biles ~ Vice-President, Mining
James Moors ~ Vice-President, Exploration
Philip Yee ~ Chief Financial Officer
Stewart Lockwood ~ Secretary

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SHARES LISTED

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

ANNUAL GENERAL MEETING

June 12, 2007. 10:00 AM
Terminal City Club
Vancouver, BC, Canada

