

Consolidated Financial Statements of

CANARC RESOURCE CORP.

(expressed in thousands of United States dollars)

Three months ended March 31, 2004 and 2003

(Unaudited – Prepared by Management)

CANARC RESOURCE CORP.

Consolidated Balance Sheets

(expressed in thousands of United States dollars)

(Unaudited – Prepared by Management)

	March 31, 2004 (Unaudited)	December 31, 2003 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,294	\$ 1,902
Marketable securities (Note 3)	188	193
Accounts receivable and prepaids	86	36
Due from related parties (Note 7)	5	31
	1,573	2,162
RESOURCE PROPERTIES (Note 4)	10,788	10,489
EQUIPMENT (Note 5)	230	231
	\$ 12,591	\$ 12,882
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 101	\$ 338
NON-CONTROLLING INTEREST IN SUBSIDIARY	121	121
SHAREHOLDERS' EQUITY		
Share capital (Note 6(a))	47,928	47,906
Contributed surplus (Note 6(b))	826	524
Deficit	(36,385)	(36,007)
	12,369	12,423
	\$ 12,591	\$ 12,882

Nature of operations (Note 1)

Commitments and contingencies (Note 4)

Subsequent events (Notes 6(c))

Refer to the accompanying notes to the consolidated financial statements

Approved by the Directors

/s/ Bradford Cooke

Director

/s/ Chris Theodoropoulos

Director

CANARC RESOURCE CORP.

Consolidated Statements of Operations and Deficit

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

(Unaudited – Prepared by Management)

	Three Months Ended March 31,	
	2004	2003
Revenue:		
Investment and other income	\$ 16	\$ 116
Expenses:		
Stock-based compensation (Note 6(b))	308	14
Recovery of resource properties	(118)	-
Employee remuneration	79	-
Shareholder relations	57	33
General and administrative	57	70
Travel	6	5
Foreign exchange loss	4	-
Amortization	1	21
Write-down of marketable securities	-	11
Property investigations	-	5
Corporate development	-	2
	(394)	(161)
Loss for the period	(378)	(45)
Deficit, beginning of the period	(36,007)	(35,131)
Deficit, end of the period	\$ (36,385)	\$ (35,176)
Basic and diluted loss per share	\$ (0.01)	\$ -
Weighted average number of shares outstanding	53,088,668	47,529,229

Refer to the accompanying notes to the consolidated financial statements

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

(Unaudited – Prepared by Management)

	Three Months Ended March 31,	
	2004	2003
Cash provided from (used for):		
Operations:		
Loss for the period	\$ (378)	\$ (45)
Items not involving cash:		
Amortization	1	2
Stock-based compensation	308	14
Gain on sale of marketable securities	(12)	(112)
Unrealized currency translation gain	2	-
Write-down of marketable securities	-	11
	(79)	(130)
Changes in non-cash working capital items:		
Accounts receivable and prepaids	(50)	(36)
Due to/from related parties	26	14
Accounts payable and accrued liabilities	(237)	(4)
	(340)	(156)
Financing:		
Issuance of common shares	16	504
Investing:		
Proceeds from disposal of marketable securities	15	286
Purchase of marketable securities	-	(291)
Resource properties	(299)	(117)
	(284)	(122)
(Decrease) increase in cash and cash equivalents	(608)	226
Cash and cash equivalents, beginning of period	1,902	215
Cash and cash equivalents, end of period	\$ 1,294	\$ 441

Supplemental disclosure with respect to cash flows (Note 9)

Refer to the accompanying notes to the consolidated financial statements

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

1. Nature of Operations

The Company is in the mineral exploration business and has not yet determined whether its resource properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for resource properties is dependent upon the existence of economically recoverable reserves in its resource 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(d) and 4(e)), 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 \$36,385,000 at March 31, 2004. Furthermore, the Company has working capital of \$1,472,000 as at March 31, 2004, 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 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

These consolidated financial statements are unaudited and have been prepared by management and have not been reviewed by the Company's auditors.

(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., in which the Company holds an 80% interest, and Minera Aztec Silver Corporation, in which the Company holds a 63% interest. 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.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

2. Significant Accounting Policies (continued)

(d) Resource properties:

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

The amounts shown for resource 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 not charged against operations until the related property is in production.

(f) Stock-based compensation plan:

Effective January 1, 2002, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants (“CICA”), Section 3870 “Stock-Based Compensation and Other Stock-Based Payments” (“HB 3870”). Under the new standard, stock options and other stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, are accounted for using the fair value based method.

On adoption of HB 3870, the Company elected to use the settlement method of accounting for stock options granted to employees, and to disclose the pro forma effect of accounting for these awards under the fair value method. Effective January 1, 2003, in connection with amendments to HB 3870, the Company changed the method of application of its stock-based compensation accounting policy so as to measure all stock options granted at fair value and to recognize the compensation expense over the vesting period, with a corresponding credit to contributed surplus. This change has been applied prospectively for options granted on or after January 31, 2003, as allowed under the transitional provisions of HB 3870.

(g) Loss per share:

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. However, diluted loss per share presented is the same as basic loss per share as the effect of outstanding options and warrants would reduce the calculated loss per share.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

2. Significant Accounting Policies (continued)

(h) 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; 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.

(i) 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 include recoverability of resource properties, amortization periods for equipment and valuation allowances for future income tax assets. Actual results could differ from those estimates.

(j) Fair value of financial instruments:

The fair values of the Company's cash and cash equivalents, accounts receivable 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. It is not practicable to determine the fair value of amounts due to or from related parties due to their related party nature and the absence of a market for such instruments.

3. Marketable Securities

	March 31, 2004
Investment in share of companies, at cost	\$ 262
Cumulative write-downs	(74)
	188
Short-term investments	-
	\$ 188

The quoted market value of shares of companies is approximately \$1,569,250 at March 31, 2004. Included in investment in shares of companies are shares of Skinny Technologies Inc. ("Skinny"), a company with certain common directors at the time of receipt of the shares. At March 31, 2004, these shares had a cost of \$67,756, a carrying value of \$4,658 and a quoted market value of approximately \$6,987.

Also included in investment in shares of companies are shares of Endeavour Gold Corp. ("Endeavour"), a company which has a director and an officer in common with the Company. At March 31, 2004, these shares had a cost of \$157,889, a carrying value of \$157,889 and a quoted market value of approximately \$1,516,801.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

4. Resource Properties

	2004		
	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris (Note 4(a)(i))	\$ 3,609	\$ 300	\$ 3,909
Eskay Creek (Note 4(a)(ii))	188	14	202
Costa Rica:			
Bellavista (Note 4(b))	89	-	89
Suriname:			
Sara Kreek (Note 4(c)(i))	1,567	1,717	3,284
Benzdorp (Note 4(c)(ii))	181	3,123	3,304
	<u>\$ 5,634</u>	<u>\$ 5,154</u>	<u>\$ 10,788</u>

(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. During fiscal 2001, the Company wrote-down the property by \$3,187,104 to reflect management's estimate of the property's recoverable value at that time, and continued depressed gold markets contributed to further write-downs of \$5,486,286 early in fiscal 2002. Acquisition costs as at March 31, 2004 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. The property is subject to a 2% net smelter return in favour of a related company.

(b) Bellavista, Costa Rica:

The Company owns an 18.3% carried interest in this property, which is located near San Jose, Costa Rica. A property agreement giving Wheaton River Minerals Ltd. ("Wheaton") 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. During 2001, in addition to the cash pre-production payment for 2001, Wheaton made the pre-production payments due for the years ending December 31, 2002 and 2003 by paying cash of \$58,875 and issuing 529,000 common shares of Wheaton.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

4. Resource Properties (continued)

(c) Suriname:

(i) Sara Kreek:

The Company holds 80% of the shares of Sara Kreek Resource Corporation N.V., the company that holds the Sara Kreek concession. The Company may be required to issue an additional 200,000 shares to the vendor upon completing a feasibility study and commencing commercial production of the underground deposits. During fiscal 2002, the Company wrote down the property by \$1,717,000 to reflect management's estimate of the property's recoverable value.

(ii) Benzdorp:

In April 1996, the Company entered into an option agreement 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 amended its option agreement. Cash payments prior to commercial production were reduced to \$150,000 and exploration expenditures were reduced to \$3,000,000 to be incurred prior to April 2006. At December 31, 2003, the Company had earned a 40% interest in the Benzdorp property, and expects to exercise its right to increase its interest. In February 2004, the property owner incorporated a company in Suriname to transfer the Benzdorp concessions, on behalf of the Company (40%) and the property owner (60%).

(d) Expenditure options:

To maintain the Company's interest and to fully exercise the options under various property agreements covering the properties located in British Columbia and Suriname, the Company must incur exploration expenditures on the properties and make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments	Expenditure Commitment	Shares
Benzdorp (Note 4(c)(ii)):			
2004	\$ 120	\$ -	-
2005	75	1,837	-
2006	75	-	-
On commercial production ⁽ⁱ⁾	450	-	-
Sara Kreek (Note 4(c)(i)):			
On commercial production	-	-	200,000
New Polaris (Note 4(a)(i)):			
Net profit interest buyout	-	-	150,000
	\$ 720	\$ 1,837	350,000

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

4. Resource Properties (continued)

(d) Expenditure options: (continued)

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

(e) Resource properties contingencies:

The Company has diligently investigated rights of ownership of all of the resource properties/concessions to a level which is acceptable by prevailing industry standards with respect to the current stage of development of each property/concession in which it has an interest 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

	2004		
	Cost	Accumulated Amortization	Net Book Value
Mining equipment	\$ 177	\$ -	\$ 177
Vehicles	15	-	15
Office furniture and equipment	160	122	38
	<u>\$ 352</u>	<u>\$ 122</u>	<u>\$ 230</u>

6. Share Capital

(a) Authorized and issued:

The Company's authorized share capital comprises of 100,000,000 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:		
Exercise of options	50,000	22
Balance at March 31, 2004	<u>53,108,448</u>	<u>\$ 47,928</u>

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

6. Share Capital (continued)

(a) Authorized and issued: (continued)

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.

(b) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, officers and directors to acquire up to 12,374,095 common shares, of which options for 5,059,000 common shares have been granted as at March 31, 2004. 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 three months ended March 31, 2004 is as follows:

	2004	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	4,509,000	\$0.47
Granted	600,000	\$1.00
Exercised	(50,000)	\$0.34
Outstanding, end of period	5,059,000	\$0.54
Exercise price range (CAD\$)	\$0.17 - \$1.05	

At March 31, 2004, all of the options outstanding are exercisable and expire at various dates from March 27, 2005 to June 23, 2010, with a weighted average remaining life of 4.3 years.

During the three months ended March 31, 2004, the Company recognized stock-based compensation of \$308,000 based on the fair value of options granted and vested during the period.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

6. Share Capital (continued)

(b) Stock option plan: (continued)

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 used to calculate compensation expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2004
Risk-free interest rate	3.26%
Expected dividend yield	0%
Expected stock price volatility	96%
Expected option life in years	4

(c) Warrants:

At March 31, 2004, the Company had outstanding warrants to purchase an aggregate 6,438,750 common shares as follows:

Exercise Prices (CAD\$)	Expiry Dates	Oustanding at December 31, 2003	Issued	Exercised	Expired	Oustanding at March 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	-	-	-	6,438,750

Each warrant entitles the holder to purchase one common share of the Company.

Warrants for 465,000 common shares and which expire on April 8, 2004 and warrants for 3,000,000 common shares and which expire on May 17, 2004 were exercised in April 2004 and May 2004.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

Three Months Ended March 31, 2004

(Unaudited – Prepared by Management)

6. Share Capital (continued)

(d) Shares reserved for issuance:

	Number of Shares
Outstanding, March 31, 2004	53,108,448
Property agreements (Note 4(d))	350,000
Stock options (Note 6(b))	5,059,000
Warrants (Note 6(c))	6,438,750
Fully diluted, March 31, 2004	64,956,198

7. Related Party Transactions

At March 31, 2004, amounts due from related parties comprise of a balance owed from a company with a certain common director and officer. The amounts were for reimbursement of costs in the normal course of business. At March 31, 2004, the Company had a balance due from Endeavour of CAD\$6,732.

For the three months ended March 31, 2004, general and administrative costs include salaries of CAD\$45,000 to a director.

8. 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 resource properties as disclosed in Note 4 and \$94,400 of mining equipment and vehicles which are located in Suriname.

9. Supplemental Disclosure with respect to Cash Flows

	2004
Significant non-cash financing and investing activities:	
Marketable securities received for resource property	\$ -
Settlement of accounts payable with marketable securities	-
Shares issued on exercise of share appreciation rights	-
Shares issued on exercise of stock option	6
Supplemental cash flow information:	
Income taxes paid	\$ -
Interest paid	-

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Stewart Lockwood ~ Secretary

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SHARES LISTED

Trading Symbols
TSX: CCM
OTC-BB: CRCUF

CANARC RESOURCE CORP.

Management's Discussion and Analysis For the First Quarter Ended March 31, 2004

Preliminary Information

The following Management's Discussion and Analysis ("MD&A") of Canarc Resource Corp. (the "Company") should be read in conjunction with the accompanying unaudited consolidated financial statements for the three months ended March 31, 2004 and with the audited consolidated financial statements for the years ended December 31, 2003, 2002 and 2001, 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 May 17, 2004 unless otherwise indicated.

Background

The Company is a Canadian resource company engaged in the acquisition, exploration and development of precious metal properties in Canada, Costa Rica and Suriname. The Company owns or holds, directly or indirectly, interests of between 10% to 100% in a total of five precious metal properties, which are known as the New Polaris and GNC properties in British Columbia, Canada, the Bellavista property in Costa Rica, and the Sara Kreek and Benzdorp properties in Suriname. The Company also holds or has rights to increase its interests of up to 100% in certain mineral properties in Suriname.

The Company owns a 100% interest in the New Polaris property, which is located in the Atlin Mining Division, British Columbia, and is 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.

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. The property is subject to a 2% net smelter return in favour of a related company.

The Company owns an 18.3% carried interest in this property, which is located near San Jose, Costa Rica. A property agreement giving Wheaton River Minerals Ltd. 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 Company holds 80% of the shares of Sara Kreek Resource Corporation N.V., the company that holds the Sara Kreek concession in a placer gold mine located in the Republic of Suriname. The Company owns a 100% interest (subject to royalties) in the subsurface mineral rights and 80% interest (reverting to 50% after payback of the Company's investment) in the surface mineral rights. The Company may be required to issue an additional 200,000 shares to the vendor upon completing a feasibility study and commencing commercial production of the underground deposits.

In April 1996, the Company entered into an option agreement 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 million 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 exploration expenditures were reduced to \$3,000,000 to be incurred prior to April 2006. To December 31, 2003, the Company has earned a 40% interest in the Benzdorp property, and expects to exercise its right to increase its interest. In February 2004, the property owner incorporated a company in Suriname to transfer the Benzdorp concessions, on behalf of the Company (40%) and the property owner (60%).

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the First Quarter Ended March 31, 2004

Overall Performance

For the Company's 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 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. Many of the key factors are outside of the Company's control. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company's control such as the market value 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, the estimation of such reserves is significant to the Company's position and results of operations.

In accordance with CAD GAAP, all costs related to investments in resource 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 and write-downs.

The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the 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.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business 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. The Company is not aware of any seasonality in the business that have a material effect upon its financial condition, results of operations or cash flows other than those normally encountered by public reporting junior resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

Results of Operations

First Quarter of 2004 – Three months ended March 31, 2004 compared with March 31, 2003

The following table presents selected unaudited consolidated financial information of the Company for the three months ended March 31, 2004 and March 31, 2003:

	March 31,	
	2004	2003
Total revenues (in \$000s)	\$ 16	\$ 116
Net loss:		
Total (in \$000s)	\$ (378)	\$ (45)
Basic	\$ (0.01)	\$ -
Fully diluted	\$ (0.01)	\$ -
Total assets (in \$000s)	\$ 12,591	\$ 10,686

The higher net loss in the March 31, 2004 quarter relative to the same quarter in 2003 was primarily attributable to lower revenues realized from the disposition of short-term investments and marketable securities, significantly higher compensation expense from the granting of stock options in February 2004, and remunerations paid to employees who were hired in mid-2003 to support the Company's more active corporate activities and its drilling

CANARC RESOURCE CORP.

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programs for the New Polaris property in British Columbia in late 2003 and for the Benzdorp property in Suriname in 2003 which continued into 2004.

As at March 31, 2004 and March 31, 2003, the Company has resource properties which are comprised of the following:

(in \$000s)	March 31, 2004			March 31, 2003		
	Acquisition Costs	Exploration/Development	Total	Acquisition Costs	Exploration/Development	Total
British Columbia:						
New Polaris	\$ 3,609	\$ 300	\$ 3,909	\$ 3,605	\$ -	\$ 3,605
Eskay Creek	188	14	202	188	14	202
Costa Rica:						
Bellavista	89	-	89	90	-	90
Suriname:						
Sara Kreek	1,567	1,717	3,284	1,567	1,717	3,284
Benzdorp	181	3,123	3,304	181	2,089	2,270
Mexico:						
Clara	-	-	-	-	14	14
	<u>\$ 5,634</u>	<u>\$ 5,154</u>	<u>\$ 10,788</u>	<u>\$ 5,631</u>	<u>\$ 3,834</u>	<u>\$ 9,465</u>

For the three months ended March 31, 2004, the Company incurred further expenditures of \$283,000 for its drilling program for the Benzdorp property. In January 2004, the Company received a pre-production payment of \$117,750 for its Bellavista property.

At March 31, 2004, to maintain the Company's interest and to fully exercise the options under various property agreements covering the properties located in British Columbia and Suriname, the Company must incur exploration expenditures on the properties and make payments in the form of cash and/or shares to the optionors as follows:

	Option/Advance Royalty Payments (in \$000s)	Expenditure Commitment (in \$000s)	Shares
Benzdorp:			
2004	\$ 120	\$ -	-
2005	75	1,837	-
2006	75	-	-
On commercial production ⁽ⁱ⁾	450	-	-
Sara Kreek:			
On commercial production	-	-	200,000
New Polaris:			
Net profit interest buyout	-	-	150,000
	<u>\$ 720</u>	<u>\$ 1,837</u>	<u>350,000</u>

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

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

Fiscal Year 2003 – Year ended December 31, 2003 compared with December 31, 2002

The following table presents selected consolidated financial information of the Company for the years ended December 31, 2003, 2002 and 2001:

	December 31,		
	2003	2002	2001
Total revenues (in \$000s)	\$ 162	\$ 246	\$ 41
Net loss before discontinued operations and extraordinary items:			
Total (in \$000s)	\$ (876)	\$ (7,477)	\$ (3,660)
Basic	\$ (0.02)	\$ (0.17)	\$ (0.09)
Fully diluted	\$ (0.01)	\$ (0.13)	\$ (0.07)
Net loss:			
Total (in \$000s)	\$ (876)	\$ (7,477)	\$ (3,660)
Basic	\$ (0.02)	\$ (0.17)	\$ (0.09)
Fully diluted	\$ (0.01)	\$ (0.13)	\$ (0.07)
Total assets (in \$000s)	\$ 12,882	\$ 10,217	\$ 17,081
Total long-term financial liabilities (in \$000s)	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -

The significantly higher net loss incurred in fiscal 2002 relative to fiscal 2003 was primarily due to the write-downs of \$7.2 million for resource properties which was attributable to depressed gold markets. In fiscal 2002, the New Polaris property was written down by \$5.5 million and the Sara Kreek property by \$1.7 million. There were no further write-downs in fiscal 2003, as the average price of gold per ounce increased from \$310 in 2002 to \$365 in 2003, with the exception of the Clara property which was written off, as the Company decided not to pursue the option.

In most expense categories for fiscal 2003, the Company incurred higher expenses relative to fiscal 2002 reflecting the addition of staff and other ancillary functions to support the increased corporate and financing and exploration activities of the Company. Stock-based compensation expense reflects the granting of options and the exercise of stock appreciation rights. A foreign exchange gain was realized in fiscal 2003 which reflects the impact of the depreciation of the U.S. dollar given that certain accounts of the Company are maintained in CAD dollars which would conversely appreciate relative to the U.S. dollar.

In fiscal 2003, the Company incurred exploration expenditures of approximately \$1.16 million whereas nominal amounts were expended in fiscal 2002, due to the overall improvement in gold prices in 2003 which allowed the Company to raise more equity financings during the 2003 fiscal year. During the year ended December 31, 2003, the Company continued with its drilling programs for the Benzdorp property where an additional \$868,000 was expended and for the New Polaris property where \$288,000 was expended.

As at December 31, 2003 and December 31, 2002, the Company has resource properties which are comprised of the following:

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(in \$000s)	December 31, 2003			December 31, 2002		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
British Columbia:						
New Polaris	\$ 3,605	\$ 288	\$ 3,893	\$ 3,605	\$ -	\$ 3,605
Eskay Creek	188	14	202	188	14	202
Costa Rica:						
Bellavista	89	-	89	90	-	90
Suriname:						
Sara Kreek	1,567	1,717	3,284	1,567	1,717	3,284
Benzdorp	181	2,840	3,021	166	1,987	2,153
Mexico:						
Clara	-	-	-	-	14	14
	<u>\$ 5,630</u>	<u>\$ 4,859</u>	<u>\$ 10,489</u>	<u>\$ 5,616</u>	<u>\$ 3,732</u>	<u>\$ 9,348</u>

Summary of Quarterly Results

The following table provides selected financial information of the Company for each of the last eight quarters ending at the end of the most recently completed fiscal year, December 31, 2003:

	2003				2002			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Total revenues (in \$000s)	\$ 162	\$ 134	\$ 111	\$ 116	\$ 246	\$ 238	\$ 206	\$ 10
Loss before discontinued operations and extraordinary items:								
(i) Total (in \$000s)	\$ (876)	\$ (340)	\$ (214)	\$ (45)	\$ (7,477)	\$ (5,618)	\$ (5,477)	\$ (50)
(ii) Basic per share	\$ (0.02)	\$ (0.01)	\$ -	\$ -	\$ (0.17)	\$ (0.13)	\$ (0.12)	\$ -
(iii) Fully diluted per share	\$ (0.01)	\$ (0.01)	\$ -	\$ -	\$ (0.13)	\$ (0.10)	\$ (0.10)	\$ -
Net loss:								
(i) Total (in \$000s)	\$ (876)	\$ (340)	\$ (214)	\$ (45)	\$ (7,477)	\$ (5,618)	\$ (5,477)	\$ (50)
(ii) Basic per share	\$ (0.02)	\$ (0.01)	\$ -	\$ -	\$ (0.17)	\$ (0.13)	\$ (0.12)	\$ -
(iii) Fully diluted per share	\$ (0.01)	\$ (0.01)	\$ -	\$ -	\$ (0.13)	\$ (0.10)	\$ (0.10)	\$ -

Liquidity and Capital Resources

The Company is in the development stage and has not yet determined whether its resource properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for resource 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

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endeavored to secure valuable 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 has 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 mining companies and will continue unless positive cash flow is achieved.

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

(in \$000s)	March 31 2004	December 31, 2003	December 31, 2002
Cash and cash equivalents	\$ 1,294	\$ 1,902	\$ 215
Working capital	\$ 1,472	\$ 1,824	\$ 621

The Company has significantly more cash and cash equivalents and working capital in 2003 than in 2002. This was largely attributable to the Company closing on four private placements in 2003 which raised equity financing of CAD\$3,789,500, whereas in 2002 only two private placements were closed to raise financing of CAD\$694,400.

In March 2003, the Company closed a private placement for 1,250,000 units at CAD\$0.52 per unit for gross proceeds of CAD\$650,000; each unit is comprised of one common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD\$0.63 until February 4, 2005. In November 2003, the Company closed two private placements. One private placement was for 250,000 units at CAD\$1.05 per unit for gross proceeds of CAD\$262,500; each unit is comprised of one flow-through common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD\$1.25 until November 13, 2005. The second private placement was for 3,080,000 units at CAD\$0.90 per unit for gross proceeds of CAD\$2,772,000; each unit is comprised of one common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD\$1.10 until November 13, 2005. In December 2003, the Company closed a private placement for 100,000 units at CAD\$1.05 per unit for gross proceeds of CAD\$105,000; each unit is comprised of one flow-through common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD\$1.25 until December 30, 2005. Proceeds from these equity financings are for drilling programs for the Company's New Polaris and Benzdorp projects and for working capital purposes.

In June 2002, the Company closed a private placement for 1,080,000 units at CAD\$0.18 per unit for gross proceeds of CAD\$194,400; each unit is comprised of one common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD\$0.21 until April 8, 2004. In September 2002, the Company closed a private placement for 1,250,000 units at CAD\$0.40 per unit for gross proceeds of CAD\$500,000; each unit is comprised of one common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD\$0.50 until September 10, 2004.

The Company did not raise any equity financing in the first quarter ended March 31, 2004, but it did receive the annual \$117,750 cash payments from its partner on the Bellavista project in Costa Rica in January 2004.

The Company's drilling program for the Benzdorp property and ongoing operating expenses reduced its cash resources and its working capital at March 31, 2004 relative to December 31, 2003. The quoted market value of the Company's marketable securities increased from \$564,553 at December 31, 2003 to \$1,569,250 at March 31, 2004.

The Company has entered into a number of option agreements for resource properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under the section, Results of Operations, further details of contractual obligations are provided as at March 31, 2004. The Company will continue to rely upon equity financing as its principal source of financing its projects.

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The Company operates in Mexico and Suriname, both of which have economies that have undergone significant inflation in the recent past and are viewed by the Company as carrying a certain degree of risk. In order to minimize the risk associated with such inflation, the Company does not maintain significant cash resources in any of these countries at any point in time, but rather maintains the majority of its investments in U.S. or Canadian denominated instruments.

Off-Balance Sheet Arrangements

On October 25, 1995, the shareholders of the Company approved a shareholders rights plan (the "Plan"). The Plan became effective on November 14, 1995. 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 to purchase from treasury one common share at CAD\$25, 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 expired in November 2003.

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.

Transactions with Related Parties

At March 31, 2004 and December 31, 2003 and 2002, amounts due from related parties comprise balances owing from companies with certain common directors or officers. The amounts were for reimbursement of costs in the normal course of business. At December 31, 2003, the Company had a balance due from Endeavour Gold Corp. ("Endeavour") of CAD\$33,604, and had a balance due from a director of the Company for CAD\$6,000 for travel advances. At March 31, 2004, the Company had a balance due from Endeavour of CAD\$6,732.

General and administrative costs during 2003 include CAD\$60,000 of consulting fees charged by a company controlled by a director of the Company and CAD\$90,000 of salaries to a director. For the three months ended March 31, 2004, general and administrative costs include salaries of CAD\$45,000 to a director.

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, with each whole warrant exercisable to acquire one common share at CAD\$0.35 until October 6, 2005. In April 2004, the Company participated in a private placement for 400,000 units of Endeavour at CAD\$1.60 per unit; each unit is comprised of one common share and one-half share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$2.00 and has an expiry date of October 22, 2005.

Changes in Accounting Policies including Initial Adoption

Effective January 1, 2002, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870"). Under the new standard, stock options and other stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, are accounted for using the fair value based method. On adoption of HB 3870, the Company elected to use the settlement method of accounting for stock options granted to employees, and to disclose the pro forma effect of accounting for these awards under the fair value method. Effective January 1, 2003, in connection with amendments to HB 3870, the Company changed the method of application of its stock-based compensation accounting policy so as to measure all stock options

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granted at fair value and to recognize the compensation expense over the vesting period, with a corresponding credit to contributed surplus. This change has been applied prospectively for options granted on or after January 1, 2003, as allowed under the transitional provisions of HB 3870.

Outstanding Share Data

The Company's authorized share capital comprises 100,000,000 common shares without par value.

Changes in the Company's share capital for the three months ended March 31, 2004 and for the year ended December 31, 2003 are as follows:

	Number of Shares	Amount (in \$000s)
Balance at December 31, 2002	47,159,444	\$ 45,125
Issued:		
Private placements	4,697,500	2,639
Exercise of options	60,000	9
Exercise of warrants	615,000	92
Exercise of share appreciation rights	526,504	41
Balance at December 31, 2003	53,058,448	47,906
Issued:		
Exercise of options	50,000	22
Balance at March 31, 2004	53,108,448	\$ 47,928

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.