



Consolidated Financial Statements

(expressed in thousands of United States dollars)

Six Months ended June 30, 2010

(Unaudited – Prepared by Management)

SHAREHOLDER UPDATE

Review of the Second Quarter and Outlook for the Third Quarter of Fiscal 2010

Bradford Cooke, Chairman and CEO of Canarc Resource Corp. (TSX: CCM, OTC-BB: CRCUF, DB-Frankfurt: CAN), is pleased to provide the following review of Canarc's progress in the second quarter and its plans for the third quarter of fiscal 2010.

Q2 Review

- Cap-Ex Ventures Ltd., Canarc's joint venture partner on its Tay-LP property in the Yukon, submitted an NI 43-101 report in order to advance the project and meet regulatory requirements
- Board of Directors were re-elected for the ensuing year at the Annual General meeting and shareholders approved the amendments to the stock option plan
- A number of companies continue to evaluate their interest in the New Polaris gold mine project and management continues to evaluate opportunities to acquire new gold properties

Q3 Outlook

Management continues to seek strategic alternatives such as a joint venture or other means to advance the New Polaris high grade gold mine project to mine development and a full feasibility study. Discussions are currently underway with a junior mining company and an investor group.

We also continue to pursue new opportunities for growth by evaluating attractive gold projects in the USA and Canada for acquisition where management's exploration and mining experience can add value. Discussions are currently underway regarding the possible acquisition of a dormant open pit, heap leach gold mine.

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

CANARC RESOURCE CORP.

Per:

/s/ Bradford J. Cooke

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

July 29, 2010

CAUTIONARY DISCLAIMER – FORWARD LOOKING STATEMENTS

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

Notice to Readers of the Interim Unaudited Consolidated Financial Statements
For the Six Months Ended June 30, 2010

The unaudited interim consolidated financial statements of Canarc Resource Corp. (the “Company”) for the six months ended June 30, 2010 (“Financial Statements”) have been prepared by management and have not been reviewed by the Company’s auditors. The Financial Statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2009 which are available at the SEDAR website at www.sedar.com. The Financial Statements are stated in terms of United States dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles.

CANARC RESOURCE CORP.

Consolidated Balance Sheets

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	June 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 93	\$ 155
Receivables and prepaids	89	145
Royalty receivable - current portion (Note 6(c)(i))	25	50
Total Current Assets	207	350
NON-CURRENT ASSETS		
Mineral properties (Note 6)	12,640	12,626
Equipment (Note 7)	1	2
Royalty receivable - long-term portion (Note 6(c)(i))	48	46
Long-term investments (Note 8)	112	143
Total Non-Current Assets	12,801	12,817
Total Assets	\$ 13,008	\$ 13,167
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 635	\$ 607
Notes payable (Note 10)	65	63
Income taxes payable (Note 13)	316	329
Total Current Liabilities	1,016	999
SHAREHOLDERS' EQUITY		
Share capital (Note 9(a))	56,323	56,436
Contributed surplus	2,383	2,354
Deficit	(46,714)	(46,622)
Total Shareholders' Equity	11,992	12,168
Total Liabilities and Shareholders' Equity	\$ 13,008	\$ 13,167

Nature of operations and going concern (Note 1)

Commitments and contingencies (Notes 6 and 13)

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Operations

(Unaudited – Prepared by Management)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Expenses:				
Amortization	\$ 1	\$ 1	\$ 1	\$ 1
Corporate development	3	-	6	-
Employee and director remuneration (Note 11)	91	59	200	118
Foreign exchange gain	(31)	(12)	(9)	(3)
General and administrative	56	32	113	80
Shareholder relations	9	11	26	31
Stock-based compensation (Note 9(b))	12	19	29	43
Loss before the undernoted	(141)	(110)	(366)	(270)
Accretion of royalty receivable	1	2	2	4
Gain from long term investments	162	-	162	-
Adjustment (write-off) of mineral properties	-	(66)	-	(57)
Interest and finance charges	(2)	(1)	(3)	(1)
(Loss) income for income tax	\$ 20	\$ (175)	\$ (205)	\$ (324)
Future income tax recovery	-	-	113	-
Net (loss) income for the period	\$ 20	\$ (175)	\$ (92)	\$ (324)
Basic and diluted (loss) earnings per share	\$ -	\$ -	\$ -	\$ -
Weighted average number of shares outstanding	81,969,655	72,704,505	81,969,655	72,704,505

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Six months ended		Year ended	
	June 30, 2010		December 31, 2009	
	Shares	Amount	Shares	Amount
Share capital:				
Balance, beginning of period	81,969,655	\$ 56,436	72,704,505	\$ 55,349
Issued:				
Private placement, net of share issuance costs	-	-	9,104,900	837
Property acquisition (Note 6(a)(ii))	-	-	160,250	24
Provision for flow-through shares (Note 9(a))	-	(113)	-	226
Balance, end of period	81,969,655	56,323	81,969,655	56,436
Contributed surplus:				
Balance, beginning of period		2,354		2,217
Fair value of stock options recognized		29		117
Fair value of finders' fee warrants		-		20
Balance, end of period		2,383		2,354
Deficit:				
Balance, beginning of period		(46,622)		(45,043)
Net loss for the period		(92)		(1,579)
Balance, end of period		(46,714)		(46,622)
Total Shareholders' Equity		\$ 11,992		\$ 12,168

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cash provided from (used for):				
Operations:				
(Loss) income for the period	\$ 20	\$ (175)	\$ (92)	\$ (324)
Items not involving cash:				
Accretion of royalty receivable	(1)	(2)	(2)	(4)
Accrued interest	2	1	3	1
Amortization	1	-	1	-
Loss on disposition of marketable securities	-	-	-	-
Gain on disposition of long term investments	(162)	-	(162)	-
Stock-based compensation	12	19	29	43
Unrealized currency translation gain	(3)	-	(1)	-
Write-off of mineral properties	-	66	-	57
Future income tax recovery	-	-	(113)	-
	(131)	(91)	(337)	(227)
Changes in non-cash working capital items:				
Receivables and prepaids	-	(30)	56	(32)
Accounts payable and accrued liabilities	9	50	28	57
Income taxes payable	(21)	-	(13)	-
	(143)	(71)	(266)	(202)
Financing:				
Proceeds from notes payable	-	53	-	53
Investing:				
Proceeds from disposal of marketable securities	-	-	-	-
Royalty receivable	25	25	25	25
Mineral properties, net of recoveries	(18)	-	(14)	-
Proceeds from disposal of long term investments	193	-	193	-
Long term investment	-	-	-	-
	200	25	204	25
(Decrease) increase in cash and cash equivalents	57	7	(62)	(124)
Cash and cash equivalents, beginning of the period	36	24	155	155
Cash and cash equivalents, end of period	\$ 93	\$ 31	\$ 93	\$ 31

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Non-cash financing and investing activities:				
Adjustment to mineral properties	\$ -	\$ 4	\$ -	\$ 28
Income taxes paid	-	-	-	-
Interest paid	-	-	-	-

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

1. Nature of Operations and Going Concern

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

The Company has incurred significant operating losses and has a deficit of \$46.7 million at June 30, 2010. Furthermore, the Company has working capital deficiency of \$809,000 as at June 30, 2010, 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 ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management is actively seeking to raise the necessary capital to meet its planned business objectives. There can be no assurance that management’s plans will be successful. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern and such adjustments could be material.

2. Significant Accounting Policies

(a) Basis of presentation:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in United States dollars.

These consolidated financial statements include the accounts of the Company and its investments including its 40% owned investee, Benzdorp Gold N.V., which is proportionately consolidated.

All significant intercompany transactions and balances have been eliminated.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(b) Financial instruments:

(i) Financial Instruments – Recognition and Measurement

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

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings;
- Available-for-sale financial assets are measured at fair value based on quoted market prices. Investment in equity instruments classified as available-for-sale that do not have a quoted market price in an active market is measured at cost. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet either by disposition or permanent impairment at which time the realized gain or loss is transferred to net earnings;
- Held-for-trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise; and
- All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

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

The Company's royalty receivable from disposition of subsidiary (Note 6(c)(i)) is classified as loans and receivables. It was initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(ii) Comprehensive Income

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

The Company would include the account "accumulated other comprehensive income" in the shareholders' equity section of the consolidated balance sheet and "other comprehensive income" in the consolidated statement of operations.

(c) Mineral properties:

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

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

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

(d) Equipment:

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

(e) Long-term investments:

Investment in shares in which the Company's ownership is less than 20%, where significant influence does not exist, is accounted for in accordance with the Company's policy for financial instruments as defined in Note 2(b)(i).

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(f) Proceeds on unit offerings:

Proceeds received from the issuance of units, consisting of common shares and warrants, are allocated entirely to common shares.

(g) Non-monetary transactions:

Shares issued for consideration other than cash are valued at their quoted market price at the date of issuance.

(h) Flow-through common shares:

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

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

The resource expenditures incurred are subject to review and approval by the taxation authorities and is adjusted in the period when such approval is confirmed.

(i) Stock-based compensation plan:

The Company has a stock option plan which is described in Note 9(b). The Company records all stock-based payments using the fair value method. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. 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 amount in contributed surplus is transferred to share capital.

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(j) 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 upon commencement of production. The Company assessed its mineral properties, and based upon such assessments, there were no known material asset retirement obligations as at June 30, 2010.

(k) Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing the earnings available to common shareholders by the weighted average number of shares outstanding during the period. For all periods presented, earnings available to common shareholders equals the reported earnings. The Company uses the treasury stock method for calculating diluted earnings (loss) 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 period. In the Company's case, diluted loss per share presented is the same as basic loss per share as the effect of outstanding options and warrants in the loss per share calculation would be anti-dilutive.

(l) Foreign currency translation:

The Company uses the United States dollar as its functional and 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 consolidated statement of operations in the period in which they occur.

(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 collectability of receivables, balances of accrued liabilities, impairment of mineral properties, determination of reclamation obligations, valuation allowances for future income tax assets, income taxes payable, and assumptions used in determining the fair value of non-cash stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(n) Variable interest entities:

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

(o) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, “Goodwill and Intangible Assets”, replacing Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. This section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has no goodwill or intangible assets as of June 30, 2010.

(p) New accounting pronouncements:

(i) International Financial Reporting Standards (“IFRS”):

In 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010. The Company is proceeding with its conversion to IFRS and continues with its three primary transition phases which include preliminary scoping and diagnostics, detailed analysis and evaluation and design, and implementation and review. These phases may occur concurrently as IFRS is applied to different areas as the Company progresses in its transition to IFRS.

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Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

2. Significant Accounting Policies (continued)

(p) New accounting pronouncements: (continued)

(ii) Business combinations:

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

The new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

3. Management of Capital

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

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

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

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

CANARC RESOURCE CORP.

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(Unaudited – Prepared by Management)

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

4. Management of Financial Risk

The Company has classified its cash as held-for-trading, receivables as loans and receivables, and accounts payable and accrued liabilities, notes payable and income taxes payable as other financial liabilities.

The Company's investments in shares of Aztec Metals Corp. ("Aztec") and Caza Gold Corp. ("Caza") are classified as available-for-sale but such shares do not have a quoted market price in an active market and are therefore measured at cost.

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

The fair values of the Company's cash, receivables, accounts payable and accrued liabilities, notes payable, and corporate income taxes payable approximate their carrying values due to the short terms to maturity; therefore, disclosure is not made of their level in the fair value hierarchy. Disclosure is not made of the fair value of the long-term investments as the shares do not have a quoted market price in an active market. The fair value of the royalty receivable approximates its carrying value as it was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The royalty receivable is level three in the fair value hierarchy as it is based on unobservable inputs.

(a) Credit risk:

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

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

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company will require significant additional funding to meet its short-term liabilities, flow-through obligations and administrative overhead costs, and to maintain its mineral property interests in 2010.

Accounts payable and accrued liabilities are due within each operating period, and the notes payables are due on demand.

(c) Market risk:

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

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(Unaudited – Prepared by Management)

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

4. Management of Financial Risk (continued)

(c) Market risk: (continued)

(i) Foreign exchange risk:

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

At June 30, 2010, the Company is exposed to currency risk for its U.S. dollar equivalent of financial assets and liabilities denominated in currencies other than U.S. dollars as follows:

	Held in Canadian dollars (stated in U.S. dollars)
Cash	\$ 67
Receivables and prepaids	89
Accounts payable and accrued liabilities	(465)
Notes payable	(65)
Income taxes payable	(316)
Net financial assets (liabilities)	\$ (690)

Based upon the above net exposure as at June 30, 2010 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$69,000 in the Company's net earnings (losses).

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

(ii) Interest rate risk:

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

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Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

5. Plan of Arrangement

On June 25, 2008, the Company proceeded to close the Plan of Arrangement (the “Arrangement”) with Caza whereby approximately 83% of the Company’s interest in Caza was distributed to the shareholders of the Company. Under the Arrangement, the Company transferred all its interest in its wholly-owned Mexican subsidiary which holds all the rights to the Mexican gold exploration properties (Note 6(d)) to Caza in return for 14,346,527 shares of Caza, of which the Company distributed 11,950,577 Caza shares by way of a dividend in kind to the Company’s shareholders on the basis of one share of Caza for every six shares of the Company held by shareholders as of the dividend record date. The property interests which were transferred from the Company to Caza include Los Arrastres, Santiago and Santiago Fraction properties.

The Company believes the Arrangement and spin-off is not material to the Company, therefore, disclosure of discontinued operations is not being presented.

The Arrangement was accounted for by the Company at the time of the transaction by showing an investment in Caza of \$436,501 representing the value of the 14,346,527 common shares received. The distribution of 11,950,577 Caza common shares to the Company’s shareholders was accounted for as a reduction to the investment in Caza in the amount of \$363,298 with a corresponding increase in deficit.

6. Mineral Properties

	June 30, 2010		
	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris (Note 6(a)(i))	\$ 3,605	\$ 8,573	\$ 12,178
Yukon:			
Tay-LP (Note 6(a)(ii))	25	437	462
	<u>\$ 3,630</u>	<u>\$ 9,010</u>	<u>\$ 12,640</u>

(a) Canada:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at June 30, 2010 include a reclamation bond for CAD\$250,000.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

6. Mineral Properties (continued)

(a) Canada: (continued)

(ii) Tay-LP:

On August 24, 2009, the Company entered into an option agreement to acquire a 100% interest in the Tay-LP gold property, located in Yukon, by paying CAD\$1 million in cash and/or shares and spending CAD\$1.5 million on exploration over a three-year period which can occur in two stages. In the first stage, the Company can earn a 51% interest by paying CAD\$150,000 in cash and spending CAD\$900,000 on exploration over a two-year period. In the second stage, the Company can earn an additional 49%, thereby totalling 100% interest, by paying CAD\$850,000 in cash or shares at the Company's discretion and spending CAD\$600,000 on exploration by the third year. If the Company does not proceed with the second stage, then a joint venture would be formed. The Company shall pay to the optionors a gold bonus equal to CAD\$1 per ounce ("oz") of gold for all proven and probable gold reserves and measured and indicated gold resources to a maximum of 1 million oz gold. The option agreement is subject to NSR totalling 3% which can be reduced to 1.5% by payments totalling US\$1.95 million. Commencing on or before October 31, 2009 and continuing on or before October 31 of each subsequent year until the property is put into commercial production, the Company shall pay to the NSR holders annual advance NSR royalty payments totalling CAD\$25,000 or that number of common shares of the Company and which shall be deducted from NSR obligations. The NSR of 3% shall be subject to maximum total payments based on one million payable ounces of gold being mined by commercial production but will be reduced to 500,000 payable ounces of gold if the NSR was reduced to 1.5%. The Company made a cash payment of CAD\$20,000 in August 2009. On November 4, 2009, the Company issued 160,250 shares at a value of CAD\$0.156 per share as the annual advance NSR royalty for CAD\$25,000 for the Tay-LP property.

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

(iii) Eskay Creek:

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

6. Mineral Properties (continued)

(b) Bellavista, Costa Rica:

The Company held a net profit interest in the Bellavista property, which was located near San Jose, Costa Rica. A property agreement giving Central Sun Mining Inc. (formerly, Glencairn Gold Corporation) (“Central Sun”) the right to earn a 100% working interest in the property called for pre-production payments which ended in fiscal 2005. The Company had a net profit interest in Bellavista in which the Company was 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 commenced. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Central Sun until \$317,741 in advance royalty payments were repaid.

In July 2008, as amended in December 2008, the Company entered into a purchase and sale agreement for the sale of all its 78.5% interest in the subsidiary which holds the net profit interest in the Bellavista property, for CAD\$215,000 which was received during fiscal 2008.

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

The royalty receivable has been determined using the effective interest rate method. The expected future cash flows have been discounted using the effective interest rate to determine the present value as at June 30, 2010.

Present value of expected cash flows from royalties as at January 1, 2008	\$ 177
Add: Accretion for the year	11
Less: Royalty received during the year	<u>(50)</u>
Present value of expected cash flows from royalties as at December 31, 2008	138
Add: Accretion for the year	8
Less: Royalty received during the year	<u>(50)</u>
Present value of expected cash flows from royalties as at December 31, 2009	96
Less: Current portion of royalty receivable as at December 31, 2009	<u>(50)</u>
Long-term portion of royalty receivable as at December 31, 2009	46
Add: Accretion for the period	<u>2</u>
Long-term portion of royalty receivable as at June 30, 2010	<u>\$ 48</u>

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

6. Mineral Properties (continued)

(c) Suriname: (continued)

(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 that 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, 2008, the Company had not completed a feasibility study.

In June 2007, Benzdorp Gold NV, the joint venture company held by the Company and Grassalco, had applied for an extension to the concessions at Benzdorp prior to their expiry in July 2007. Benzdorp Gold NV was finally advised in August 2008 that an extension would not be granted but an application for new concessions would be considered so Benzdorp Gold NV applied for one new exploration concession in September 2008. The Company ceased all exploration work on the concessions in August 2007, and elected to write-off its investment in the Benzdorp property in 2008.

(d) Mexico:

(i) Los Angeles:

In April 2008, Caza and Minera Canarc de Mexico SA de CV (“Minera Canarc”), wholly-owned subsidiaries of the Company at that time, entered into an option agreement to acquire a 100% interest in the La Escondida/Los Angeles properties by making \$1 million in cash payments over a four-year period and issuing \$50,000 in shares of the Company over a twelve-month period. The vendors retained a 3% NSR. The Company made an initial payment of \$15,000 upon the signing of the option agreement. Pursuant to the Plan of Arrangement which closed in June 2008, Caza and Minera Canarc were thereafter no longer subsidiaries of the Company (Note 5).

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

6. Mineral Properties (continued)

(d) Mexico: (continued)

(ii) Los Arrastres:

In February 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making \$2.5 million in cash payments and spending \$2 million on exploration over a three-year period. The vendor retained a 2% NSR and the Company had the right to reduce the NSR to 1% by paying \$1 million at any time. An initial payment of \$50,000 was made upon the signing of the option agreement and a further payment of \$75,000 was made in August 2007. A cash payment of \$25,000 was made in February 2008. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 5).

(iii) Providencia and San Felix:

In March 2007, the Company entered into a preliminary option agreement to acquire a 100% interest in the Providencia and San Felix gold/silver properties by issuing 30,000 common shares to the vendors on signing a formal agreement within 30 days and making \$2 million in cash payments over a 2 ½ year period, including \$30,000 on signing. The Company issued 30,000 shares at a value of CAD\$0.63 per share in 2007. The vendors retained a 2 ½ % NSR, and the Company had 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. In April 2008, the Company terminated its efforts to enter into a formal agreement, and the Company wrote-off related exploration expenditures in the first quarter of 2008, and the 30,000 shares, which were originally issued, were returned to treasury and cancelled.

(iv) Santiago:

In May 2007, the Company entered into an option agreement to acquire a 100% interest in the Santiago gold property by making \$2 million in cash payments over a five-year period and spending \$200,000 on exploration over a two-year period. The vendor retained a 2% NSR. An initial payment of \$30,000 was made upon the signing of the option agreement and a further payment of \$30,000 was made in November 2007. A cash payment of \$60,000 was made in May 2008. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 5).

(v) Santiago Fraction:

In September 2007, the Company entered into an option and joint venture agreement to acquire up to a 75% interest in the Santiago Fraction property by issuing 15,000 common shares, paying \$25,000 in cash after one year, and spending up to \$1 million in exploration over a five-year period. The Company issued 15,000 common shares at a value of CAD\$0.45 per share in 2007. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 5).

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

6. Mineral Properties (continued)

(e) Expenditure options:

As at June 30, 2010, 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 Payments (CAD\$000s)	Exploration Commitments (CAD\$000s)	Advance Royalty Payments (CAD\$000s)	Net Smelter Reduction (US\$000s)	Shares
New Polaris (Note 6(a)(i): Net profit interest reduction or buydown					150,000
Tay-LP (Note 6(a)(ii): October 31, 2010	\$ 50	\$ -			
October 31, 2011	50	401			
October 31, 2012	850	600			
Annual advance royalty payments until commercial production			\$ 25		
Net smelter reduction from 3% to 1.5%				\$ 1,950	
	\$ 950	\$ 1,001	\$ 25	\$ 1,950	150,000

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.

(g) Realization:

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

6. Mineral Properties (continued)

(h) Environmental:

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

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

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

7. Equipment

	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 140	\$ 139	\$ 1

8. Long-Term Investments

As at June 30, 2010, the Company had an interest of 9% in Aztec and 2% in Caza.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

9. Share Capital

(a) Authorized and issued:

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

In February 2010, the Company renounced CAD\$475,239 in exploration expenditures from the proceeds of the flow-through private placements in 2009, resulting in the recognition of a future income tax recovery of approximately US\$113,000.

(b) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, directors and consultants to acquire up to 16,335,000 common shares, of which options for 6,770,000 common shares are outstanding as at June 30, 2010. The exercise price of each option cannot be lower than the last recorded sale of a board lot on the Toronto Stock Exchange during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the 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 six month period ended June 30, 2010 is as follows:

	June 30, 2010	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	8,665,000	\$0.38
Forfeited	(55,000)	\$0.38
Expired	<u>(1,840,000)</u>	\$0.32
Outstanding, end of period	<u>6,770,000</u>	\$0.40

Exercise price range (CAD\$)	\$0.11 - \$0.74
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CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

9. Share Capital (continued)

(b) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at June 30, 2010:

Price Intervals (CAD\$)	Options Outstanding			Options Exercisable	
	Number Outstanding at June 30, 2010	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)	Number Exercisable at June 30, 2010	Weighted Average Exercise Prices (CAD\$)
\$0.11	1,680,000	4.0	\$0.11	672,000	\$0.11
\$0.25 - \$0.49	2,500,000	2.7	\$0.34	2,500,000	\$0.34
\$0.50 - \$0.74	2,590,000	1.5	\$0.63	2,590,000	\$0.63
	<u>6,770,000</u>	<u>2.5</u>	<u>\$0.40</u>	<u>5,762,000</u>	<u>\$0.45</u>

At June 30, 2010, 6,770,000 options are outstanding of which 5,762,000 options are exercisable and expire at various dates from December 5, 2010 to July 15, 2014, with a weighted average remaining life of 2.8 years.

During the six month period ended June 30, 2010, the Company recognized stock-based compensation of \$29,000 based on the fair value of options granted that were earned by the provision of services during the period. Stock-based compensation is segregated between directors and employees as follows:

	June 30, 2010
Directors	\$ 13
Employees	16
	<u>\$ 29</u>

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

9. Share Capital (continued)

(c) Warrants:

At June 30, 2010, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2009	Issued	Exercised	Expired	Outstanding at June 30, 2010
\$0.15	June 1, 2010	500,000	-	-	(500,000)	-
\$0.15	April 22, 2011	39,410	-	-	-	39,410
\$0.15	October 22, 2011	202,160	-	-	-	202,160
\$0.15	April 22, 2011	2,568,140	-	-	-	2,568,140
\$0.165	May 9, 2011	154,410	-	-	-	154,410
		3,464,120	-	-	(500,000)	2,964,120

(d) Fully diluted number of common shares:

	Number of Shares
Outstanding, June 30, 2010	81,969,655
Property agreements (Note 6(e))	150,000
Stock options (Note 9(b))	6,770,000
Warrants (Note 9(c))	2,964,120
Fully diluted, June 30, 2010	91,853,775

(e) Shareholder rights plan:

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

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2010

(Unaudited – Prepared by Management)

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

10. Notes Payable

In May 2009, the Company received CAD\$62,030 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 9% per annum and are secured by the Company's shareholdings in Caza at CAD\$0.25 per share of Caza. As at June 30, 2010, interest of CAD\$6,708 has been accrued.

11. Related Party Transactions

General and administrative costs during six months ended June 30, 2010 include:

- CAD\$21,128 of salaries to an employee who is a director;
- CAD\$20,000 to directors in their capacity as directors of the Company. As at June 30, 2010, the Company accrued CAD\$88,659 in outstanding directors fees;
- CAD\$33,813 in legal fees to a law firm in which a senior officer of the Company is a partner. As at June 30, 2010, the Company owed CAD\$143,198 to the law firm;
- CAD\$135,442 in office rent and salary allocations recovered from companies sharing certain common directors. As at June 30, 2010, the Company was owed CAD\$7,803 from one of these companies; and
- CAD\$44,543 in office rent and salary allocations incurred to a company sharing certain common directors. As at June 30, 2010, the Company owed CAD\$91,653 to the company.

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

Details of shareholdings in Aztec and Caza are provided in Note 8, notes payables in Note 10, and the Plan of Arrangement in Note 5.

12. Segment Disclosures

The Company has one operating segment, being mineral exploration, and all assets of the Company are located in Canada.

13. Contingent Liability

Pursuant to an audit by CRA in 2009, the Company has estimated approximately \$661,700 in exploration expenditures incurred in 2007 do not qualify as CEE for flow-through purposes related to a flow through private placement which closed in October 2006. Consequently the Company has recognized a flow through financing cost of \$489,000 in 2009.

In February 2010, an initial proposal by CRA to the Company disallowed approximately CAD\$1.2 million in CEE of which the Company is currently estimating approximately CAD\$545,000 as being qualified for CEE for flow-through purposes. The initial proposal by CRA would have resulted in a liability to the Company of up to CAD\$886,800.

The flow-through financing cost of \$489,000 has been reduced by the BC Mineral Exploration tax credits of approximately CAD\$119,000 for expenditures incurred in 2005 and 2006, as reviewed by CRA, and GST receivable of approximately CAD\$58,000, resulting in an estimated income tax balance payable of US\$316,000.

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Garry Biles ~ President and Chief Operating Officer
James Moors ~ Vice-President, Exploration
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Stewart Lockwood ~ Secretary

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SHARES LISTED

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



Management Discussion and Analysis

(expressed in thousands of United States dollars)

Six Months ended June 30, 2010

CANARC RESOURCE CORP.
(the “Company”)

Management’s Discussion and Analysis
For the Six Months Ended June 30, 2010

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the six months ended June 30, 2010 and the audited consolidated financial statements for the years ended December 31, 2009 and 2008, 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 (“Canadian GAAP”), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of July 30, 2010 unless otherwise indicated.

1.1 Background

The Company was incorporated under the laws of British Columbia, and was previously engaged in the acquisition, exploration, development and exploitation of precious metal properties in Canada, Costa Rica, Mexico and Suriname. The Company currently only owns a direct interest in the precious metal property, known as the New Polaris property in British Columbia, Canada, and an option to purchase the Tay-LP property in the Yukon, Canada.

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

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Six Months Ended June 30, 2010

(expressed in United States dollars)

The Company made a cash payment of CAD\$20,000 in August 2009. Then on November 4, 2009, the Company issued 160,250 shares at a value of CAD\$0.156 per share as advance NSR royalty for the Tay-LP property interest.

In late March 2010, the Company entered into an option agreement with Cap-Ex Ventures Ltd. ("Cap-Ex") whereby Cap-Ex can acquire 50% of the Company's interest in the Tay-LP gold property, by paying CAD\$100,000 of which CAD\$25,000 have been paid, issuing 200,000 common shares, incurring exploration expenditures of CAD\$675,000, and maintaining the Company's underlying option agreement in good standing until October 2011. The option agreement is subject to Cap-Ex receiving regulatory approvals. In April 2010, Cap-Ex paid the option payment of CAD\$30,000.

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

1.2 Overall Performance

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

Gold prices continued to show strength as the cumulative annual average increased from \$695 in 2007 to \$872 in 2008 and then to \$972 in 2009 and closing at \$1,169 on July 30, 2010. Gold prices achieved new highs in each of the past several years. In November 2007, prices reached a high of \$841 and then \$1,011 in March 2008 before reaching a high of \$1,213 in December 2009. The high for 2010 was on June 28, 2010 at \$1,261.

New Polaris property

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

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

Inferred undiluted resources range from 697,000 to 571,000 oz of gold contained in 2,060,000 to 1,340,000 tonnes (2,270,763 to 1,477,098 tons) of mineralized vein material grading 10.5 to 13.3 grams per tonne (0.31 to 0.39 oz per ton) using a range of

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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
<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	1,670,000	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
<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	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

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full semivariogram range were classed as inferred. A review of gold grade distribution outlined 6 overlapping lognormal gold populations within the resource database. On this basis, a total of 10 gold assays were capped at 63 g/t.

In the third quarter of 2007, the Company completed a preliminary assessment of building an 80,000 oz per year gold mine at the New Polaris property. Moose Mountain Technical Services ("Moose Mountain") was commissioned as independent consultants to work with the Company's personnel in developing the conceptual mine plan and mining capital and operating costs; Jasman Yee and Associates Inc. for the metallurgical testwork, process design, mill capital and operating costs; and Beacon Hill Consultants (1988) Ltd. for the financial analysis. All three consultants contributed to the preliminary assessment for an 80,000 oz per year, high grade, underground gold mine at New Polaris. Their report was entitled "New Polaris Project – Preliminary Assessment" dated October 4, 2007 ("Moose Mountain Report"). J.H. (Jim) Gray, P.Eng. of Moose Mountain was the Qualified Person for the Preliminary Assessment Report. In 2008, the Company continued with its efforts to refine and assess the process alternatives and economic parameters used in the preliminary assessment. In early January 2009, the Company completed a revised preliminary assessment from recent optimization efforts which improved the project's economics and which was issued in a News Release dated January 7, 2009. The revised economic model had been reviewed by Moose Mountain and the independent Qualified Person for the update was Jim Gray, P. Eng. In November, 2009, the British Columbia Securities Commission ("BCSC") notified the Company that their review of both the 2007 Moose Mountain Report and the Company's news release dated January 7, 2009 identified issues of non-compliance with NI 43-101. An updated NI 43-101 preliminary economic assessment report dated December 23, 2009 by Moose Mountain ("Moose Mountain Revised Report") was prepared at the request of the BCSC.

The base case mine model in the Moose Mountain Revised Report is summarized below:

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

The updated preliminary economic parameters are as follows:

Gold Price	US\$ 900 per oz	
Exchange Rate	US\$ 0.95 = CA\$ 1.00	
Capital Cost	CA\$90.5 million	
Cash Cost	US\$ 383 per oz (excluding off-sites)	
	<u>Pre-Tax</u>	<u>After-Tax</u>
Cash Flow (LoM)	CA \$153.6 million	CA\$103.6 million
NPV (5%)	CA\$104.9 million	CA\$ 68.6 million
NPV (8%)	CA\$ 83.2 million	CA\$ 52.9 million
NPV (10%)	CA\$ 71.0 million	CA\$ 44.1 million
	<u>Pre-Tax</u>	<u>After Tax</u>
Internal Rate of Return	32.0%	25.8%
Payback Period	2.6 years	2.7 years

This preliminary economic assessment is based on resources, not reserves, and a portion of the modeled resources in the mine plan are in the inferred resource category. Given the inherent uncertainties of resources, especially inferred resources compared to reserves, the New Polaris gold mine project cannot yet be considered to have proven economic viability. However, the mine plan only takes into account approximately 75% of the total estimated resources at a 9 gpt cut-off grade.

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

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

New Polaris AFTER-TAX CASH FLOW SENSITIVITY ANALYSIS			
Description of Sensitivity	NPV (5%) CAD (000)	NPV (8%) CAD (000)	NPV (10%) CAD (000)
Gold \$US700/oz -22%	\$ 6,898	(\$ 1,333)	(\$ 5,883)
Gold \$US800/oz -11%	\$ 37,961	\$ 26,072	\$ 19,431
Base Case \$US900/oz	\$ 68,625	\$ 52,934	\$ 44,132
Gold \$US1000/oz +11%	\$ 99,136	\$ 79,582	\$ 68,590
Gold \$US1100/oz +22%	\$ 129,516	\$ 106,044	\$ 92,831
Grade -10%	\$ 41,041	\$ 28,778	\$ 21,924
Grade -5%	\$ 54,895	\$ 40,942	\$ 33,126
Base Case Grade 12.5 gpt	\$ 68,625	\$ 52,934	\$ 44,132
Grade +5%	\$ 82,355	\$ 64,925	\$ 55,138
Grade +10%	\$ 96,085	\$ 76,917	\$ 66,144
Capital Cost -10%	\$ 73,625	\$ 57,917	\$ 49,093
Capital Cost -5%	\$ 71,125	\$ 55,425	\$ 46,613
Base Case \$90M Capital	\$ 68,625	\$ 52,934	\$ 44,132
Capital Cost +5%	\$ 66,125	\$ 50,442	\$ 41,652
Capital Cost +10%	\$ 63,625	\$ 47,951	\$ 39,172
Operating Cost -10%	\$ 80,415	\$ 63,261	\$ 53,360
Operating Cost -5%	\$ 74,520	\$ 58,097	\$ 48,881
Base Case	\$ 68,625	\$ 52,934	\$ 44,132
Operating Cost +5%	\$ 62,730	\$ 47,770	\$ 39,383
Operating Cost +10%	\$ 56,835	\$ 42,606	\$ 34,634
Exchange rate \$0.85 -10%	\$ 97,327	\$ 78,013	\$ 67,156
Exchange rate \$0.90 -5%	\$ 82,184	\$ 64,781	\$ 55,009
Base Case \$0.95	\$ 68,625	\$ 52,934	\$ 44,132
Exchange rate \$1.00 +5%	\$ 56,414	\$ 42,264	\$ 34,337
Exchange rate \$1.05 +10%	\$ 45,276	\$ 32,488	\$ 25,336

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

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Tay-LP property

On August 24, 2009, the Company entered into an option agreement to acquire a 100% interest in the Tay-LP gold property by paying CAD\$1 million in cash and/or shares and spending CAD\$1.5 million on exploration over a three-year period which can occur in two stages. The Company made an option payment of CAD\$20,000 in August 2009. On November 4, 2009, the Company issued 160,250 shares at a value of CAD\$0.156 per share as the annual advance NSR royalty of CAD\$25,000 for the Tay-LP property.

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

In late March 2010, the Company entered into an option agreement with Cap-Ex whereby Cap-Ex can acquire 50% of the Company's interest in the Tay-LP gold property, by paying CAD\$100,000 of which CAD\$25,000 have been paid, issuing 200,000 common shares, incurring exploration expenditures of CAD\$675,000, and maintaining the Company's underlying option agreement in good standing until October 2011. The option agreement is subject to Cap-Ex receiving regulatory approvals. In April 2010, Cap-Ex paid the option payment of CAD\$30,000.

Other Matters

In late April 2010, the Company disposed of one million shares of Caza at a price of CAD\$0.20 for total proceeds of CAD\$200,000 for working capital purposes.

In June 2010, the Company received \$25,000 as the semi-annual royalty from the Sara Kreek property.

At the Company's annual general meeting held on June 15, 2010, Messrs. Bradford Cooke, William Price, Derek Bullock, Leonard Harris and Bruce Bried were re-elected to the Board of Directors for the ensuing year. Also, the stock option plan to grant up to a maximum of 16,335,000 common shares was also approved.

The Shareholders Update included in the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2010 provides further review of the Company's overall performance for the second quarter and outlook for the third quarter of fiscal 2010.

1.3 Selected Annual Information

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

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(in \$000s except per share amounts)	Years Ended December 31,		
	2009	2008	2007
Total revenues	\$ -	\$ -	\$ -
(Loss) income before discontinued operations and extraordinary items:			
(i) Total	\$ (1,579)	\$ (6,963)	\$ 1,515
(ii) Basic per share	\$ (0.02)	\$ (0.10)	\$ 0.02
(iii) Fully diluted per share	\$ (0.02)	\$ (0.10)	\$ 0.02
Net income (loss):			
(i) Total	\$ (1,579)	\$ (6,963)	\$ 1,515
(ii) Basic per share	\$ (0.02)	\$ (0.10)	\$ 0.02
(iii) Fully diluted per share	\$ (0.02)	\$ (0.10)	\$ 0.02
Total assets	\$ 13,167	\$ 12,829	\$ 20,115
Total long-term liabilities	\$ -	\$ -	\$ -
Dividends per share ⁽¹⁾	\$ -	\$ -	\$ -

⁽¹⁾ The Company has not paid any cash dividends. In June 2008, the Company distributed shares of Caza Gold Corp. as a dividend-in-kind pursuant to the Plan of Arrangement.

1.4 Results of Operations

Second Quarter of Fiscal 2010 – Six months ended June 30, 2010 compared with June 30, 2009

The Company incurred a net loss of approximately \$92,000 for the six months ended June 30, 2010 which is lower than the net loss of \$324,000 for the same period in fiscal 2009. However, operating losses for the six months ended June 30, 2010 were higher than in 2009, reflecting the continual activities and increased efforts of the Company in pursuing projects of merits and project generation as gold prices reached new highs in 2010 as well as seeking partners for its two mineral property interests. Operating losses were lower in 2009 as the Company endeavoured to preserve its cash and to reduce its monthly burn-rates, during the weakened financial markets at that time.

The primary contributing factors for the higher operating losses but the lower net losses are the future income tax recovery of \$113,000 in the first quarter and the gain of \$162,000 from the disposition of Caza shares in the second quarter, which reduced the impact of higher operating losses on the net loss in the six month period in 2010. The future income tax recovery is a provision for the recognition at the date of actual renunciation being February 24, 2010, by a reduction in the amount included in share capital for the flow through shares for the future income taxes related to the deductions foregone by the Company. In 2009, the Company raised flow-through equity financing from a private placement for approximately CAD\$480,000 of which CAD\$475,239 were renounced in February 2010. The Company realized a gain of \$162,000 from the disposition of one million shares of Caza for proceeds of CAD\$200,000 to supplement its ongoing working capital and operating needs.

Remuneration for employees were higher in 2010 than in 2009 as the Company focused greater due diligence efforts in analyzing gold projects for acquisition purposes, so as to capitalize on the upward trends in the gold market. In late March 2010, the Company optioned 50% of its interest in the Tay-LP property to another company which would allow the Company to maintain the property in good standing and to reduce its financial burden. General and administrative expenses were commensurately higher whereas shareholder relations expenses were nominally lower as the Company reduced discretionary expenses.

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Stock-based compensation is from the granting and vesting of stock options. On July 15, 2009, the Company granted 1,680,000 stock options with an exercise price of CAD\$0.11 and an expiry date of July 15, 2014 and which are subject to a vesting provision in which 20% of the options vest immediately and 20% vest every six months. Stock-based compensation in 2010 is from the vesting of stock options as no stock options have been granted.

Adjustment to mineral properties in 2009 reflects transient expenses incurred for a mineral property interest which was written off in 2008.

The Company recognized \$2,000 from the accretion of royalty receivable from the Sarakreek property and incurred \$3,000 in accrued interest for its notes payable.

On December 31, 2009, the Company recognized a future income tax expense of \$226,000 related to expenditures which do not qualify as Canadian exploration expenses ("CEE") for flow-through tax purposes as determined by Canada Revenue Agency ("CRA"). The Company has estimated approximately \$661,700 in exploration expenditures which do not qualify as CEE for flow-through purposes, resulting in a future income tax expense of approximately \$226,000. These exploration expenditures were previously renounced in March 2007.

Pursuant to an audit by CRA in 2009, the Company has estimated approximately \$661,700 in exploration expenditures incurred in 2007 which do not qualify as CEE for flow-through purposes related to a flow-through private placement which closed in October 2006. Consequently the Company has recognized a flow through financing cost of \$489,000 in 2009. In February 2010, an initial proposal which was submitted by CRA to the Company disallowed approximately CAD\$1.2 million in CEE of which the Company is currently estimating approximately CAD\$545,000 as being qualified for CEE for flow-through purposes. The initial proposal by CRA would have resulted in a liability to the Company of up to CAD\$886,800. The flow-through financing cost of \$489,000 has been reduced by the BC Mineral Exploration tax credits of approximately CAD\$119,000 for expenditures incurred in 2005 and 2006, as reviewed by CRA, and GST receivable of approximately CAD\$58,000, resulting in an estimated income tax balance payable of \$316,000.

The Company has no sources of operating revenues.

Efforts in late fiscal 2009 were focused on an NI 43-101 compliant technical report for the New Polaris gold project which resulted in a preliminary economic assessment, the Moose Mountain Revised Report, which supported the project's economics. Item 1.2 provides further details.

As at June 30, 2010, the Company has mineral property interests which are comprised of the following:

(in \$000s)	June 30, 2010		
	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris	\$ 3,605	\$ 8,573	\$ 12,178
Yukon:			
Tay-LP	25	437	462
	<u>\$ 3,630</u>	<u>\$ 9,010</u>	<u>\$ 12,640</u>

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At June 30, 2010, to maintain its interest and to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option Payments (CAD\$000s)	Exploration Commitments (CAD\$000s)	Advance Royalty Payments (CAD\$000s)	Net Smelter Reduction (US\$000s)	Shares
New Polaris:					
Net profit interest reduction or buydown					150,000
Tay-LP:					
October 31, 2010	\$ 50	\$ -			
October 31, 2011	50	401			
October 31, 2012	850	600			
Annual advance royalty payments until commercial production			\$ 25		
Net smelter reduction from 3% to 1.5%				\$ 1,950	
	\$ 950	\$ 1,001	\$ 25	\$ 1,950	150,000

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 Canadian GAAP, and all dollar amounts are expressed in United States dollars unless otherwise indicated.

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, June 30, 2010:

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(in \$000s except per share amounts)	2010		2009				2008	
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(Loss) income before discontinued discontinued operations and extraordinary items:								
(i) Total	\$ 20	\$ (112)	\$ (964)	\$ (291)	\$ (175)	\$ (149)	\$ (6,551)	\$ 2
(ii) Basic per share	\$ -	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.10)	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.10)	\$ -
Net (loss) income:								
(i) Total	\$ 20	\$ (112)	\$ (964)	\$ (291)	\$ (175)	\$ (149)	\$ (6,551)	\$ 2
(ii) Basic per share	\$ -	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.10)	\$ -
(iii) Fully diluted per share	\$ -	\$ -	\$ (0.02)	\$ -	\$ -	\$ -	\$ (0.10)	\$ -
Total assets	\$ 13,008	\$ 12,989	\$ 13,167	\$ 13,086	\$ 12,688	\$ 12,678	\$ 12,829	\$ 19,444
Total long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividends per share ⁽¹⁾	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

⁽¹⁾ The Company has not paid any cash dividends. In June 2008, the Company distributed shares of Caza Gold Corp. as a dividend-in-kind pursuant to the Plan of Arrangement.

Gains from the disposition of shares of Caza were realized in the fourth quarter of 2009 and in the second quarter of 2010. Gains from the disposition of shares of Aztec Metals Corp., a company with one common director, ("Aztec") were realized in the first quarter of 2008 and gains from the disposition of its subsidiary which holds the net profit interest in the Bellavista property in the latter half of fiscal 2008. The Company has no sources of operating revenues.

1.6 Liquidity and Capital Resources

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

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

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(in \$000s)	June 30,	December 31,	
	2010	2009	2008
Cash and cash equivalents	\$ 93	\$ 155	\$ 155
Working capital (deficiency)	\$ (809)	\$ (649)	\$ 194

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

In May 2009, the Company received CAD\$62,030 in demand loans from certain directors and an officer of the Company. The loans are repayable on demand and bear an interest rate of 9% per annum and are secured by the Company's shareholdings in Caza at CAD\$0.25 per share.

On October 22, 2009, the Company closed two private placements. One private placement was for 4,000,000 flow through shares at CAD\$0.12 per share for gross proceeds of CAD\$480,000. Finders fees were comprised of CAD\$25,523 in cash and 241,570 warrants, of which 39,410 warrants have an exercise price of CAD\$0.15 and an expiry date of April 22, 2011 and the remaining 202,160 warrants have an exercise price of CAD\$0.15 and an expiry date of October 22, 2011. The second private placement was for 4,800,000 units at CAD\$0.10 per unit for gross proceeds of CAD\$480,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at CAD\$0.15 until April 22, 2011. Finders fees were comprised of CAD\$18,011 in cash and 168,140 warrants which have the same terms as the warrants in the private placement for units.

In October 2009, the Company disposed of 800,000 common shares of Caza for CAD\$0.15 per share for total proceeds of CAD\$120,000 for working capital purposes.

On November 9, 2009, the Company closed a private placement for 304,900 units at CAD\$0.1225 per unit for gross proceeds of CAD\$37,350. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant is exercisable to acquire one common share at CAD\$0.165 until May 9, 2011. Finders fees were comprised of CAD\$240 in cash and 1,960 warrants which have the same terms as the warrants in the private placement for units.

In fiscal 2009, the Company received \$50,000 from its annual royalty from the Sara Kreek project. In June 2010, the Company received \$25,000 as the semi-annual royalty from the project.

In late April 2010, the Company disposed of one million shares of Caza at a price of CAD\$0.20 per share for total proceeds of CAD\$200,000 for working capital purposes.

The working capital deficiency of \$809,000 at June 30, 2010 includes the notes payable and accrued interests of \$65,000 due to certain directors and an officer of the Company and corporate income taxes payable of \$316,000.

The Company has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.4, further details of contractual obligations are provided as at June 30, 2010. 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.

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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 the six months ended June 30, 2010 include:

- CAD\$21,128 of salaries to an employee who is a director;
- CAD\$20,000 to directors in their capacity as directors of the Company;
- CAD\$33,813 in legal fees to a law firm in which a senior officer of the Company is a partner;
- CAD\$135,442 in office rent and salary allocations recovered from companies sharing certain common directors;
and
- CAD\$44,543 in office rent and salary allocations incurred to a company sharing certain common directors.

Details of transactions with Aztec and Caza are provided in Items 1.2, 1.4, 1.5 and 1.6.

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

1.10 Second Quarter

Items 1.2, 1.4, 1.5 and 1.6 provide further details for the second quarter of fiscal 2010.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

The preparation of 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

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collectability of receivables, mineral properties, balances of accrued liabilities, determination of reclamation obligations, fair values of financial instruments, valuation allowances for future income tax assets, corporate income taxes payable and assumptions used in determining the fair value of non-cash stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

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

Pursuant to an audit by CRA in 2009, the Company has estimated approximately \$661,700 in exploration expenditures incurred in 2007 do not qualify as CEE for flow-through purposes related to a flow-through private placement which closed in October 2006. Consequently the Company has recognized a flow-through financing cost of \$489,000 in 2009. In February 2010, an initial proposal which was submitted by CRA to the Company has disallowed approximately CAD\$1.2 million in CEE of which the Company is currently estimating approximately CAD\$545,000 as being qualified for CEE for flow-through purposes. The initial proposal by CRA would have resulted in a liability to the Company of up to CAD\$886,800. The flow-through financing cost of \$489,000 has been reduced by the BC Mineral Exploration tax credits of approximately CAD\$119,000 for expenditures incurred in 2005 and 2006, as reviewed by CRA, and GST receivable of approximately CAD\$58,000, resulting in an estimated income tax balance payable of \$316,000.

1.13 Changes in Accounting Policies Including Initial Adoption

New accounting pronouncements as issued by the Canadian Institute of Chartered Accountants ("CICA") are as follows:

(i) New Accounting Pronouncements:

International Financial Reporting Standards ("IFRS"):

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010.

The Company is proceeding with its conversion to IFRS and continues with its three primary transition phases which include preliminary scoping and diagnostics, detailed analysis and evaluation and design, and implementation and review. These phases may occur concurrently as IFRS is applied to different areas as the Company progresses in its transition to IFRS.

(ii) Business combinations:

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are

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capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

The new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

Transition issues from Canadian GAAP to IFRS:

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010. The Company is proceeding with its conversion to IFRS and continues with its three primary transition phases which include preliminary scoping and diagnostics, detailed analysis and evaluation and design, and implementation and review. These phases may occur concurrently as IFRS is applied to different areas as the Company progresses in its transition to IFRS.

Phase 1: Preliminary scoping and diagnostic impact assessment

Preliminary scoping and diagnosis impact assessment involves the identification of key areas which may have significant impacts on the Company in terms of differences between Canadian GAAP and IFRS. This phase also involves preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters, and high level general assessment of potential consequences on financial reporting, business processes, internal controls, and information systems, as applicable.

Phase 2: Analysis, evaluation and design

This phase would initially involve analysis of IFRS 1 optional exemptions and any qualified exemptions for retrospective application. This phase also entails the identification of changes required for existing accounting policies, information systems and operational and financial business processes, and any design and development of detailed solutions thereto to support and eventually implement such changes. This would include analysis of policy alternatives as allowed under IFRS, detailed impact assessment, and drafting content and disclosure for draft IFRS financial statements.

Phase 3: Implementation and review

The implementation and review phase involves embedding changes into operational and financial business processes and information and accounting systems including any reviews and approvals therein including those relevant to Audit Committee, determining the opening IFRS transition financial statements, documenting detailed reconciliations of Canadian GAAP to IFRS financial statements, and compilation of IFRS compliant financial reports for the opening balance sheet at January 1, 2010, fiscal 2010 and thereafter.

Status in the Transition to IFRS

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Based upon preliminary scoping and assessment in the first quarter of 2010, the Company identified certain differences between Canadian GAAP and IFRS which would impact the Company as detailed in the following table which also includes the operational and business processes and systems which were accomplished in the second quarter:

Accounting Issues	IFRS Implications	Status
Deferred exploration expenditures	IFRS permits the capitalization of exploration expenditures prior to the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS requires an impairment test on exploration assets when facts and circumstances suggest the carrying amounts of those assets may exceed their recoverable values.	The NI 43-101 preliminary economic assessment report dated December 23, 2009 by Moose Mountain, the Moose Mountain Revised Report, will assist in the impairment test for the Company's New Polaris project. NI 43-101 technical reports for mineral property interests and any recommendations therein will supplement the impairment test for exploration assets.
Long term investments in shares of other companies	Under IFRS, portfolio investments are similar to Canadian GAAP for the Company's financial instruments in available-for-sale investments. However, IFRS requires a fair value determination for available-for-sale investments which may not have a quoted price in an active market when a fair value can still be reliably determined.	Recent private placements by these companies with arm's length subscribers should allow for fair value determination of shares held by the Company as long term investments which are classified as available-for-sale investments but do not have a quoted price in an active market.
Stock-based compensation	Under Canadian GAAP, options which are vested can use the following: <ul style="list-style-type: none">- pooled as one grant and vested on a straight line basis, or- treated as separate individual grants and vest each grant on a straight line basis over each vesting period. IFRS requires the latter alternative. IFRS also requires an estimation of forfeiture rates. The Company currently uses the latter alternative for its granting of vested stock options, and estimates forfeiture rates in its US GAAP reconciliation for the Form 20-F.	Options which are subject to vesting provisions have been treated as separate individual grants and vest each grant on a straight line basis over the vesting period. The forfeiture rates for stock options have been estimated for past years.
Units issuance in private placements	Units in a private placement are comprised of shares and warrants. IFRS requires a value allocated to warrants in a unit private placement based upon the relative fair value. In its US GAAP reconciliation for the Form 20-F, the Company estimates the fair value of warrants in unit private placements.	The fair values of warrants in a unit private placement have been calculated.

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Functional currency	IFRS is more prescriptive in the determination of the functional currency whereby consideration is given to such factors as the primary economic environment where cash is generated and expended, the currency in which funds from financings are received, and cash flows of foreign operations and impact to the parent company.	Pending.
Plan of arrangement for the spin out of Caza Gold Corp.	In 2008, the plan of arrangement between the Company and Caza involves related parties and was accounted for at carrying value in accordance with Canadian GAAP. For IFRS, all related party transactions are to be at fair value whereby the Company needs to determine what is the fair value for the plan of arrangement.	Pending.

In the third quarter of 2010, the Company shall continue to proceed with designing operational and business processes and systems to allow for the transition from Canadian GAAP to IFRS and in the fourth quarter expects to proceed with preliminary financial statements prepared under IFRS. The Company also needs to determine the fair valuation of the plan of arrangement between the Company and Caza which is a related party transaction.

Information systems

Based upon preliminary assessment and diagnostic, the adoption of IFRS would not have a significant impact on the Company's information systems although modifications may be necessary for the conversion to IFRS such as account structures, account codes and general ledger.

Internal control over financial reporting and disclosure

Given the requirement for management to perform assessment of the effectiveness of the Company's internal control over financial reporting, all entity level, information technology, disclosure and business process controls may need to be reviewed and updated, if necessary, to reflect changes arising from the Company's conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the Company's conversion to these new accounting standards under IFRS.

The Company's transition to IFRS will continue for the remainder of 2010 as well as employee training.

1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as held-for-trading,
- long term investments as available-for-sale,
- receivables as loans and receivables,
- royalties receivable as loans and receivables, and

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- accounts payable and accrued liabilities, notes payables and income taxes payable as other financial liabilities.

Management of Financial Risk

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

The fair values of the Company's cash, receivables, accounts payable and accrued liabilities, notes payable and corporate income taxes payable approximate their carrying values due to the short terms to maturity; therefore, disclosure is not made of their level in the fair value hierarchy. Disclosure is not made of the fair value of the long-term investments as the shares do not have a quoted market price in an active market. The fair value of the royalty receivable approximates its carrying value as it was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The royalty receivable is level three in the fair value hierarchy as it is based on unobservable inputs.

(a) Credit risk:

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

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

(b) Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company will require significant additional funding to meet its short-term liabilities, flow-through obligations and administrative overhead costs, and to maintain its mineral property interests in 2010.

Accounts payable and accrued liabilities are due within the current operating period, and the notes payables are due on demand.

(c) Market risk:

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

(i) Foreign exchange risk:

The Company's mineral properties and operations are in Canada, and would subject it to foreign currency fluctuations including currency transaction risk and currency translation risk. A certain portion of its operating expenses are incurred in Canadian dollars, and fluctuations in U.S. dollars would impact the earnings (losses) of the Company and the values of its assets and shareholders' equity as its financial statements are stated in U.S. dollars. The Canadian dollar fluctuates and floats with the U.S. dollar.

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At June 30, 2010, the Company is exposed to currency risk for its U.S. dollar equivalent of financial assets and liabilities denominated in currencies other than U.S. dollars as follows:

	Held in Canadian dollars (stated in U.S. dollars)
Cash	\$ 67
Receivables and prepaids	89
Accounts payable and accrued liabilities	(465)
Notes payable	(65)
Income taxes payable	(316)
Net financial assets (liabilities)	\$ (690)

Based upon the above net exposure as at June 30, 2010 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$69,000 in the Company's net earnings (losses).

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

(ii) Interest rate risk:

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

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at www.sedar.com;
- (b) may be found in the Company's annual information form; and
- (c) is also provided in the Company's unaudited consolidated financial statements for the six months ended June 30, 2010 and its audited consolidated financial statements for the year ended December 31, 2009.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the six months ended June 30, 2010 are as follows:

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	Number of Shares	Amount (in \$000s)
Balance at December 31, 2009	81,969,655	\$ 56,436
Issued:		
Provision for flow-through shares	-	(113)
Balance at June 30, 2010	81,969,655	\$ 56,323

At July 30, 2010, there were 81,969,655 common shares issued and outstanding.

At June 30, 2010, the Company had outstanding stock options to purchase an aggregate 6,770,000 common shares as follows:

	June 30, 2010	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	8,665,000	\$0.38
Forfeited	(55,000)	\$0.38
Expired	(1,840,000)	\$0.32
Outstanding, end of period	6,770,000	\$0.40
Exercise price range (CAD\$)	\$0.11 - \$0.74	

Options for 1.8 million shares which were granted in May 2008 are subject to a vesting provision in which 20% of the options vest immediately and 20% vest every six months.

Options for 1.68 million shares, which were granted in July 2009, are subject to a vesting provision in which 20% of the options vest immediately and 20% vest every six months.

At July 30, 2010, stock options for 6,770,000 common shares remain outstanding.

At June 30, 2010, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2009	Issued	Exercised	Expired	Outstanding at June 30, 2010
\$0.15	June 1, 2010	500,000	-	-	(500,000)	-
\$0.15	April 22, 2011	39,410	-	-	-	39,410
\$0.15	October 22, 2011	202,160	-	-	-	202,160
\$0.15	April 22, 2011	2,568,140	-	-	-	2,568,140
\$0.165	May 9, 2011	154,410	-	-	-	154,410
		3,464,120	-	-	(500,000)	2,964,120

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At July 30, 2010, warrants for 2,964,120 common shares are outstanding.

1.16 Outlook

The Company will continue to depend upon equity financings to continue exploration work on its mineral property interests and to meet its administrative overhead costs for the remainder of the 2010 fiscal year. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

1.17 Risk Factors

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

Exploration and Development Risks

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.

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Estimates of Mineral Deposits

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

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

Mineral Prices

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

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

Title Matters

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

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

Conflicts of Interest

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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.

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Reclamation

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

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

Third Party Reliance

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

Volatility of Shares Could Cause Investor Loss

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

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At June 30, 2010, the Company had 81,969,655 common shares and 6,770,000 share purchase options and 2,964,120 share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At June 30, 2010, dilutive securities represented approximately

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For the Six Months Ended June 30, 2010

(expressed in United States dollars)

12% of the Company's issued shares. If any of these dilutive securities were exercisable at prices below the June 30, 2010 closing market price of CAD\$0.07 for the Company's shares, this would accordingly may result in dilution to existing shareholders if exercised.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon the evaluation of the effectiveness of the disclosure controls and procedures regarding the Company's unaudited consolidated financial statements for the six months ended June 30, 2010 and this MD&A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective to ensure that material information relating to the Company was made known to others within the company particularly during the period in which this report and accounts were being prepared, and such controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under regulatory rules and securities laws is recorded, processed, summarized and reported, within the time periods specified. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Controls over Financial Reporting

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

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

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

Notwithstanding this deficiency, management concluded that the unaudited consolidated financial statements for the six months ended June 30, 2010 fairly present the Company's financial position and the results of its operations for the period then ended.

Changes in Internal Controls over Financial Reporting

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