Atlas Resource Partners, L.P.
Form S-3
April 06, 2015
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As filed with the Securities and Exchange Commission on April 6, 2015

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ATLAS RESOURCE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**45-3591625**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Park Place Corporate Center One

1000 Commerce Drive, Suite 400

Pittsburgh, PA 15275

(800) 251-0171

(Address, including zip code, and telephone number, including area code, of registrant s principal executive office)

Edward E. Cohen

Atlas Energy Group, LLC

Park Place Corporate Center One

1000 Commerce Drive, Suite 400

Pittsburgh, PA 15275

(800) 251-0171

(Address, including zip code, and telephone number, including area code, of agent for service)

Please send copies of communications to:

Amanda J. Abrams, Esq.

Mark E. Rosenstein, Esq.

Ledgewood

1900 Market Street, Suite 750

Philadelphia, PA 19103

(215) 731-9450

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or reinvestment plans, please check the following box: ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered[(1)]	Proposed maximum offering price per unit[(2)]	Proposed maximum aggregate offering price[(2)]	Amount of registration fee
8.625% Class D Cumulative Redeemable Perpetual Preferred Units	800,000	$19.76	$15,808,000	$1,837

(1) Pursuant to Rule 416(a), the number of Class D units being registered shall be adjusted to include any additional Class D units that may become issuable as a result of any unit distribution, split, combination or similar transaction.
(2) Estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c) of the Securities Act of 1933, based upon the average of the high and low prices on the New York Stock Exchange on April 30, 2015.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. This prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale of these securities is not permitted. The selling unitholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective.

SUBJECT TO COMPLETION, DATED APRIL 6, 2015

PROSPECTUS

ATLAS RESOURCE PARTNERS, L.P.

800,000 8.625% Class D Cumulative Redeemable Perpetual Preferred Units

This prospectus relates to the possible resale, from time to time, by the selling unitholders named in this prospectus or in any supplement to this prospectus, of up to 800,000 8.625% Class D Cumulative Redeemable Perpetual Preferred Units, or Class D Units. The 800,000 Class D Units that are being offered by this prospectus are referred to herein as the Units.

The selling unitholders may sell the Units at various times and in various types of transactions, including sales in the open market, sales in negotiated transactions and sales by a combination of these methods. We will not receive any proceeds from the sale of the Units by the selling unitholders.

As used in this prospectus, selling unitholders means Cinco Resources, Inc. and the pledgees, donees, permitted transferees, assignees, successors and others who later come to hold any of Cinco Resources, Inc. s interests in the Units other than through a public sale.

Our Class D Units are traded on the New York Stock Exchange, or the NYSE, under the symbol ARP-PD.

Investing in these securities involves certain risks. You should carefully read and consider the risk factors included in our periodic reports, in any prospectus supplement relating to a specific offering of securities and in other documents that we file with the Securities and Exchange Commission. See Risk Factors on page 2 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus dated , 2015

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus and in any prospectus supplement. We have not authorized any other person to provide you with any other information. If anyone provides you with different or inconsistent information, you should not rely on it.

You should not assume that the information contained in this prospectus or in any prospectus supplement is accurate as of any date other than the date on the front cover of those documents. You should not assume that the information contained in the documents incorporated by reference in this prospectus or in any prospectus supplement is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the Securities and Exchange Commission (the SEC) incorporated by reference in this prospectus.

ABOUT THIS PROSPECTUS

This prospectus provides you with a general description of the securities that may be offered by the selling unitholders. We may provide a prospectus supplement that will contain specific information about the terms of an offering. The prospectus supplement may also add to, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. Therefore, before you invest in our securities, you should read carefully this prospectus, any prospectus supplement and the additional information described below under the heading Where You Can Find More Information.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain sections of this registration statement contain statements reflecting our views about our future performance and constitute forward-looking statements. We and our representatives may, from time to time, make written or oral forward-looking statements, including statements contained in our filings with the SEC and in our reports to security holders. Generally, the inclusion of the words believe, expect, intend, estimate, project, anticipate, will and

expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of us or any subsidiary, events or developments that we expect or anticipates would occur in the future are forward-looking statements.

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These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in such forward-looking statements. Readers should consider the various factors, including those discussed in our most recent annual report on Form 10-K under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Critical Accounting Policies and Estimates , and our Quarterly Reports on Form 10-Q, that are on file with the SEC for additional factors that may affect our performance. The forward-looking statements are and will be based upon management s then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. We undertake no obligation to update any forward-looking statements as a result of new information, future events or otherwise. **You should rely only on the information contained in this prospectus, in any prospectus supplement and in material we file with the SEC. We have not authorized anyone to provide you with information that is different.**

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THE COMPANY

Our Business

We are a publicly-traded master-limited partnership (NYSE: ARP) and an independent developer and producer of natural gas, crude oil and natural gas liquids, with operations in basins across the United States. We are a leading sponsor and manager of tax-advantaged investment partnerships, or Drilling Partnerships, in which we co-invest, to finance a portion of our natural gas, crude oil and natural gas liquids production activities.

We believe we have established a strong track record of growing our reserves, production and cash flows through a balanced mix of natural gas, oil and natural gas liquids exploitation and development, sponsorship of our Drilling Partnerships, and the acquisition of oil and gas properties. Our primary business objective is to generate growing yet stable cash flows through the development and acquisition of mature, long-lived natural gas, oil and natural gas liquids properties. As of December 31, 2014, our estimated proved reserves were 1,429 Bcfe, including the reserves net to our equity interest in our Drilling Partnerships. Of our estimated proved reserves, approximately 77% were proved developed and approximately 71% were natural gas.

Organizational Structure

We were formed in October 2011 to own and operate substantially all of the exploration and production assets of Atlas Energy, L.P., or ATLS, which were transferred to us on March 5, 2012. At December 31, 2014, ATLS owned 100% of our general partner Class A units, all of our incentive distribution rights and an approximate 27.7% limited partner interest (20,962,485 common and 3,749,986 convertible class C preferred units, or Class C Units) in us. On February 27, 2015, ATLS was acquired by Targa Resources Corp. (NYSE: TRGP) through a merger of wholly-owned subsidiary of Targa Resources Corp. with and into ATLS, referred to herein as the ATLS Merger, and in connection therewith ATLS (a) transferred certain of its assets, including its limited partnership interests in us, to Atlas Energy Group, LLC (NYSE: ATLS), our general partner, referred to herein as Atlas Energy Group, and its affiliates, and (b) distributed to the ATLS unitholders common units of Atlas Energy Group representing a 100% interest in Atlas Energy Group, referred to herein as the Spin-Off.

Following consummation of the ATLS Merger and Spin-Off, Atlas Energy Group owned 100% of our general partner Class A units, through which it manages and effectively controls us, and, through its wholly-owned subsidiary, New Atlas Holdings, LLC, owned an approximate 27.7% limited partner interest (20,962,485 common and 3,749,986 Class C Units) in us.

Our principal executive offices are located at Park Place Corporate Center One, 1000 Commerce Drive, Suite 400, Pittsburgh, PA 15275, and our telephone number is (877) 280-2857. Our website is *www.atlasresourcepartners.com*. Information on our website or any other website is not incorporated by reference herein and does not constitute a part of this prospectus supplement.

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RISK FACTORS

Investing in our securities involves risk. Before you decide whether to purchase any of our securities, in addition to the other information, documents or reports included or incorporated by reference into this prospectus and any prospectus supplement or other offering materials, you should carefully consider the risk factors in the section entitled Risk Factors in any prospectus supplement, in our most recent Annual Report on Form 10-K and any Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed by us subsequent to such Annual Report on Form 10-K, as the same may be amended, supplemented or superseded from time to time by our filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act. For more information, see the section of this prospectus entitled Where You Can Find More Information. These risks could materially and adversely affect our business, financial condition or operating results and could result in a partial or complete loss of your investment.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s web site at *http://www.sec.gov* or at our website at *http://www.atlasresourcepartners.com*. You may also read and copy any document we file at the SEC s public reference room at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for additional information on the public reference room.

The SEC allows us to incorporate by reference the information we file with it. This means that we can disclose important information to you by referring to these documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the date on which the offering under this registration statement is terminated, including filings made after the date of the initial registration statement of which this prospectus forms a part and before effectiveness of the registration statement, will automatically update and supersede this information.

We are incorporating by reference the following documents that we have previously filed with the SEC, other than any portions of the respective filings that were furnished, pursuant to Item 2.02 or Item 7.01 of Current Reports on Form 8-K or other applicable SEC rules, rather than filed:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2014;
- the description of our Class D Units in our Form 8-A, filed on October 12, 2014, and any subsequent amendment thereto containing an update to such description;
- our Current Reports on Form 8-K filed on February 23, 2015, March 2, 2015 and April 6, 2015; and
- our Current Report on Form 8-K/A filed on August 8, 2014.

You may request a copy of any document incorporated by reference in this prospectus without charge by writing or calling us at:

Atlas Energy Group, LLC

Park Place Corporate Center One

1000 Commerce Drive, Suite 400

Pittsburgh, PA 15275

(877) 280-2857

Attn: Brian Begley

Except as set forth herein, information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website as part of this prospectus.

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USE OF PROCEEDS

The Units to be offered and sold pursuant to this prospectus will be offered and sold by the selling unitholders. We will not receive any proceeds from the sale of the Units by the selling unitholders.

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DESCRIPTION OF COMMON UNITS

Common Units

The common units are a class of limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights or privileges available to holders of common units as outlined in our partnership agreement. For a description of the rights and preferences of holders of common units in partnership distributions, please read Our Cash Distribution Policy. For a description of the rights and privileges of the holders of our common units under our partnership agreement, including voting rights, please read Our Partnership Agreement.

Transfer Agent and Registrar

Duties. American Stock Transfer serves as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;
- special charges for services requested by a common unitholder; and
- other similar fees or charges.

There are no charges to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal. The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;

automatically becomes bound by the terms and conditions of, and is deemed to have executed, our partnership agreement;

gives the consents and waivers contained in our partnership agreement.

A transferee will become a limited partner of our partnership for the transferred common units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records from time to time as necessary to accurately reflect the transfers.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfers of securities.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

DESCRIPTION OF CLASS D PREFERRED UNITS

Class D Units

The Class D Units are a class of limited partner interests in us with a face value of $25.00 per unit. The holders of Class D Units are entitled to participate in partnership distributions and exercise the rights or privileges available to holders of Class D Units as outlined in our partnership agreement. For a description of the rights and preferences of holders of Class D Units in partnership distributions, please read Our Cash Distribution Policy. For a description of the rights and privileges of the holders of Class D Units under our partnership agreement, including voting rights, please read Our Partnership Agreement.

The Class D Units receive cash distributions, paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year when, as and if declared by the board of directors of our general partner. Distributions on the Class D Units will be payable out of amounts legally available therefor at an initial rate equal to 8.625% per annum of the $25.00 liquidation preference per unit (equal to $2.15625 per unit). The record date for the determination of holders entitled to receive distributions of the Class D Units will be the first business day of the month in which the applicable distribution payment date falls. If we fail to pay in full any distribution on the Class D Units, we will not be permitted to make any distributions on our common units until all such preferred distributions have been paid in full.

The Class D Units rank senior to our common units and Class C Units with respect to the payment of distributions and distributions upon a liquidation event and equal with our convertible Class B preferred units, or Class B Units. The Class D Units have no stated maturity and are not subject to mandatory redemption or any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by us or converted into our common units in connection with a change in control. At any time on or after October 15, 2019, we may, at our option, redeem the Class D Units in whole or in part, at a redemption price of $25.00 per unit plus an amount equal to all accumulated and unpaid distributions thereon to the date of redemption, whether or not declared. In addition, we may redeem the Class D Units following certain changes of control, as described in the Certificate of Designation. If we do not exercise this redemption option upon a change of control, then holders of the Class D Units will have the option to convert the Class D Units into a number of our common units per Class D Unit as set forth in the Certificate of Designation for the Class D Units. If we exercise any of our redemption rights relating to the Class D Units, the holders of such Class D Units will not have the conversion right described above with respect to the Class D Units called for redemption.

The Class D Units have class voting rights (requiring the affirmative vote of at least two-thirds of the outstanding Class D Units) on any amendment to our limited partnership agreement that materially adversely affects any of the rights, preferences, obligations or privileges of the Class D Units. In addition, unless we have received the affirmative vote or consent of the holders of at least two-thirds of the outstanding Class D Units, we may not create or issue any securities that are expressly made senior to the Class D Units as to payment of distributions.

Upon our liquidation, dissolution or winding up, or the sale of all or substantially all of our assets, the holders of Class D Units generally will be entitled to receive, in preference to the holders of any of our common units and other securities that rank junior to the Class D Units with respect to distributions, an amount equal to the $25.00 liquidation preference of the units plus an amount equal to all accumulated and unpaid distributions thereon to the date of payment, whether or not declared.

Transfer Agent and Registrar

Duties. American Stock Transfer serves as registrar and transfer agent for the Class D Units. We pay all fees charged by the transfer agent except the following that must be paid by unitholders:

surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;

- special charges for services requested by a Class D unitholder; and

- other similar fees or charges.

There are no charges to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal. The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Class D Units

The Class D Units are transferable by a holder only in compliance with all federal and applicable state securities laws.

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OUR PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. We will provide holders of our securities with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read Our Cash Distribution Policy;
- with regard to the transfer of common units, please read Description of Common Units Transfer of Common Units;
- with regard to the transfer of Class D Units, please read Description of Class D Preferred Units Transfer of Class D Units; and
- with regard to allocations of taxable income and taxable loss, please read Tax Considerations.

Organization and Duration

Our partnership was formed in October 2011 and will have a perpetual existence unless terminated pursuant to the terms of our partnership agreement.

Purpose

Our purpose under the partnership agreement is to engage in any business activity that is approved by our general partner and that lawfully may be conducted by a limited partnership organized under Delaware law; provided, that our general partner will not cause us to engage in any business activity that the general partner determines would cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for U.S. federal income tax purposes.

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the production of natural gas and oil, our general partner has no current plans to do so and may decline to do so free of any duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. Our general partner is authorized in general to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

Cash Distributions

Our partnership agreement specifies the manner in which we will make cash distributions to holders of our common units and other partnership securities as well as to our general partner in respect of its incentive distribution rights. For a description of these cash distribution provisions, please read Our Cash Distribution Policy.

Capital Contributions; No Dilution of Class A Units; One-to-One Ratio Between Class A Units and Common Units

Unitholders are not obligated to make additional capital contributions, except as described below under Limited Liability.

The class A units are entitled to 2% of all distributions that we make prior to our liquidation. The 2% sharing ratio of the class A units will not be reduced if we issue additional equity securities in the future. Because the 2% sharing ratio will not be reduced if we issue additional equity securities, and in order to ensure that each class A unit represents the same percentage economic interest in us as one common unit, if we issue additional common units, we will also issue to our general partner, for no additional consideration and without any requirement to make a capital contribution, an additional number of class A units so that the total number of outstanding class A units after such issuance equals 2% of the sum of the total number of common units and common unit equivalents and class A units after such issuance.

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Voting Rights

The following is a summary of the unitholder vote required for the matters specified below. Matters requiring the approval of a unit majority require the approval of a majority of the common units. Except as set forth below, Class B Units, Class C Units and Class D Units have no voting rights.

In voting their common units, our general partner and its affiliates will have no duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. The holders of a majority of the common units represented in person or by proxy shall constitute a quorum at a meeting of such common unitholders, unless any such action requires approval by holders of a greater percentage of such units in which case the quorum shall be such greater percentage.

The following is a summary of the vote requirements specified for certain matters under our partnership agreement:

Issuance of additional partnership securities	No approval right. See Issuance of Additional Securities.
Amendment of our partnership agreement	Certain amendments may be made by our general partner without the approval of the common unitholders. Other amendments generally require the approval of a unit majority or, if any amendment could adversely affect their rights, the approval by a majority of the Class B or Class C Units or the approval by two-thirds of the Class D Units. See Amendment of the Partnership Agreement.
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority in certain circumstances. See Merger, Consolidation, Conversion, Sale or Other Disposition of Our Assets.
Dissolution of our partnership	Unit majority and the approval by a majority of the Class B and Class C Units and the approval by two-thirds of the Class D Units. See Termination and Dissolution.
Continuation of our partnership upon dissolution	Unit majority. See Termination and Dissolution.
Withdrawal of our general partner	Prior to March 13, 2022, under most circumstances, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is required for the withdrawal of our general partner in a manner that would cause a dissolution of our partnership. See Withdrawal or Removal of Our General Partner.
Removal of our general partner	Not less than two-thirds of the outstanding common units, including common units held by our general partner and its affiliates. See Withdrawal or Removal of Our General Partner.
Transfer of the general partner interest	Our general partner may transfer without a vote of our common unitholders all, but not less than all, of its general partner interest in us to an affiliate or another person (other than an individual) in connection with its merger or consolidation with or into, or sale of all, or substantially all, of its assets, to such person. The approval of a majority of the common units, excluding

	common units held by our general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third-party prior to the tenth anniversary of the date of the distribution. See Transfer of General Partner Interest.
Transfer of ownership interests in our general partner	No approval required at any time. See Transfer of Ownership Interests in the General Partner.

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The holder of our class A units has all voting rights applicable to the general partner.

Applicable Law; Forum, Venue and Jurisdiction

Our partnership agreement is governed by Delaware law. Our partnership agreement requires that, unless we (through the approval of our general partner) consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for any claims, suits, actions or proceedings:

- arising out of or relating in any way to the partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of the partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, the limited partners or us);
- brought in a derivative manner on our behalf;
- asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or the limited partners;
- asserting a claim arising pursuant to any provision of the Delaware Revised Uniform Limited Partnership Act, or the Delaware Act; or
- asserting a claim governed by the internal affairs doctrine;

regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims. However, if and only if the Court of Chancery of the State of Delaware dismisses any such claims, suits, actions or proceedings for lack of subject matter jurisdiction, such claims, suits, actions or proceedings may be brought in another state or federal court sitting in the State of Delaware. By acquiring or purchasing a common unit, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware in connection with any such claims, suits, actions or proceedings.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and otherwise acts in conformity with the provisions of our partnership agreement, the limited partner s liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital it is obligated to contribute to us for its common units plus its share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace our general partner,

- to approve some amendments to our partnership agreement, or

- to take other action under our partnership agreement

constituted participation in the control of our business for purposes of the Delaware Act, then our limited partners could be held personally liable for our obligations under Delaware law to the same extent as our general partner. This liability would extend to persons who transact business with us and reasonably believe that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership cannot make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their

partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. Moreover, under the Delaware Act, a limited partnership may also not make a distribution to a partner upon the winding up of the limited partnership before liabilities of the limited partnership to creditors have been satisfied by payment or the making of reasonable provision for payment thereof. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act will be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, an assignee who becomes a limited partner is liable for the obligations of his assignor to make contributions to the partnership, except such person is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

We currently conduct business in Alabama, Arkansas, Colorado, Indiana, Kansas, Kentucky, Louisiana, Michigan, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Virgina, West Virginia and Wyoming. Limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established in many jurisdictions. If it were determined that we were conducting business in any state without compliance with the applicable limited partnership statute, or that the right or exercise of the right by the limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement or to take other action under our partnership agreement constituted participation in the control of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities for the consideration and on the terms and conditions determined by our general partner without the approval of our unitholders, subject to the rights of holders of our Class B and Class D Units to approve the creation or issuance of any securities senior to such units. The affirmative vote of the holders of at least 75% of the outstanding Class B Units is required to issue any equity securities ranking senior to, or pari passu with, the Class B Units with respect to liquidation preference or distributions. The affirmative vote of the holders of at least two-thirds of the outstanding Class D Units, voting as a single class and together with holders of any securities not expressly made senior or subordinated to the Class D Units, is required to issue any securities ranking senior to the Class D units with respect to distributions.

It is possible that we will fund acquisitions through the issuance of additional common units or other partnership securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other partnership securities may dilute the value of the interests of the then-existing holders of common units in our net assets. The holders of common units will not have preemptive rights to acquire additional common units or other partnership securities.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities that, as determined by our general partner, may have special voting rights to which the common units are not entitled. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of

equity securities, which may effectively rank senior to our common units.

The class A units will be entitled to 2% of all distributions that we make prior to our liquidation, other than distributions we make on our Class D Units. The 2% sharing ratio of the class A units will not be reduced if we

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issue additional equity securities in the future. Because the 2% sharing ratio will not be reduced if we issue additional equity securities, and in order to ensure that each class A unit represents the same percentage economic interest in us as one common unit, if we issue additional common units or units convertible into common units, we will also issue to our general partner, for no additional consideration and without any requirement to make a capital contribution, an additional number of class A units so that the total number of outstanding class A units after such issuance equals 2% of the sum of the total number of common units, common unit equivalents and class A units after such issuance.

In addition to the right to receive additional class A units, our general partner will have a limited preemptive right in connection with any issuance by us of additional partnership securities. The right, which the general partner may assign in whole or in part to any of its affiliates, will entitle the general partner to purchase additional units of any securities being sold to third parties, on the same terms as such third parties, in an amount up to the amount necessary to maintain the aggregate ownership percentage of the general partner and its affiliates at the same level before and after such issuance.

Amendment of the Partnership Agreement

General. Amendments to our partnership agreement may be proposed only by our general partner. However, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners. To adopt a proposed amendment, other than the amendments discussed under No Unitholder Approval , our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment.

Prohibited Amendments. No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected; or

- enlarge the obligations of, restrict in any way any action by or rights of or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which consent may be given or withheld at its option.

The provision of our partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class.

No Unitholder Approval. Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

- a change in our name, the location of our principal place of business, our registered agent or registered office;

the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;

a change that our general partner determines to be necessary or appropriate for us to qualify us or continue our qualification as a limited partnership or other entity in which the limited partners have limited liability under the laws of any state or to ensure that we will not be taxed as a corporation or otherwise taxed as an entity for U.S. federal income tax purposes;

a change in our fiscal year or taxable year and related changes;

an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner, or its directors, officers, agents or trustees, from in any manner being subject to the provisions of the

Investment Company Act of 1940, the Investment Advisers Act of 1940 or plan asset regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

an amendment that our general partner determines to be necessary or appropriate for the authorization or issuance of additional partnership securities or options, warrants, rights or appreciation rights relating to partnership securities;

an amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;

any amendment effected, necessitated or contemplated by a merger agreement or plan of conversion that has been approved under the terms of our partnership agreement;

any amendment that our general partner determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by our partnership agreement;

any amendment necessary to require our limited partners to provide a statement, certification or other evidence to us regarding whether such limited partner is subject to U.S. federal income taxation on the income generated by us or regarding such limited partner s nationality or citizenship and to provide for the ability of our general partner to redeem the units of any limited partner who fails to provide such statement, certification or other evidence;

conversions into, mergers with or conveyances to another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the conversion, merger or conveyance other than those it receives by way of the conversion, merger or conveyance; and

any other amendment substantially similar to any of the matters described above.

In addition, our general partner may amend our partnership agreement, without the approval of the unitholders, if our general partner determines that those amendments:

do not adversely affect the limited partners in any material respect;

are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange or interdealer quotation system on which the limited partner interests are or will be listed for trading;

are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units or to implement the tax-related provisions of our partnership agreement; or

are required to effect the intent expressed in this registration statement or the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

Unitholder Approval. For amendments of the type not requiring unitholder approval, our general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to our limited partners or result in our being treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding common units if our general partner determines that such amendment will affect the limited liability of any limited partner under Delaware law.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the

approval of at least a majority of the type or class of units so affected, or, with respect to our Class D Units, approval of at least two-thirds of Class D Units. Any amendment that reduces the voting percentage required to take any action other than to remove the general partner or call a meeting of unitholders is required to be approved by the affirmative vote of limited partners whose aggregate outstanding common units constitute not less than the voting requirement sought to be reduced. Any amendment that would increase the percentage of common units required to remove the general partner or call a meeting of unitholders must be approved by the affirmative vote of limited partners whose aggregate outstanding common units constitute not less than the percentage sought to be increased.

Merger, Consolidation, Conversion, Sale or Other Disposition of Our Assets

A merger, consolidation or conversion of us requires the prior consent of our general partner. However, our general partner will have no duty or obligation to consent to any merger, consolidation or conversion and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or any other standard imposed by our partnership agreement, the Delaware Act or applicable law.

In addition, the partnership agreement generally prohibits our general partner, without the prior approval by a unit majority, from causing us to sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions. Our general partner may, however, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without the approval of a unit majority. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval. Finally, our general partner may consummate any merger, consolidation or conversion without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction will not result in an amendment to the partnership agreement (other than an amendment that the general partner could adopt without the consent of other partners), each of our units will be an identical unit of our partnership following the transaction and the number of partnership securities to be issued does not exceed 20% of our outstanding partnership securities immediately prior to the transaction.

If the conditions specified in the partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity if the purpose of that conversion, merger or conveyance is to effect a change in our legal form into another limited liability entity, our general partner has received an opinion of counsel regarding limited liability and tax matters and the general partner determines that the governing instruments of the new entity provide the limited partners and the general partner with substantially the same rights and obligations as contained in the partnership agreement. The unitholders are not entitled to dissenters rights of appraisal under the partnership agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets or any other similar transaction or event.

Termination and Dissolution

We will continue as a limited partnership until dissolved under our partnership agreement. We will dissolve upon:

- the election of our general partner to dissolve us, if approved by a unit majority;

- the entry of a decree of judicial dissolution of our partnership;

there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law; or

the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in us in accordance with our partnership agreement or withdrawal or removal following approval and admission of a successor.

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Upon a dissolution under the last item above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of a unit majority subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability under Delaware law of any limited partner; and
- neither our partnership nor any of our subsidiaries would be taxed as a corporation or otherwise be taxable as an entity for U.S. federal income tax purposes upon the exercise of that right to continue (to the extent not already so treated or taxed).

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate liquidate our assets and apply the proceeds of the liquidation as described in Our Cash Distribution Policy. The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of Our General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to the tenth anniversary of the date of the distribution, without obtaining the approval of the holders of at least a majority of our outstanding common units, excluding common units held by our general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after the tenth anniversary of the date of the distribution, our general partner may withdraw as our general partner without first obtaining approval from the unitholders by giving 90 days written notice. Notwithstanding the information above, our general partner may withdraw as our general partner without unitholder approval upon 90 days notice to our limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than our general partner and its affiliates. In addition, our partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. See Transfer of General Partner Interest.

If our general partner withdraws, other than as a result of a transfer of all or a part of its general partner interest in us, the holders of a unit majority may elect a successor to the withdrawing general partner. If a successor is not elected prior to the effective date of the withdrawal, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved and liquidated, unless within a specified period of time after that withdrawal, the holders of a unit majority elect to continue the partnership by appointing a successor general partner. See Termination and Dissolution.

Our general partner may not be removed unless that removal is approved by the vote of the holders of at least 66 ⅔% of the outstanding units, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a unit majority, including units held by our general partner and its affiliates. The ownership of more than 33 ⅓% of our outstanding common units by our general partner and its affiliates would give them the practical ability to prevent our general partner s removal.

In the event of removal of our general partner under circumstances where cause exists or a withdrawal of our general partner that violates our partnership agreement, a successor general partner will have the option to purchase the class A units and incentive distribution rights of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where our general partner

withdraws or is removed, the departing general partner will have the option to require the successor general partner to purchase those interests for their fair market value. In each case, fair market value will be determined by agreement between the departing general partner and the successor general partner. If they cannot reach an agreement, an independent expert selected by the departing general partner and the successor general partner will determine the fair market value. If the departing general partner and the successor general partner cannot agree on an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the purchase option is not exercised by either the departing general partner or the successor general partner, the class A units and incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interest

Except for the transfer by our general partner of all, but not less than all, of its class A units to:

- an affiliate of our general partner (other than an individual); or

- another entity as part of the merger or consolidation of our general partner with or into another entity or the transfer by our general partner of all or substantially all of its assets to another entity,

our general partner may not transfer all or any part of its general partner interest to another person, prior to the tenth anniversary of the date of the distribution, without the approval of the holders of at least a majority of our outstanding common units, excluding common units held by our general partner and its affiliates. As a condition of this transfer, the transferee must assume, among other things, the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates may at any time transfer common units to one or more persons without unitholder approval.

Transfer of Ownership Interests in the General Partner

The members of our general partner may sell or transfer all or part of their interest in our general partner without the approval of the unitholders.

Transfer of Incentive Distribution Rights

Our general partner or any other holder of incentive distribution rights may transfer any or all of its incentive distribution rights without unitholder approval.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove Atlas Energy Group as our general partner or otherwise change the management of our general partner. If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of our common units, that person or group will lose voting rights on all of its units and the common units will not be considered outstanding for the purposes of noticing meetings, determining the presence of a quorum, calculating required votes and other similar matters. This loss of voting rights does not

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Canadian GAAP

13,167

12,829

20,115

18,447

11,182

U.S. GAAP

4,175

4,375

5,624

7,966

7,101

(e)

Total long-term debt [2]:

Canadian GAAP

-

-

-

-

-

U.S. GAAP

-

-

-

-

-

(f)

Shareholders' equity (net assets):

Canadian GAAP

12,168

12,523

19,480

18,212

10,947

U.S. GAAP

2,999

4,069

4,989

7,731

6,866

(g)

Dividends per shares [3]:

Canadian GAAP

No cash dividends declared in any of these periods

U.S. GAAP

No cash dividends declared in any of these periods

(h)

Shares:

Diluted number of common shares

94,248,775

81,433,505

80,308,505

79,528,276

65,879,115

Number of common shares

81,969,655

72,704,505

71,734,505

68,470,476

58,545,115

(1)

Revenues are comprised of gains from the disposition of marketable securities and investment and other income. Canarc has no sources of operating revenues.

(2)

Canarc has no preferred shares.

(3)

On June 25, 2008, Canarc did close a Plan of Arrangement (the Arrangement) with Caza Gold Corp. (Caza) whereby approximately 83% of Canarc's interest in Caza was distributed to the shareholders of Canarc. Item 4.A provides further details.

Canarc has had no long-term debt and has not paid any cash or share dividends over the last five years.

On June 15, 2010, the Bank of Canada closing rate for the conversion of one United States dollar into Canadian dollars was CAD$1.0251.

The following table reflects the monthly high and low exchange rates for U.S.$1.00 to the Canadian dollar for the following periods:

Month	**Year**	**High (CAD$)**	**Low (CAD$)**
December	2009	1.0595	1.0504
January	2010	1.0469	1.0396
February	2010	1.0610	1.0520
March	2010	1.0268	1.0199
April	2010	1.0090	1.0010
May	2010	1.0474	1.0340

The following table lists the high, low, average and closing exchange rates for U.S.$1.00 to the Canadian dollar for the last five years:

Year	**High (CAD$)**	**Low (CAD$)**	**Average Rate (CAD$)**	**Close (CAD$)**
2004	1.4003	1.1746	1.3013	1.2020
2005	1.2734	1.1427	1.2116	1.1630
2006	1.1794	1.0948	1.1342	1.1654
2007	1.1878	0.9066	1.0750	0.9913
2008	1.3008	0.9711	1.0660	1.2180
2009	1.3066	1.0251	1.1420	1.1420

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the Offer and Use of Proceeds

Not applicable.

3.D Risk Factors

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

Risks Related to the Registrant's Business

The Registrant's exploration activities may not be commercially successful, which could lead it to abandon its plans to develop its properties and its investments in exploration and there is no assurance given by the Registrant 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 Registrant's mineral exploration and development activities will result in any discoveries of bodies of commercial ore. Unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Registrant has relied and may continue to rely upon consultants and others for construction and operating expertise. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grade of ore mined, fluctuating mineral markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the price of gold or other minerals produced, the Registrant may determine that it is impractical to commence or continue commercial production. Substantial expenditures are required to establish reserves through drilling, 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 Registrant'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 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 Registrant to apply for an exploitation concession. There can be no guarantee that such a concession will be granted.

The Registrant's planned operations will require future financing and there is no assurance given by the Registrant that it will be able to secure the financing necessary to explore, develop and produce its mineral properties.

The Registrant does not presently have sufficient financial resources or operating cash flows to undertake by itself all of its planned exploration and development programs. The development of the Registrant's properties may therefore depend on the Registrant's joint venture partners and on the Registrant's ability to obtain additional required financing. There is no assurance the Registrant 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. In addition, the Registrant has no experience in developing mining properties into production and its ability to do so will be dependent upon securing the services of appropriately experienced personnel or entering into agreements with other major mining companies which can provide such expertise.

As noted in its audited consolidated financial statements for the year ended December 31, 2009, the Registrant has incurred significant operating losses and has an accumulated deficit of approximately $46.6 million at December 31, 2009. Furthermore, the Registrant has working capital deficiency of approximately $649,000 as at December 31, 2009, and lack sufficient funds to achieve the Registrant's planned business objectives. The Registrant's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Registrant's liabilities as they become payable.

The report of our independent registered public accounting firm on the December 31, 2009 consolidated financial statements includes an additional paragraph that states that conditions exist that raise substantial doubt about the Registrant's ability to continue as a going concern. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

The figures for the Registrant's reserves and resources are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated and there is no assurance given by the Registrant that any estimates of mineral deposits herein will not change.

Although all figures with respect to the size and grade of mineralized deposits included herein have been carefully prepared by the Registrant, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are estimates only 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 grade of ore ultimately mined may differ from that indicated by drilling results. 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, 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.

Changes in the market price of gold, silver and other metals, which in the past have fluctuated widely, will affect the profitability of the Registrant's planned operations and financial condition and there is no assurance given by the Registrant 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 Registrant 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 Registrant, 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 Registrant 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 Registrant's properties can be mined at a profit.

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

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to any of the Registrant's mining concessions may come under dispute. While the Registrant has diligently investigated title considerations to its mineral properties, in certain circumstances, the Registrant has only relied upon representations of property partners and government agencies. There is no guarantee of title to any of the Registrant'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 Registrant's properties are located. To the best of the knowledge of the Registrant, although the Registrant understands that comprehensive land claims submissions have been received by Indian and Northern Affairs Canada from the Taku Tlingit (Atlin) Band (which encompasses the New Polaris property) and from the Association of United Tahltans and the Nisga'a Tribal Council (which may encompass the Eskay Creek property), no legal actions have been formally served on the Registrant to date asserting such rights with respect to mining properties in which the Registrant has an interest.

The Registrant competes with larger, better capitalized competitors in the mining industry and there is no assurance given by the Registrant that it can compete for mineral properties, future financings and technical expertise.

Significant and increasing competition exists for the limited number of gold acquisition opportunities available in North, South and Central America and elsewhere in the world. As a result of this competition, some of which is with large established mining companies which have greater financial and technical resources than the Registrant, the Registrant may be unable to acquire additional attractive gold mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Registrant's exploration and acquisition programs will yield any new reserves or result in any commercial mining operation.

The Registrant may also encounter increasing competition from other mining companies in its efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Increased competition could adversely affect the Registrant's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

The Registrant's directors and officers may have conflicts of interest as a result of their relationships with other companies and there is no assurance given by the Registrant that its directors and officers will not have conflicts of interest from time to time.

The Registrant'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 Registrant may participate, the directors of the Registrant may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In particular, Bradford Cooke is a Director of Aztec Metals Corp. (Aztec), Caza Gold Corp. (Caza) and Endeavour Silver Corp. (Endeavour) companies in which the Registrant previously owned or currently owns shares. 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 Registrant'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 company 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 Registrant are required to act honestly, in good faith and in the best interests of the Registrant. In determining whether or not the Registrant 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 Registrant may be exposed and its financial position at that time.

The Registrant does not insure against all risks which we may be subject to in our planned operations and there is no assurance given by the Registrant that it is adequately insured against all risks.

The Registrant 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.

The Registrant is subject to significant governmental and environmental regulations and there is no assurance given by the Registrant that it has met all environmental or regulatory requirements.

The current or future operations of the Registrant, 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 Registrant 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 Registrant has interests and there can be no assurance that the Registrant 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 Registrant 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.

As a prior holder of an interest in a U.S. mineral property, the Registrant may be subject to the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA). CERCLA, along with analogous statutes in certain states, imposes strict, joint and several liability on owners and operators of facilities which release hazardous substances into the environment. CERCLA imposes similar liability upon generators and transporters of hazardous substances disposed of at an off-site facility from which a release has occurred or is threatened. Under CERCLA's strict joint and several liability provisions, the Registrant could potentially be liable for all remedial costs associated with property that it owned or operated regardless of whether

the Registrant's activities are the actual cause of the release of hazardous substances. Such liability could include the cost of removal or remediation of the release and damages for injury to the natural resources. The Registrant's one prior property was located in a historic mining district and may include abandoned mining facilities (including waste piles, tailings, portals and associated underground and surface workings). Releases from such facilities or from any of the Registrant's prior U.S. properties due to past or current activities could form the basis for liability under CERCLA and its analogs. In addition, off-site disposal of hazardous substances, including hazardous mining wastes, may subject the Registrant to CERCLA liability. The Registrant's prior U.S. property is not, to the Registrant's knowledge, currently listed or proposed for listing on the National Priority List and the Registrant is not aware of pending or threatened CERCLA litigation which names the Registrant as a defendant or concerns any of its prior U.S. properties or operations. The Registrant cannot predict the potential for future CERCLA liability with respect to its prior U.S. property, nor can it predict the potential impact or future direction of CERCLA litigation in the area surrounding its prior property.

To the best of the Registrant's knowledge, the Registrant is operating in compliance with all applicable environmental and regulatory regulations.

Land reclamation requirements for the Registrant's properties may be burdensome.

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 Registrant.

Mining is inherently dangerous and subject to conditions or events beyond the Registrant's control, which could have a material adverse effect on the Registrant's business.

Mining involves various types of risks and hazards, including:

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environmental hazards,

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power outages,

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metallurgical and other processing problems,

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unusual or unexpected geological formations,

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structural cave-ins or slides,

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flooding, fire, explosions, cave-ins, landslides and rock-bursts,

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inability to obtain suitable or adequate machinery, equipment, or labour,

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metals losses, and

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periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. The Registrant may not be able to obtain insurance to cover these risks at economically feasible premiums. Insurance against certain environmental risks, including potential liability for pollution or other hazards as

a result of the disposal of waste products occurring from production, is not generally available to the Registrant or to other companies within the mining industry. The Registrant may suffer a material adverse effect on its business if it incurs losses related to any significant events that are not covered by its insurance policies.

The Registrant will be required to locate mineral reserves for its long-term success.

Because mines have limited lives based on proven and probable mineral reserves, the Registrant will have to continually replace and expand its mineral reserves. The Registrant's ability to maintain or increase its annual production of gold and other base or precious metals once its current properties are producing, if at all, will be dependent almost entirely on its ability to acquire, explore, and develop new properties and bring new mines into production.

The Registrant's properties may be located in foreign countries and political instability or changes in the regulations in these countries may adversely affect the Registrant's ability to carry on its business.

Certain of the Registrant's properties may be 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 Registrant 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 Registrant and its joint venture partners to obtain any required production financing for its mineral properties.

Fluctuations in foreign currency exchange rates may adversely affect the Registrant's future profitability.

In addition to CAD dollar currency accounts, the Registrant maintains a portion of its funds in U.S. dollar denominated accounts. Certain of the Registrant's properties and related contracts may be denominated in U.S. dollars. Accordingly, the Registrant may take some steps to reduce its risk to foreign currency fluctuations. However, the Registrant's operations in countries other than Canada are normally carried out in the currency of that country and make the Registrant subject to foreign currency fluctuations and such fluctuations may materially affect the Registrant's financial position and results. In addition future contracts may not be denominated in U.S. dollars and may expose the Registrant to foreign currency fluctuations and such fluctuations may materially affect the Registrant's financial position and results. In addition, the Registrant 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 Registrant holds property interests and future impositions of such restrictions could have a materially adverse effect on the Registrant's future profitability or ability to pay dividends.

The Registrant is reliant on third parties.

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

Jurisdiction and Enforcement in U.S. and Canadian Courts.

The enforcement of civil liabilities under the U.S. federal and state securities laws may be affected adversely by the fact that the Registrant is incorporated under the laws of a foreign country, that certain of its officers and directors are residents of a foreign country, that the independent registered public accounting firm and some or all of the experts named in this report may be residents of a foreign country and that all or a substantial portion of the assets of the Registrant and said persons may be located outside the U.S. In particular, uncertainty exists as to whether Canadian courts would entertain claims or enforce judgments based on the civil liability provisions of the U.S. federal and state securities laws.

The Registrant's possible PFIC status may have possible adverse tax consequences for United States Investors.

Potential investors who are United States taxpayers should be aware that Canarc may be classified for United States tax purposes as a passive foreign investment company (PFIC) for the current fiscal year and may also have been a PFIC in prior years, and may also be a PFIC in subsequent years. This status arises due to the fact that Canarc's excess exploration funds are invested in interest bearing securities creating passive income which, while modest and ancillary to the exploration business, has been Canarc's only substantive source of income. If Canarc is a PFIC for any year during a United States taxpayer's holding period, then such a United States taxpayer, generally, will be required to treat any so-called excess distribution received on its common shares, or any gain realized upon a disposition of common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund (QEF) election or a mark-to-market election with respect to the shares of Canarc. In certain circumstances, the sum of the tax and the interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the taxpayer. A United States taxpayer who makes a QEF election generally must report on a current basis its share of Canarc's net capital gain and ordinary earnings for any year in which Canarc is a PFIC, whether or not Canarc distributes any amounts to its shareholders. A United States taxpayer who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer's tax basis therein. Item 10.E provides further details.

While we believe we have adequate internal control over financial reporting, we will be required to provide an auditor's attestation on the effectiveness of our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such attestation could result in a loss of investor confidence in our financial reports and have an adverse effect on the price of our shares of common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have furnished a report by management on our internal controls over financial reporting in this annual report on Form 20-F. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective.

For our annual report on Form 20-F for the fiscal year ended December 31, 2010, such report must also contain a statement that our auditors have issued an attestation report on the effectiveness of such internal controls.

While we have evaluated our internal control over financial reporting and have concluded that our internal control over financial reporting is effective, our auditors have not conducted the evaluation necessary to provide an attestation report on the effectiveness of our internal control over financial reporting. During the auditor's evaluation and testing process, they may identify one or more material weaknesses in our internal control over financial reporting, and they will be unable to attest that such internal control is effective. If our auditors are unable to attest that our internal control over financial reporting is effective as of December 31, 2010, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on our stock price.

Failure to comply with the new rules may make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage and/or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers.

Risks Related to the Registrant's Common Shares

The volatility of the Registrant's common shares could cause investor loss.

The market price of a publicly traded stock, especially a junior resource issuer like Canarc, 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 Canarc's shares will continue to be volatile. Therefore, investors could suffer significant losses if Canarc's shares are depressed or illiquid when an investor seeks liquidity and needs to sell Canarc's shares.

Penny stock classification could affect the marketability of the Registrant's common stock and shareholders could find it difficult to sell their stock.

The Registrant's stock may be subject to "penny stock" rules as defined in the Exchange Act rule 3a51-1. The Securities and Exchange Commission has adopted rules which regulate broker-dealer practices in connection with transactions in penny stocks. The Registrant's common shares may be subject to these penny stock rules. Transaction costs associated with purchases and sales of penny stocks are likely to be higher than those for other securities. Penny stocks generally are equity securities with a price of less than U.S.$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system).

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

Further, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the Registrant's common shares in the United States and shareholders may find it more difficult to sell their shares.

Possible dilution to current shareholders based on outstanding options and warrants.

At June 15, 2010, Canarc had 81,969,655 common shares and 8,645,000 share purchase options and 2,964,120 warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for Canarc's shares. At June 15, 2010, dilutive securities represented approximately 14.16% of Canarc's issued shares. None of these dilutive securities are exercisable at prices below the June 15, 2010 closing market price of CAD$0.09 for Canarc's shares and, accordingly, will not result in dilution to existing shareholders if exercised on that date.

ITEM 4. INFORMATION ON THE COMPANY

The Registrant is a Canadian mineral exploration company and is subject to NI 43-101, a National Instrument adopted by all of the Securities Commissions in Canada that deals with standards of disclosure for mineral projects. It applies to all oral statements and written disclosure of scientific or technical information, including disclosure of a mineral resource or mineral reserve, made by or on behalf of a company in respect of its material mineral projects. In addition to other matters, it sets out strict guidelines for the classification of and use of the terms mineral resource' and mineral reserve' and it requires all technical disclosure on all material properties to be subject to review by a senior engineer or geoscientist in good standing with a relevant professional association. The full text of NI 43-101 can be found at http://www.bcsc.bc.ca/policy.asp?id=2884&scat=4&title=4%20-%20Distribution%20Requirements. While the Registrant believes that its technical disclosure, when made, was accurate, technical disclosure prepared by the Registrant before NI 43-101 came into force in February 2001 has not been updated by the Registrant to be compliant with NI 43-101 other than as specifically disclosed herein.

4.A History and Development of the Company

Incorporation and Reporting Status

The Registrant was incorporated under the laws of British Columbia, Canada, on January 22, 1987 under the name, Canarc Resource Corp. , by registration of its Memorandum and Articles with the British Columbia Registrar of Companies.

The Company was originally incorporated under the previous Company Act (British Columbia) and transitioned to the Business Corporations Act (British Columbia) in 2005; the Business Corporations Act (British Columbia) replaced the Company Act (British Columbia) on March 29, 2004.

The Registrant is a reporting company in British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia. The Registrant became a reporting issuer under the United States Securities Exchange Act of 1934, as amended, upon filing its registration statement on Form 20-F dated October 9, 1990 with the Securities and Exchange Commission.

Current Business Address

Suite #301, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8, tel. no.: (604) 685 9700.

Introduction

The Registrant commenced operations in 1987 and, since inception, has been engaged in the business of the acquisition, exploration and, if warranted, development of precious metal properties. The Registrant currently owns or holds, directly or indirectly, interests in several precious metal properties, as follows:

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New Polaris property in British Columbia, Canada,

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Tay-LP property in the Yukon, Canada, and

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Eskay Creek property in British Columbia, Canada,

of which the New Polaris and Tay-LP properties are the material properties of the Registrant.

In its consolidated financial statements prepared in accordance with Canadian GAAP, the Registrant has capitalized costs, net of recoveries and write-downs, of approximately $12.6 million in connection with the acquisition, exploration and development on its currently held property as at December 31, 2009 and are summarized as follows for the past three fiscal years:

	2009			2008			2007		
	Acquisition	Exploration/		Acquisition	Exploration/		Acquisition	Exploration/	
(in terms of $000s)	Costs	Development	Total	Costs	Development	Total	Costs	Development	Total
British Columbia (Canada):									
New Polaris	$ 3,605	$ 8,556	$ 12,161	$ 3,605	$ 8,466	$ 12,071	$ 3,605	$ 8,582	$ 12,187
Eskay Creek	-	-	-	-	-	-	-	-	-
Yukon (Canada):									
Tay-LP	25	440	465	-	-	-	-	-	-
Suriname:									
Benzdorp	-	-	-	-	-	-	301	5,795	6,096
Mexico:									
Los Arrastres	-	-	-	-	-	-	125	95	220
Providencia	-	-	-	-	-	-	17	8	25
Santiago	-	-	-	-	-	-	60	34	94
Santiago Fraction	-	-	-	-	-	-	7	-	7
	$ 3,630	$ 8,996	$ 12,626	$ 3,605	$ 8,466	$ 12,071	$ 4,115	$ 14,514	$ 18,629

Further information and details regarding Canarc's properties are provided in Item 4.D.

The exploration concessions for the Benzdorp property expired in July 2007, and the Company elected to write-off its investment in the Benzdorp property at December 31, 2008.

Canarc transferred its interests in the Los Arrastres, Santiago and Santiago Fraction properties to Caza pursuant to the Arrangement in 2008. Item 4.D provides further details.

In August 2009, Canarc entered into an option agreement to acquire a 100% interest in the Tay-LP property. Then in March 2010, Canarc entered into an option agreement with Cap-Ex Ventures Ltd. (Cap-Ex) whereby Cap-Ex can acquire 50% of Canarc's interest in the Tay-LP property. Item 4.D provides further details.

Developments over the Last Three Financial Years

Over the course of the past three years ended December 31, 2009, the Registrant has been engaged in natural resource exploration and development in Canada, Costa Rica, Mexico, and Suriname. The major events in the development of the Registrant's business over the last three years are set out below. Information and details regarding the Registrant's properties are provided in Item 4.D.

In February 2007, Mr. Bruce Bried replaced Mr. John McClintock as President and Chief Operating Officer.

In July 2007, Canarc closed a non-brokered private placement for 2,200,000 units at CAD$0.52 per unit for gross proceeds of CAD$1,144,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at an exercise price of CAD$0.65 until July 24, 2008. Finders' fees of CAD$37,440 were paid in cash.

In 2007, Canarc entered into option agreements to acquire the Los Arrastres, Providencia, Santiago and Santiago Fraction properties in Mexico. Further information and details regarding Canarc's properties are provided in Item 4.D.

In December 2007, Canarc's wholly-owned subsidiary, Caza Gold Corp. (Caza), received proceeds of CAD$300,000 in demand loans of which CAD$180,000 were from directors and officers of Canarc. The loans were repayable on demand and bore an interest rate of 9% per annum.

In 2007, Canarc granted the following stock options:

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325,000 options were granted in January 2007 with an exercise price of CAD$0.74 and an expiry date of January 26, 2012;

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1,115,000 options were granted in June 2007 with an exercise price of CAD$0.54 and an expiry date of June 15, 2012; and

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750,000 options were granted in September 2007 with an exercise price of CAD$0.46 and an expiry date of September 26, 2012.

In April 2008, Caza and Minera Canarc de Mexico SA de CV (Minera Canarc), which were both wholly-owned subsidiaries of Canarc at that time, entered into an option agreement to acquire a 100% interest in the La Escondida/Los Angeles properties. Item 4.D provides further details.

In May 2008, Canarc granted 1.8 million stock options with an exercise price of CAD$0.29 and an expiry date of May 15, 2013.

In June 2008, Mr. Garry Biles replaced Mr. Bruce Bried as President and Chief Operating Officer, and Mr. Bruce Bried was nominated to the Board of the Directors of Canarc.

On June 25, 2008, Canarc closed the Plan of Arrangement (the Arrangement) with Caza whereby approximately 83% of Canarc's interest in Caza was distributed to the shareholders of Canarc. Under the Arrangement, Canarc transferred all its interest in its wholly-owned Mexican subsidiary which holds all the rights to the Mexican gold exploration properties to Caza in return for 14,346,527 shares of Caza, of which Canarc distributed 11,950,577 Caza shares by way of a dividend in kind to Canarc's shareholders on the basis of one share of Caza for every six shares of Canarc held by shareholders as of the dividend record date. As at December 31, 2009, Canarc held approximately 7% interest in Caza as at that date. The property interests which were transferred from Canarc to Caza include Los Arrastres, Santiago and Santiago Fraction properties.

In July 2008 as amended in December 2008, Canarc 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.

In November 2008, Smythe Ratcliffe LLP replaced KPMG LLP as auditors for Canarc.

The exploration concessions for the Benzdorp property expired in July 2007, and an application was submitted for a three year extension which was rejected in August 2008. An application for new concessions would be considered so one new exploration concession was applied in September 2008. Canarc had ceased all exploration work on the concessions in August 2007, and had elected to write-off its investment in the Benzdorp property in 2008.

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

On July 15, 2009, Canarc 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.

On August 24, 2009, Canarc 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. On March 22, 2010, Canarc entered into an option agreement with Cap-Ex Ventures Ltd. (Cap-Ex) whereby Cap-Ex can acquire 50% of Canarc's interest in the Tay-LP property. Item 4.D provides further details.

On October 22, 2009, Canarc 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 was 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.

On November 9, 2009, Canarc 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.

4.B Business Overview

Nature of operations and principal activities

The Registrant's principal business activities are the acquisition, exploration and development of mineral resource properties. The Registrant is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain reserves. The recoverability of amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves in its mineral resource properties, the ability of the Registrant to arrange appropriate financing to complete further work on its properties, confirmation of the Registrant's interest in the underlying properties, the receipt of necessary permitting and upon future profitable activities on the Registrant's properties or proceeds from the disposition thereof. The Registrant has incurred significant operating losses and currently has no significant source of revenue. The Registrant has financed its activities principally by the issuance of equity securities. The Registrant's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations to fund its operations.

The Registrant and its management group have previously been actively involved in the evaluation, acquisition and exploration of mineral properties in Canada, U.S.A., and Central and South America. Starting with grass roots exploration prospects, it progressed to more advanced properties. To date, the Registrant has not received significant revenues from its mineral property interests. The Registrant plans to continue exploring and developing its properties and, if appropriate, the Registrant intends to seek partners or buyers to purchase or to assist in further advancement (by way of joint venture or otherwise) of its properties. The Registrant seeks to identify properties with significant potential and to acquire those properties on the basis of an option agreement relying on the representations and warranties of the vendor as to the state of title, with limited or no title work being performed by the Registrant. Detailed title work is only undertaken once it has been determined that the property is likely to host a significant body of ore, which may not occur. Consequently, there is a significant risk that adverse claims may arise or be asserted with respect to certain of the Registrant's properties. Items 3.D and 4.A provide further details.

Further information and details regarding the Registrant's properties are provided in Item 4.D.

Sales and revenue distribution, sources and availability of raw materials, and marketing channels

As of the date of this annual report, the Registrant has not generated any significant operating revenues from its mineral properties.

Competitive conditions

Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Registrant may be unable to compete for nor acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Registrant will be able to acquire any interest in additional projects that would yield reserves or results for commercial mining operations.

Government regulations

The Registrant's operations are subject to governmental regulations in Canada, where the Registrant had interests in mineral properties.

The current and anticipated future operations of the Registrant, including further exploration and/or production activities may require additional permits from governmental authorities. Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. Unfavourable amendments to current laws, regulations and permits governing operations and activities of resource exploration companies, or more stringent implementation thereof, could have a materially adverse impact on the Registrant and could cause increases in capital expenditures which could result in a cessation of operations by the Registrant. To the best of its knowledge, the Registrant is operating in compliance with applicable laws.

Trends

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 $1,225 on June 15, 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 8, 2010 at $1,246. Not only has this trend made the gold mining business more profitable, it has attracted investors into the gold equities, driving up the share prices of gold companies and providing a market for capital financing to the gold industry.

During the same period from January 2007 to December 2009, the closing monthly market price for the Registrant's shares decreased from CAD$0.76 to CAD$0.13 a decrease of 83%, and the high of CAD$0.76 was in January 2007. In May 2010, the closing monthly market share price was CAD$0.12. In 2007, the Company elected not to proceed with the development of the New Polaris gold project and with no other significant exploration activity underway, the share price fell because of a lack of material news. The Company's decision to defer development work at New Polaris was based on the fact that a larger mine development by another mining company immediately adjacent to New Polaris was granted its final environmental permits, raised its capital financing and made a development decision, so the Company could potentially benefit from waiting for the neighbouring mining company to complete building its mine and from both their environmental studies and infrastructure. Unfortunately, that Company was negatively impacted in the 2008 financial crisis and filed for bankruptcy protection in 2009, and their mine was never built. Despite these setbacks, management continues to foresee opportunities to finance the mineral exploration and development efforts on Canarc's gold properties, and also to evaluate and consider new acquisitions in the gold arena as a result of rising gold prices.

The Registrant has determined that the policies of the current provincial government in British Columbia have led to increased incentives for mineral resource development in the province. In addition, the price of gold bullion has continued to increase, reflecting in part the ongoing weakness in the United States dollar. These factors should make gold exploration in British Columbia increasingly attractive and should increase the opportunities for its New Polaris property.

Risk factors in Item 3.D provides further details regarding competition and government regulations.

4.C Organizational Structure

The Registrant carries on its business in large part through its subsidiaries. The Registrant has a number of direct or indirect wholly or majority owned subsidiaries of which the active subsidiaries are as follows:

Benzdorp Gold N.V. was incorporated under the laws of Suriname on February 4, 2004 when Suriname presidential assent was received. The Registrant owns 40% of the voting shares of this company.

Canarc (Barbados) Mining Ltd. is a company duly incorporated under the laws of Barbados on July 26, 1993. The Registrant owns 100% of the issued and outstanding shares.

Canarc Suriname (Barbados) Ltd. is a company duly incorporated under the laws of Barbados on January 26, 1994. The Registrant owns 100% of the issued and outstanding shares.

Canarc van Suriname N.V. is a company duly incorporated under the laws of Suriname on November 10, 1995. The Registrant owns 100% of the issued and outstanding shares.

New Polaris Gold Mines Ltd. (New Polaris) (formerly Golden Angus Mines Ltd. - name change effective April 21, 1997) is a corporation formed through the amalgamation of 2820684 Canada Inc. (2820684), a former wholly-owned subsidiary of the Registrant incorporated under the Canada Business Corporation Act on May 13, 1992, and Suntac Minerals Inc. The Registrant owns 100% of the issued and outstanding shares.

4.D Property, Plants and Equipment

Description of Properties

Property Summary Chart (as of December 31, 2009):

Property Name	Location	Maximum % Interest Held (or to be earned) [(1)]	Capitalized Acquisition Expenditures [(3)]	Capitalized Exploration Expenditures [(3)]	Total Capitalized Expenditures [(3)]
New Polaris [(2)]	BC, Canada	100.00%	$3,605,000	$8,556,000	$12,161,000
Tay-LP [(4)]	Yukon, Canada	100.00%	$25,000	$440,000	$465,000
Eskay Creek	BC, Canada	33.33%	$0	$0	$0

1

Subject to any royalties or other interests as disclosed below.

2

Previously known as Polaris-Taku .

3

Net of recoveries and write-downs.

4

On March 22, 2010, Canarc entered into an option agreement with Cap-Ex whereby Cap-Ex can acquire 50% of Canarc's interest in the Tay-LP property. Item 4.D provides further details.

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Canarc Resource Corp.

Form 20-F

NOTE: All references to U.S.$ unless otherwise noted. See below for further details on each property. Refer to Note 15 of the consolidated financial statements as of December 31, 2009 as included herein, for disclosure of differences between U.S. GAAP and Canadian GAAP.

The following is a more detailed description of some of the more material properties listed above in which the Registrant has an interest.

Material Mineral Projects

Cautionary Note to U.S. Investors concerning estimates of Measured and Indicated Resources. This section and certain related exhibits may use the terms measured and indicated resources . We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. See Cautionary Note to U.S. Investors at the beginning of this annual report.

Cautionary Note to U.S. Investors concerning estimates of Inferred Resources. This section and certain related exhibits may use the term inferred resources . We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. Inferred resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally minable. See Cautionary Note to U.S. Investors at the beginning of this annual report.

New Polaris Gold Project, British Columbia, Canada

Discovered by prospectors in 1929, the original mine was constructed in 1936 and operated from 1937 to 1942 and again from 1946 to 1951. A total of 232,000 oz. of gold was produced. Flotation concentrates were shipped seasonally for refining to the smelter in Tacoma, Washington. The first barge load in 1951 sank in a storm off the B.C. coast, causing the mine to shut down. Cominco upgraded the mill in 1952 and used it to process the nearby Tulsequah Chief ores from 1953 to 1957. New Polaris was then dormant for 30 years until exploration resumed in 1988. Canarc acquired New Polaris in 1992 and has partially cleaned up the original mill site and infrastructure, which had been previously abandoned. Canarc constructed a new office complex at the New Polaris mine site and the camp is now capable of supporting 35 people. The machinery from the mill was removed from the site by previous owners in the 1970's. No remaining equipment from the mine operation was salvaged as it was all inoperable. The only original buildings remaining are one large shed (the former machine shop) and 3 small houses. These existing buildings have been refurbished and serve as both sleeping quarters and the kitchen facility. The former machine shop has also been maintained as a maintenance facility. Current fixed equipment include 10,000 and 25,000 gallon Terra Tanks, and mobile equipment on the property include a D6 Cat, backhoe, grader, electric Alimak machine, pumping equipment, welding machines and several generators. The existing underground workings are accessible, although dewatering is required to access those workings below the 50 foot level. Power to the site is currently supplied by diesel generators.

In 2007, Canarc completed a pre-feasibility program for the New Polaris gold mine project, including dewatering of the underground mine workings, mapping and sampling of the lower mine levels, optimizing metallurgical recoveries, continuing site-related environmental studies, developing a conceptual mine plan and completing a preliminary economic assessment for the project. No additional work is being carried out at this time as Canarc is seeking a strategic partner to advance the project to final feasibility and, if positive, to production.

The New Polaris Gold Project consists of 61 contiguous Crown-granted mineral claims and one modified grid claim covering 2,100 acres. All claims are 100% owned and held by New Polaris Gold Mines Ltd., a wholly owned subsidiary of Canarc Resource Corp., subject to a 15% net profit interest held by Rembrandt Gold Mines Ltd. Canarc can reduce this net profit interest to a 10% net profit. A Table of the claims is set out below.

Table 1 - LIST OF CLAIMS

Claim Name	Lot No.	Folio #	Claim Name	Lot No.	Folio #
Polaris No.1	6109	4472	Snow	3497	4545
Polaris No.2	6140	5223	Snow #2	3495	5088
Polaris No.3	6141	5223	Snow #3	3494	5495
Polaris No.4	3498	4545	Snow #4	3499	5495
Polaris No.5	6143	5223	Snow #5	6105	4472
Polaris No.6	6144	5223	Snow #8	6107	4472
Polaris No.7	6145	5223	Snow #7	3500	4472
Polaris No.8	6146	5223	Snow #6	6106	4472
Polaris No.9	6147	5223	Snow #9	6108	4472
Polaris No.10	6148	5290	Black Diamond	3491	4472
Polaris No.11	6149	5290	Black Diamond No.3	6030	4944
Polaris No.12 Fr	6150	5290	Blue Bird No.1	5708	4545
Polaris No.13 Fr	6151	5290	Blue Bird No.2	5707	4545
Polaris No.14	6152	5290	Lloyd	6035	5010
Polaris No.15	6153	5290	Lloyd No.2	6036	5010
Silver King No.1	5489	4804	Rand No.1	6039	5010
Silver King No.2	5490	4804	Rand No.2	6040	5010
Silver King No.3	5493	4804	Minto No.2	6033	4944
Silver King No.4	5494	4804	Minto No.3	6034	4944
Silver King No.5	5491	4804	Jumbo No.5	6031	4944
Silver King No.6	5492	4804	Ready Bullion	6032	4944
Silver King No.7	5495	4804	Roy	6042	5088
Silver King No.8	5717	4545	Frances	6041	5010
Sliver Queen No 1	6026	4545	Eve Fraction	6170	5495
Sliver Queen No 2	6027	4545	Eve No.1 Fraction	6171	5495
Sliver Queen No 3	6028	4944	P.T. Fraction	3493	5495
Sliver Queen No 4	6029	4944	Ant Fraction	3492	5088
Silver Strand	6037	5010	Atlin Fraction	3496	5088
Silver Strand No.2	6038	5010	Powder Fraction	6043	5088
F.M Fraction	6044	5088	Jay Fraction	6045	5088
Par Fraction	6154	5290			

James Moors, P.Geo, Vice President Exploration of the Registrant, is the Qualified Person for the purposes of the foregoing technical disclosure on the New Polaris Gold Project. The information in the following summary on the New Polaris Gold Project has been derived in part from and is partially based on the assumptions, qualifications and procedures set out in the Technical Report titled Resource Potential, New Polaris Project (the New Polaris Technical Report) dated March 14, 2007 and prepared by R.J. Morris, MSc, PGeo, of Moose Mountain Technical Services and G.H. Giroux, MASc, PEng, of Giroux Consultants Limited, who are independent Qualified Persons as defined by

National Instrument 43-101 (NI 43-101) and was prepared in compliance with NI 43-101, to the best of the Registrant's knowledge.

The following extracted from, or are accurate paraphrasing of, the executive summary, or other sections as indicated from the New Polaris Technical Report, the full copy of which is available online at www.sedar.com as filed on March 16, 2007. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the New Polaris Technical Report.

Summary

New Polaris (formerly Polaris-Taku) is an early Tertiary mesothermal gold mineralized body located in northwestern British Columbia about 100 kilometres south of Atlin, BC and 60 kilometres northeast of Juneau, Alaska. The nearest roads in the area terminate twenty kilometers due south of Atlin and 10 kilometres southeast of Juneau. Access at the present time is by aircraft. A short airstrip for light aircraft exists on the property.

The deposit was mined by underground methods from 1938 to 1942, and from 1946 to early 1951, producing a total of 740,000 tonnes of ore at an average grade of 10.3g/t gold.

The property consists of 61 contiguous Crown-granted mineral claims and one modified grid claim covering 2,100 acres. All claims are 100% owned and held by New Polaris Gold Mines Ltd., a wholly owned subsidiary of Canarc Resource Corp., subject to a 15% net profit interest held by Rembrandt Gold Mines Ltd. Canarc can reduce this net profit interest to a 10% net profit.

The deposit is composed of three sets of veins (quartz-carbonate stringers in altered rock), the AB veins are northwest striking and southwest dipping, the Y veins are north striking and dipping steeply east and finally the C veins are east-west striking and dipping to the south to southeast at 65º to vertical. The C veins appear to hook around to the north and south into the other two sets of veins so that their junctions form an arc. The gold is refractory and occurs dominantly in finely disseminated arsenopyrite grains that mineralize the altered wallrock and stockwork veins. The next most abundant mineral is pyrite, followed by minor stibnite and a trace of sphalerite. The zones of mineralization range from 15 to 250 metres in length and 0.3 to 14 metres in width.

Canarc explored the C vein system between 1988 and 1997, and carried out infill drilling in 2003 through 2006, to better define the continuity and grade of the vein systems.

The total New Polaris database consists of 1,056 diamond drill holes with a total of 31,514 sample intervals.

The geologic continuity of the C vein has been well established through historic mining and diamond drilling. Grade continuity was quantified using a geostatistical method called the semivariogram, which measures distances (ranges) and directions of maximum continuity. The four principle veins in the semivariogram model produced ranges between 50 and 90 metres, along strike and down plunge.

Sample Method and Approach, Sample Preparation, Analyses and Security, and Data Verification

Sampling of the vein was done by a wire line diamond drills using NQ-size rods. Drill collar locations were surveyed in by total station surveying method. Drilling azimuth and dip were set using a brunton compass and clinometer. Routine down hole measurements of azimuth and dip were not done on the three holes drilled in 2003 and prior. In 2004, three different down hole survey systems were tried before settling on a Reflex system. The Reflex system was also used in 2005. The down hole surveying was operated by the Hytech's drill crew. This information was entered into a GEMCOM program to plot the location of the collar and the pierce point of the veins.

Core recovery was very good and ranged from the low 90% to nearly 100% and is a fair sampling of the mineralization at the point where the drill hole pierced the vein.

The vein mineralization has well marked contacts with the wall rock. The transition from mineralized to non mineralized rock occurs over a few centimeters. Free gold is extremely rare and to the end of 2005 had not been recognized in core samples. The majority of the gold occurs in arsenopyrite and to a lesser extent in pyrite and stibnite. Because there is no visible gold and the host sulphides are very fine grained and disseminated there is little nugget effect and gold values even over short intervals rarely exceed 1 opt. Out of 4700 samples with greater than .03 opt gold collected from core and the underground workings, only 185 samples had a value greater than 1 opt, the highest being 3.69 opt. For this reason, no cutting of assays has been done in calculating composites nor are there many cases where a composite sample is carried by a single assay.

Determining intervals of core for sampling was done by the geologist during logging of the core. The mineralized vein structures were marked out. Selections of core intervals for sampling were based in the presences of veining and sulphide mineralization particularly arsenopyrite. Within the defined vein structure sample interval ranged from 1 foot to 5 feet. Divisions were based on intensity of mineralization and veining. Sampling of the core for 10s of feet either side of the mineralized vein structures was also done to the point where hydrothermal alteration disappeared. No sampling of core from the unaltered rock was done.

The core was logged and stored in the camp. Access to be core was only available to the geologists and the core sampler. The core was brought from the drill set up to the logging facility by the geologist at the end of each shift. The core was geologically logged, recoveries calculated and samples marked out in intervals of 0.5 to 1 metre. The core was handed to the sample cutter who cut it with a diamond saw. Each sample was individually wrapped in plastic bags for shipment. The sample intervals were easily identified and correlate well with the drill logs.

The 2006 Quality Assurance, Quality Control program was similar to the previous programs in that samples were collected by employees of Canarc on site and shipped to ALS Chemex in Vancouver. For quality control and quality assurance, core samples were regularly mixed with blanks, duplicates, and standards. The program in the field was run in an efficient and proper manner following accepted engineering standards.

Mr. Morris, one of the authors, spent two days on the New Polaris property. While on the property, he examined underground workings to confirm the nature of mineralization, dimensions and extent of the vein system. He also viewed a selection of core from key holes drilled from the early 1990's to the end of 2006 and compared his observations with those documented in the drill logs. In both the case of the underground workings and the core, the author found that his observations confirmed that recorded in logs and sections. He also confirmed that core had been properly cut and stored. In addition to the site visit, a detailed review of the database was completed. Forty-one drill holes were selected from the C vein area, and the drill logs and assay sheets were compared with the database. Only minor differences were observed between the hard copy material and the database. As well, the input of the database into the modeling program was also checked. The procedures used in the development of the database follow accepted engineering standards.

Form 20-F

Location Map

In December 2009 Canarc completed a preliminary assessment of the New Polaris property. The report, dated December 23, 2009 is titled New Polaris Project - Preliminary Assessment . J.H.Gray, P.Eng., R.J. Morris, M.Sc., P.Geo. and G.H. Giroux, MASc., P. Eng. were the Qualified Persons for that Report.

Tay-LP Property, Yukon, Canada

On August 24, 2009, the Company entered into an option agreement to acquire a 100% interest in the Tay-LP gold property, 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.

David St. C. Dunn, P.Geo., and James Moors, P.Geo, Vice President Exploration of the Registrant, are the Qualified Persons for the purposes of the technical disclosure on the Tay-LP property as set out in the Technical Report titled 2009 Diamond Drilling Program on the Tay-LP Property dated March 30, 2010, prepared by David St. C. Dunn, P.Geo., and James G. Moors, PGeo (BC), Vice-President, Exploration, of the Registrant (the Tay-LP Technical Report).

The following extracted from, or are accurate paraphrasing of, the executive summary, or other sections as indicated, from the Tay-LP Technical Report, the full copy of which is available online at www.sedar.com as filed on April 1, 2010. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the Tay-LP Technical Report.

Property Description

The Tay-LP project of Ross River Gold Ltd. is a gold exploration project, covering an area of approximately 8150 hectares, located in south-central Yukon near the Village of Ross River. The project comprises 413 mineral claims owned by Canarc Resource Corp. The Tay-LP area was first staked, following a prospecting discovery in 1984. The property has since been explored intermittently by various companies for intrusion-related gold deposits. Gold is associated with pyrrhotite-dominant, quartz-sulphide veins and replacement zones hosted by folded Paleozoic meta-sedimentary rocks.

The 2009 exploration program was carried out between September 9th and September 25th and comprised 1868 metres of diamond drilling. Personnel included: one of the authors, James Moors, P.Geo., V.P. Exploration, Canarc Resource Corp.; Robin S. Tolbert, Project Geologist; Lyle Hansen, Assistant Geologist; and core cutters Robert Smallwood and John Dicks of Atlin. Diamond drilling was performed by Hy-Tech Diamond Drilling of Smithers, B.C.

A road accessible tent camp located near the centre of the property was the base of operations.

The cost of field work and analysis on the property in 2009 was $480,000.

Reserves or resources have not been calculated for the property.

The primary author was part of the 2003 Prospecting and Geochemical surveying program on the Tay-LP claims (Schmidt, U., 2004).

Summary

The Tay-LP project of Canarc Resource Corp. is a gold exploration project, covering an area of approximately 7575 hectares, located in south-central Yukon, approximately 50 km south of the Village of Ross River and 160 kilometres northeast of Whitehorse. The project comprises 410 contiguous mineral claims. Canarc Resource Corp. is the registered owner of these claims. Option agreements give Canarc the right to earn 100% of the property. The property is accessible by road during the summer months via the South Canol Road and a 20 km long dirt branch road.

The region surrounding the property is underlain by variably metamorphosed, folded and faulted Paleozoic miogeoclinal rocks of the Pelly-Cassiar Platform. They range in age from Late Proterozoic to Triassic and include miogeoclinal clastic, carbonate and volcanic rocks. They are considered North American in origin and were deformed during Mesozoic arc –continent collision. These rocks have been intruded by mid-Cretaceous intrusions of intermediate composition.

Gold mineralization on the property is hosted by Cambro-Ordovician calcareous phyllite, marble and schist. Mineralization fits the intrusion-related epigenetic gold mineralization model of the "Tintina Gold Belt", based on gold-bismuth-tellurium chemistry, mineralogy, tectonic setting and age of intrusion. Mineralization occurs in structurally controlled veins and in replacement zones which parallel and in some cases cross-cut the dominant foliation. The exploration objective is to define sufficient structurally controlled or skarn style gold mineralization to support a profitable mine.

The 2009 program consisted of 10 drill holes totaling 1868 metres, drilled in 3 target areas. Results confirmed the presence and continuity of gold bearing structures. The total cost of the field program for 2009 was $480,000.

It is recommended that a first phase of work including an airborne geophysical survey with more advanced systems than those utilized in the 1999 survey should be carried out. This survey will better and more accurately define the geology beneath the glacial overburden that covers the most prospective portions of the property.

Ground Max-Min geophysical surveys should also be carried out to extend the known anomalies and test for mineralization on the peripheries of the known intrusive bodies. This work is estimated to take six weeks to complete at a cost of $252,328.

Following the interpretation of the surveys recommended in Phase 1, a second phase of work consisting of systematic drilling along strike and down dip of current pierce points that returned significant gold content and along the full range of Max-Min and aerially defined geophysical anomalies. This program should consist of at least 2,500 meters of diamond drilling and is estimated to take eight weeks to complete at a cost of $504,000.

Location Map

David St. C. Dunn, P.Geo., and James Moors, P.Geo, Vice President Exploration of the Registrant, are the Qualified Persons for the Tay-LP Technical Report.

Benzdorp Property, Suriname

Gold production was first recorded from Benzdorp in the late 1800s when English and Dutch companies exploited the alluvial deposits. The Jungle Queen dredge produced over 500,000 oz. alone over a 40-year period. In more recent times, hundreds of illegal small-scale miners typically produce up to 10,000 oz. gold each year by reprocessing the river gravels. The property was located in southeastern Suriname, 300 km southeast of Parimaribo, the capital city, accessible by charter aircraft to the nearby Tabiki airstrip or by boat up the Marowijne River, then by ATV on the property roads. Power to the site was supplied by diesel generators.

The exploration concessions for the Benzdorp property expired in July 2007, and Benzdorp Gold NV, the joint venture company held by Canarc and Grasshopper Aluminum Company NV (Grassalco), had exercised its exclusive right to re-apply to the Minister of Natural Resources of Suriname for a three year extension to Canarc's exploration concessions at Benzdorp. An extension was available at the discretion of the Suriname Minister of Natural Resources. The application was rejected in August 2008 but an application for new concessions would be considered so one new exploration concession was applied in September 2008.

Canarc elected to write-off its investment in the Benzdorp property in 2008.

James Moors, P.Geo, Vice President Exploration of the Registrant, is the Qualified Person for the purposes of the technical disclosure on the Benzdorp Property as set out in the Technical Report titled Summary Report on the Benzdorp Project Suriname dated March 22, 2008, prepared by James G. Moors, PGeo (BC), Vice-President, Exploration, of the Registrant (the Benzdorp Technical Report). The Benzdorp Technical Report is available online at www.sedar.com as filed on March 28, 2008.

Other Mineral Projects

The following projects are considered not material by the Registrant and are not compliant with NI 43-101. There is currently no ongoing or proposed exploration or development programs for the properties set out below, other than has been specifically stated.

Eskay Creek property, British Columbia, Canada

Canarc has a one-third carried interest in the Eskay Creek property which is located in the Skeena Mining Division, British Columbia, Canada. In fiscal 2005, Canarc elected to write-off the associated property costs, but continues to have a one-third carried interest in the Eskay Creek property.

Bellavista Gold Mine, Costa Rica

Canarc had a 5.7% to 20.2% net profit interest in the Bellavista property, located near Miramar, Costa Rica. The property achieved commercial production in December 2005 but in July 2007, mining operations were suspended due to ground movement and heavy rainfall causing surface erosion and deep seated ground creep in some areas of the mine site. Canarc had a net profit interest in Bellavista which entitled it to 5.67% of the net profits during the first payback period, increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter. Thirty-five percent of this net profit interest would have reduced the net profit interest to be received until $317,741 in advance royalty payments were repaid.

In July 2008 as amended in December 2008, Canarc 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.

Sara Kreek Property, Suriname

Canarc previously held an 80% interest in the shares of Sara Kreek Resource, the company which holds the Sara Kreek concession in Suriname. In April 2006, Canarc agreed to transfer all its interest in Sara Kreek Resource to Wylap Development in exchange for a cash payment of $400,000 and the greater of $50,000 per year or 1.5% royalty on annual gross production until December 31, 2011 in settlement of any claims, loans and advances owed to Canarc.

Canarc received $50,000 per year from 2006 to 2009.

Mexican Properties

Los Angeles:

In April 2008, Caza and Minera Canarc, which were both wholly-owned subsidiaries of Canarc at that time, entered into an option agreement to acquire a 100% interest in the La Escondida/Los Angeles properties by making US$1 million in cash payments over a four-year period and issuing $50,000 in shares of Caza over a twelve-month period. The vendors retained a 3% net smelter return (NSR). An initial payment of US$15,000 was made upon the signing of the option agreement. Pursuant to the Plan of Arrangement which closed in June 2008, Caza and Minera Canarc were no longer subsidiaries of Canarc. Item 4.A provides further details.

Los Arrastres:

In February 2007, Canarc 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 Canarc 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. Item 4.A provides further details.

Providencia:

In March 2007, Canarc entered into a preliminary option agreement to acquire a 100% interest in the Providencia gold/silver properties by issuing 30,000 common shares to the vendors on signing a formal agreement within 30 days and making $2 million in cash payments over a 2 ½ year period, including $30,000 on signing. The vendors will retain a 2 ½ % net smelter return royalty (NSR), and Canarc 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 Canarc at the five day closing share price average on the Toronto Stock Exchange prior to the royalty reduction.

In April 2008, Canarc terminated its efforts to enter into a formal agreement, and Canarc wrote-off related exploration expenditures in the first quarter of 2008, and the 30,000 shares which were originally issued were returned to treasury.

Santiago:

In May 2007, Canarc 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. Item 4.A provides further details.

Santiago Fraction:

In September 2007, Canarc 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. Canarc issued 15,000 common shares at a deemed 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. Item 4.A provides further details.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Management's discussion and analysis in this Item 5 are intended to provide the reader with a review of factors that affected the Registrant's performance during the years presented and factors reasonably expected to impact on future operations and results. The following discussion of the financial condition, changes in financial condition and results of operations of the Registrant for the three fiscal years ended December 31, 2009, 2008 and 2007 should be read in conjunction with the consolidated financial statements of the Registrant and related notes included herein. The Registrant's financial statements are stated in United States dollars and are prepared in accordance with Canadian GAAP. Reference is made to Note 15 of the consolidated financial statements for the year ended December 31, 2009 of the Registrant as included herein for discussion of the material differences between Canadian GAAP and U.S. GAAP and their effect on the Registrant's financial statements.

Canadian and United States Generally Accepted Accounting Principles: The audited consolidated financial statements of the Registrant are prepared in accordance with Canadian GAAP. Accounting practices under Canadian GAAP and U.S. GAAP, as they affect the Registrant, are substantially the same, except for the following:

(a)

Unrealized holding gains and losses on marketable securities:

For Canadian GAAP prior to fiscal 2007, marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation, such share investments were carried at the lower of cost and quoted market value at the reporting date. Short-term deposits and other short-term investments were carried at the lower of cost plus accrued interest and quoted market value. For Canadian GAAP effective January 1, 2007, the Registrant 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. Since January 1, 2007, for U.S. GAAP, marketable securities are classified as available-for-sale securities.

(b)

Royalty receivable:

For Canadian GAAP effective January 1, 2007, the Registrant's royalty receivable from disposition of subsidiary is classified as loans and receivables which is measured at amortized cost and is amortized to interest income using the effective interest rate method. For U.S. GAAP, the royalty receivable is recorded at the face value of the total expected receipts from the royalties.

(c)

Exploration expenditures for mineral properties:

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Registrant is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Pursuant to the SEC's Industry Guide 7, an entity can only disclose proven and probable reserves, as defined within the Guide, in its reserve calculations. As a result, the Registrant has interpreted U.S. GAAP to require mineral property exploration costs to be expensed as incurred until commercially mineable deposits are determined to exist within a particular property as cash flows cannot be reasonably estimated prior to such determination and the Registrant cannot pass an impairment test made under SFAS 144 for U.S. GAAP purposes. Accordingly, for all periods presented, the Registrant has expensed all mineral property exploration costs for U.S. GAAP purposes.

For Canadian GAAP, cash flows relating to mineral property exploration costs are reported as investing activities. For U.S. GAAP, these costs would be characterized as operating activities.

(d)

Asset retirement obligations:

The Registrant considered the effects of Statement of Financial Accounting Standards No. 143 (SFAS 143) in the U.S. for asset retirement obligations and determined that is had no significant impact on the Registrant's financial statements, based on the current stage of the Registrant's mineral properties.

(e)

Write-off of equipment and write-down of mineral properties:

Under U.S. GAAP, loss before undernoted would be calculated inclusive of write-off of equipment and write-down of mineral properties.

(f)

Divestiture of interests in subsidiaries:

For Canadian GAAP, when a subsidiary issues its shares to interests outside the consolidated entity, the effect on any change in the parent's interest as a result of the share issue by the subsidiary is recognized in the determination of consolidated net income (or loss). Pursuant to Staff Accounting Bulletin Topic 5.H, changes in a parent company's proportionate share of subsidiary's equity resulting from additional equity raised by the subsidiary should be accounted for as an equity transaction in consolidation, particularly when the subsidiary is a development stage enterprise.

(g)

Flow-through equity financing:

The Registrant raises cash from time-to-time through the issuance of flow-through shares where the funds received are to be used for mining purposes and the related tax benefits are assigned to the investor. For US GAAP purposes, the Registrant has interpreted SFAS 94 and FRC 203.02 to require that funds raised through the issuance of flow-through shares be shown as restricted cash until expended and should not be considered to be a component of cash and cash equivalents. In addition, the amount of restricted cash would be excluded from cash and cash equivalents in the statement of cash flows and shown as an item within financing activities.

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

For U.S. GAAP, the amount received by the Registrant on the issuance of flow-through shares in excess of the fair value of common shares is required to be credited to liabilities and included in operations when the Registrant renounces the qualified expenditures.

(h)

Unit offerings:

Under Canadian GAAP, the proceeds received on issuance of units, consisting of common shares and warrants, are not required to be allocated to the individual common share and warrant components when the instruments and its components are all determined to be equity instruments. Under U.S. GAAP, the Registrant is required to allocate the proceeds received on unit offerings to the individual common share and warrant components on a relative fair value basis when both components are determined to be equity classified in which case for fiscal 2009 would exclude warrants which are determined to be derivative liabilities. The fair value of the share purchase warrants was determined using the Black-Scholes method.

(i)

Stock-based compensation:

In December 2004, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (Revised 2006), "*Share-Based Payment*" ("SFAS 123R"), which is a revision of SFAS 123 "Accounting for Stock-Based Compensation". SFAS 123R supercedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*". SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. In calculating compensation to be recognized, SFAS 123R requires the Registrant to estimate future forfeitures. Prior to adoption of SFAS 123R, the Registrant's accounting for stock-based compensation for US GAAP purposes was consistent with that used for Canadian GAAP. For Canadian GAAP purposes, the Registrant uses the fair value method to account for all stock option grants but accounts for forfeitures as they occur.

Under U.S. GAAP, employee and director remuneration would include the stock-based compensation expense reported separately for Canadian GAAP.

(j)

Comprehensive income:

United States accounting standards for reporting comprehensive income are set forth in SFAS No. 130, *Comprehensive income*. Comprehensive income represents the change in equity during a reporting period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income include items such as unrealized gain or loss and certain foreign currency translation gains and losses. Under Canadian GAAP, comprehensive income is applicable since January 1, 2007.

(k)

Consolidated statement of cash flows:

Under Canadian GAAP, the Registrant has included a subtotal in cash flows from operating activities. Under U.S. GAAP, no such subtotal would be disclosed.

(l)

Uncertainty in income taxes:

FASB Interpretation (FIN) No. 48: *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No.109, was adopted by the Registrant on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the Registrant recognize the impact of a tax position in the financial statements if the position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. In accordance with the provisions of FIN 48, any cumulative effect resulting from the change in accounting principle is to be recorded as an adjustment to the opening balance of deficit. The adoption of FIN 48 did not result in a material impact on the Registrant's consolidated financial position or results of operations.

(m)

Derivative liability:

In June 2008, the FASB issued Emerging Issues Task Force (EITF) 07-5, *Determining Whether an Instrument is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 would result in share purchase warrants being classified as a derivative liability if they are not indexed to the underlying common shares. EITF 07-5 is effective for fiscal years ending after September 15, 2009.

The Registrant's functional currency is the U.S. dollar and the Registrant has issued and outstanding warrants that have exercise prices which are denominated in Canadian dollars. Because the exercise prices of the share purchase warrants are denominated in a currency other than the Registrant's functional currency, the warrants are not considered indexed to the Registrant's common shares. These warrants are treated as derivative liabilities carried at fair values as determined by the Black-Scholes option pricing model for U.S. GAAP purposes with changes in fair values recorded as gains or losses in the statement of operations.

(n)

Cumulative development stage reporting:

The Registrant is not required and has opted to not report such information for Canadian reporting and for U.S. GAAP purposes; the Registrant is considered an exploration stage company. Statement of Financial Accounting Standards No. 7 *Accounting and Reporting by Development Stage Enterprises* requires the disclosure of cumulative-to-date information for each line item on the statements of operations and cash flow plus annual summaries of each component of shareholders' equity since inception. Under Canadian GAAP, Accounting Guideline AcG 11 *Enterprises in the Development Stage* , issued by the Canadian Institute of Chartered Accountants, does not require reporting of this information. Had the consolidated financial statements been prepared in accordance with U.S. GAAP such information would have been disclosed.

(o)

Changes in accounting policies:

(i)

Hierarchy of generally accepted accounting principles:

In June 2009, the FASB issued new standards for *The Hierarchy of Generally Accepted Accounting Principles*. These standards, ASC 105, culminated a multi-year project to replace the previous U.S. GAAP hierarchy and established *Accounting Standard Codification* (the Codification). The Codification does not change U.S. GAAP, but combines all authoritative standards into a comprehensive, topically organized online database. After the launch of the Codification on July 1, 2009, only one level of authoritative U.S. GAAP for non-governmental entities exists, other than guidance issued by the SEC. The adoption of this statement was effective September 30, 2009. The adoption of this new standard only had the effect of amending references to authoritative accounting guidance in the Registrant's consolidated financial statements.

(ii)

Business combinations:

In December 2007, the FASB revised its accounting standards for *Business Combinations*. The standard, ASC 805, requires the acquiring entity to recognize and measure in its financial statements all the assets acquired, the liabilities assumed, any non-controlling interest in the acquired entity and the goodwill acquired, and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed. Furthermore, acquisition-related and other costs will now be expensed rather than treated as cost components of the acquisition. ASC 805 also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination.

The revision to this guidance applies prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The adoption of this new standard had no impact on the Registrant's consolidated financial statements.

(iii)

Fair value measurement and disclosures

In October 2008, the FASB amended accounting standards for *Fair Value Measurements and Disclosures*. The amended standard, ASC 820, clarifies the application of fair value measurements in a market that is not active. The amendment is intended to address the following application issues: (a) how the reporting entity's own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist; (b) how available observable inputs in a market that is not active should be considered when measuring fair value; and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. The changes were effective on issuance, including prior periods. The adoption of this new standard had no impact on the Registrant's consolidated financial statements.

(iv)

Investments other:

In January 2009, the FASB amended accounting standards for *Investments Other*. The amended standard, ASC 325, addresses certain practices or issues related to the recognition of interest income and impairment on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets, by making its other-than-temporary impairment (OTTI) assessment guidance consistent with the accounting standards for *Investments Debt and Equity Securities*. The amendment removes the reference to the consideration of a market participant's estimates of cash flows and instead requires an assessment of whether it is probable, based on current information and events, that the holder of the security will be unable to collect all amounts due according to the contractual terms. If it is probable that there has been an adverse change in estimated cash flows, an OTTI is deemed to exist, and a corresponding loss shall be recognized in earnings equal to the entire difference between the investment's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. This amendment became effective for interim and annual reporting periods ending after December 15, 2008, and is to be applied prospectively. The adoption of this new standard had no impact on the Registrant's consolidated financial statements.

(v)

Subsequent events:

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements*. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Additionally, the Board has clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in this update are effective upon issuance of the final update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

Further details are provided in Note 15 of the audited consolidated financial statements for the year ended December 31, 2009.

5.A Operating Results

In accordance with an acceptable accounting policy under Canadian GAAP, 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 expenditures, net of any recoveries and write-downs.

The Registrant's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Registrant's liabilities as they become payable and for settlement of expenditures.

The Registrant is not aware of any seasonality in the business that has a material effect upon its financial condition, results of operations or cash flows. The Registrant is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

Fiscal Year 2009 *Year ended December 31, 2009 compared with December 31, 2008*

Canarc incurred a net loss of approximately $1.6 million for the year ended December 31, 2009 which is lower than the net loss of $6.96 million for fiscal 2008. Operating losses for fiscal 2009 were lower than for fiscal 2008, reflecting the reduced operating activities of Canarc as it endeavours to preserve its cash and to reduce its monthly burn-rates, given the slow recovery and lingering weaknesses in the financial markets during the year. The main focus for Canarc has primarily been in identifying, assessing and analyzing possible projects of merit for acquisition purposes which culminated in the acquisition of the Tay-LP property in the Yukon in August 2009. Remuneration for employees increased in the latter half of 2009 as efforts were expended in developing, implementing and completing the Phase 1 exploration program for the Tay-LP property by the end of the third quarter, and in arranging and closing three private placements in the fourth quarter. Certain discretionary expenditures were minimized and contributed to reducing operating expenses in comparison to fiscal 2008. Expenses for office and sundry and investor relations have decreased significantly relative to the prior year. Expenses for corporate development reflect active due diligence and property evaluations for acquisitions and to identify properties of merit for possible acquisitions.

Stock-based compensation is from the granting and vesting of stock options. On July 15, 2009, Canarc 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.

The significantly higher net loss in fiscal 2008 was primarily attributable to the disposition of the Benzdorp property which was written off at December 31, 2008 for $6.3 million which continued into the first quarter of fiscal 2009 with additional costs of $57,000 from transient expenses incurred for the Benzdorp property.

The net loss for fiscal 2008 would have been higher if it were not for the gain realized from Canarc's disposition of some of its shareholdings in Aztec and the gain from the sale of the subsidiary which held the Bellavista property. In January 2008, Canarc disposed of shares of Aztec, resulting in a realized gain of $179,000. During the latter half of fiscal 2008, Canarc received proceeds of CAD$215,000 from the disposition of the Bellavista property. These transactions supplemented the financing needs for operating activities and working capital for part of fiscal 2008. Canarc also disposed of all its remaining marketable securities at a realized loss of $32,000.

Gains of $93,000 were realized in the fourth quarter of fiscal 2009 from the disposition of Caza shares. Canarc recognized $8,000 from the accretion of royalty receivable from the Sarakreek property.

On December 31, 2009, Canarc 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). Canarc 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, Canarc 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 Canarc has recognized a flow through financing cost of $489,000. In February 2010, an initial proposal by CRA to Canarc disallowed approximately CAD$1.2 million in CEE of which Canarc 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 Canarc 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 $113,000 for expenditures incurred in 2005 and 2006, as reviewed by CRA, and GST receivable of approximately $47,000, resulting in an estimated income tax balance payable of $329,000.

Canarc has no sources of operating revenues.

In April 2008, Canarc terminated its efforts to enter into a formal agreement for the Providencia property, and Canarc 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.

On June 25, 2008, Canarc closed the plan of arrangement with Caza whereby approximately 83% of Canarc's interest in Caza was distributed to the shareholders of Canarc. Canarc transferred all its interest in its wholly-owned Mexican subsidiary, Minera Canarc, which holds all the rights to the Mexican gold exploration properties to Caza in return for 14,346,527 shares of Caza, of which Canarc distributed 11,950,577 Caza shares by way of a dividend in kind to Canarc's shareholders on the basis of one share of Caza for every six shares of Canarc held by shareholders as of the

dividend record date. The property rights which were transferred from Canarc to Caza include Los Arrastres, Santiago and Santiago Fraction properties. The plan of arrangement reduced operating expenses, as Canarc excluded the operating expenses of Caza and its Mexican subsidiary which held the exploration rights to the Mexican gold properties.

The exploration concessions for the Benzdorp property expired in July 2007, and an application was submitted for a three year extension which had not been provided. Canarc decided not to pursue any further exploration efforts on the Benzdorp property and, accordingly, wrote off the Benzdorp property at December 31, 2008.

For the latter half of fiscal 2009, Canarc made a cash payment of CAD$20,000 in August 2009 for the Tay-LP property. On November 4, 2009, Canarc issued 160,250 shares at a price of CAD$0.156 per share as the annual advance NSR royalty for CAD$25,000. Exploration expenditures of $440,000 were incurred for the Tay-LP property.

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.

As at December 31, 2009, Canarc has mineral property interests which are comprised of the following:

(in $000s)	Acquisition Costs	December 31, 2009 Exploration/ Development	Total
British Columbia:			
New Polaris	$ 3,605	$ 8,556	$ 12,161
Yukon:			
Tay-LP	25	440	465
	$ 3,630	$ 8,996	$ 12,626

At December 31, 2009, to maintain its interest and to fully exercise the options under various property agreements covering its property interests, Canarc 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:					
April 30, 2010	$ 30	$ -			
October 31, 2010	50	-			
October 31, 2011	50	423			
October 31, 2012	850	600			
Annual advance royalty payments until commercial production			$ 25		
				$ 1,950	

Net smelter reduction from 3% to 1.5%					
	$ 980	$ 1,023	$ 25	$ 1,950	150,000

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

Fiscal Year 2008 *Year ended December 31, 2008 compared with December 31, 2007*

Canarc incurred a net loss of $6.96 million for the year ended December 31, 2008 in contrast to a net income of $1.5 million for fiscal 2007. The net loss for fiscal 2008 was primarily attributable to the write-off of the Benzdorp property of approximately $6.3 million whereas the net income in 2007 was mainly due to the future income tax recovery for the renunciation of exploration expenditures from flow-through equity financings in 2006. The future income tax recovery of approximately $2 million is a provision for the recognition at the date of actual renunciation being March 8, 2007, 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 Canarc. In 2006, Canarc raised flow-through equity financing from three private placements for approximately CAD$7.05 million which were renounced in March 2007.

Canarc has no sources of operating revenues.

In 2007, Canarc adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) for the recognition and measurement of financial instruments which were applied prospectively with no restatement of prior period financial statements. These new standards consist of CICA Handbook Section 3855-Financial Instruments-Recognition and Measurement, Section 3865-Hedging and Section 1530-Comprehensive Income. The new accounting standards require financial assets designated as held-for-trading and available-for-sale be measured at fair value on initial adoption, while financial assets designated as held-to-maturity and loans and receivables are measured at amortized cost. Changes in the fair values of marketable securities which Canarc classifies as available-for-sale financial instruments are recognized in other comprehensive income. Due to the adoption of the new standards, Canarc's marketable securities and accumulated other comprehensive income increased by $837,000 on initial adoption. Also, on adoption of the new standards, Canarc designated the royalty receivable as loans and receivables. Canarc recognized $11,000 from the accretion of royalty receivable in fiscal 2008 and $15,000 in fiscal 2007.

Canarc did not acquire nor dispose of any marketable securities in the first quarters of 2008 and 2007. In the second quarter of fiscal 2008, Canarc disposed of all its remaining marketable securities and realized a loss of $32,000 and proceeds of $12,000, whereas in 2007 gains of $1.15 million and proceeds of $1.7 million were realized from the disposition of marketable securities. Such gains contributed to the net earnings in fiscal 2007. Proceeds from the disposition of marketable securities supplemented the financing needs for operating activities and working capital.

In January 2008, Canarc disposed of shares of Aztec, resulting in a realized gain of $179,000. Proceeds of $203,000 from the disposition of shares of Aztec supplemented the financing needs for operating activities and working capital during fiscal 2008.

During the last two quarters of fiscal 2008, Canarc received proceeds of CAD$215,000 from the disposition of its subsidiary which holds the net profit interest in the Bellavista property.

Overall operating expenses for the year ended December 31, 2008 were much lower than for fiscal 2007. Higher operating expenses in 2007 reflected the commensurate heightened operating activities in 2007 as management focused greater efforts on the planning, detailing and implementation of the de-watering program and the preliminary assessment for the New Polaris property and the exploration program for the Benzdorp property, which included hiring additional personnel in 2007. Operating activities subsided in 2008 as Canarc focused on assessing and then refining the economic model in the preliminary assessment for the New Polaris property and continued with its efforts for the extension of its exploration concessions for the Benzdorp property. General administrative expenses were higher in the first quarter of 2008 due to legal fees related to the plan of arrangement with Caza which closed in June 2008 and to regulatory fees for the annual and special general meeting held in April 2008. Similarly, employee remuneration was lower as personnel focused on part time efforts to Canarc's reduced activities. Stock based compensation in 2008 was attributable to the granting of stock options in May 2008 of which 20% vested immediately and 20% vest every six months and to the vesting of stock options which were granted in June 2007 of which 250,000 options vested on June 15, 2008 and 250,000 on June 15, 2009. The vesting provisions reduced the impact of stock based compensation for Canarc in the period but would impact future periods as the options become vested.

Expenses for corporate development reflect active due diligence and property evaluations for acquisitions and to identify properties of merit for possible acquisitions. Corporate development was higher in 2007 and culminated in the acquisitions of the Mexican properties which were then transferred to Caza pursuant to the plan of arrangement.

In April 2008, Canarc terminated its efforts to enter into a formal agreement for the Providencia property, and Canarc 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.

On June 25, 2008, Canarc proceeded to close the plan of arrangement with Caza whereby approximately 83% of Canarc's interest in Caza was distributed to the shareholders of Canarc. Canarc transferred all its interest in its wholly-owned Mexican subsidiary which holds all the rights to the Mexican gold exploration properties to Caza in return for 14,346,527 shares of Caza, of which Canarc distributed 11,950,577 Caza shares by way of a dividend in kind to Canarc's shareholders on the basis of one share of Caza for every six shares of Canarc held by shareholders as of the dividend record date. The property rights which were transferred from Canarc to Caza include Los Arrastres, Santiago and Santiago Fraction properties. The plan of arrangement reduced operating expenses, as Canarc excluded the operating expenses of Caza and its Mexican subsidiary which holds the exploration rights to the Mexican gold properties.

The exploration concessions for the Benzdorp property expired in July 2007 and an application was submitted for a three year extension which had not been provided. In the first quarter of fiscal 2009, Canarc decided not to pursue any further exploration efforts on the Benzdorp property and, accordingly, wrote off the Benzdorp property at December 31, 2008.

As at December 31, 2008, Canarc has mineral properties which are comprised of the following:

	December 31, 2008		
(in $000s)	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris	$ 3,605	$ 8,466	$ 12,071
	$ 3,605	$ 8,466	$ 12,071

Net recoveries of $116,000 were realized for the New Polaris project as Canarc rented its camp and facilities and equipment to a company which has an advanced neighbouring exploration project.

As for the Benzdorp property, expenditures of $179,000 were incurred during fiscal 2008 and was written off in the year.

At December 31, 2008, to maintain its interest and to fully exercise the options under various property agreements covering the property located in British Columbia (Canada), Canarc must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Shares
New Polaris:	
Net profit interest buyout	150,000

150,000

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

Environmental Liabilities

The Registrant's policy is to maintain all operations at North American standards, notwithstanding that certain of the countries within which it operates have not yet fully developed such standards in respect to environmental concerns. In accordance with government requirements in Canada, refundable deposits of CAD$250,000 have been placed with regulatory agencies in respect to the Registrant's New Polaris gold property in British Columbia. There are no known environmental contingencies in respect to these or any of the other Registrant's mineral property interests.

Critical Accounting Policies

For the Registrant's exploration activities, there is no product, sales or inventory in the conventional sense. The recoverability of costs capitalized to mineral properties and the Registrant's future financial success are dependent upon the extent to which it can discover mineralization and the economic viability of advancing such properties beyond the exploration stage. Such activities may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. Many of the key factors are outside of the Registrant's control. The sales value of any mineralization discovered by the Registrant is largely dependent upon factors beyond the Registrant's control such as the market value of the metals.

As the carrying value and amortization of mineral properties and capital assets are, in part, related to the Registrant's mineral reserves, the estimation of such reserves is significant to the Registrant's position and results of operations. As of the date of this annual report, the Registrant has not established any reserves on its property interests.

In accordance with an acceptable accounting policy under Canadian GAAP, 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 Registrant or its partners or when a property is abandoned or when the capitalized costs are not considered to be economically recoverable, the related property costs are written down to the amount recoverable. The amounts for mineral properties as shown in the Registrant's consolidated financial statements represent costs incurred to date, less write-downs, and are not intended to reflect present or future values.

5.B Liquidity and Capital Resources

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

(in $000s)	December 31, 2009	2008
Cash and cash equivalents	$ 155	$ 155
Working capital (deficiency)	$ (649)	$ 194

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

In the first quarter of 2008, Canarc did dispose of shares of Aztec, which generated cash proceeds of $203,000 to supplement the operating and working capital needs of Canarc. Nominal proceeds of $12,000 were from the sale of remaining marketable securities in the second quarter of 2008. In the latter half of 2008, proceeds of CAD$215,000 were received from the disposition of the subsidiary which holds the net profit interest in the Bellavista property.

In December 2008, Canarc closed a private placement for 1,000,000 units at CAD$0.10 per unit for gross proceeds of CAD$100,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at an exercise price of CAD$0.15 until June 1, 2010 which expired unexercised.

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

On October 22, 2009, Canarc 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, Canarc disposed of 800,000 common shares of Caza for CAD$0.15 per share for total proceeds of CAD$120,000.

On November 9, 2009, Canarc 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.

Canarc received $50,000 from its annual royalty from the Sara Kreek project.

The working capital deficiency of $649,000 at December 31, 2009 includes the notes payable and accrued interests of $63,000, due to certain directors and an officer of Canarc and corporate income taxes payable of $329,000.

Canarc has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of Canarc as well as minimum exploration expenditure requirements. Under Item 5.F, further details of contractual obligations are provided as at December 31, 2009. Canarc will continue to rely upon equity financing as its principal source of financing its projects.

5.C Research and Development, Patents and Licenses, etc.

The Registrant does not currently carry out research and development activities.

Items 4.A, 4.D, 5.A and 5.F provide details of the Registrant's mineral property exploration activities, acquisitions and write-downs.

5.D Trend Information

The Registrant knows of no trends, demand, commitments, events or uncertainties that are reasonably likely to have a material effect on the Registrant's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources or that would cause financial information not necessarily to be indicative of future operating results or financial condition.

The Registrant currently has no active business operations that would be affected by recent trends in productions, sales, etc. The Registrant has no material net sales or revenues that would be affected by recent trends other than the general effect of mineral prices on its ability to raise capital and those other general economic items as set out in Item 3.D.

5.E Off-Balance Sheet Arrangements

There are no known significant or material off-balance sheet arrangements other than those disclosed in this Form 20-F and in the Registrant's audited consolidated financial statements for the year ended December 31, 2009.

Shareholder Rights Plan

On May 31, 2005, the shareholders of the Registrant 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 Registrant 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 Registrant 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 Registrant. The Rights expire on April 30, 2015. Item 10.B provides further details.

Share Appreciation Rights

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.

5.F Tabular Disclosure of Contractual Obligations

As the Registrant performs exploration on its properties, it decides which ones to proceed with and which ones to abandon. Accordingly, the minimum expenditure commitments are reduced as the Registrant narrows its interests. To fully exercise the options under various agreements for the acquisition of interests in properties located in Canada, the Registrant must incur exploration expenditures on the properties and make payments to the optionors as follows as at December 31, 2009:

		Payments Due by Period (CAD$000s)			Others	
Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Amount (CAD$000s)	Number of Shares

New Polaris:							
Net profit interest reduction or buydown	-	-	-	-	-	-	150,000
Tay-LP:							
Option payments	980	80	900	-	-	-	-
Exploration expenditures	1,023	-	1,023	-	-	-	-
Annual advance royalty payments until commercial production	-	-	-	-	-	25	-
Net smelter reduction from 3% to 1.5%	-	-	-	-	-	1,950	-
Total	$ 2,003	$ 80	$ 1,923	$ -	$ -	$ 1,975	150,000

These amounts may be reduced in the future as the Registrant determines which properties continue to be of merit and abandons those with which it does not intend to proceed.

5.G Safe Harbor

This document may contain forward-looking statements. See Caution Forward-Looking Statements at the beginning of this annual report. The Registrant desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all forward-looking statements. Several important factors, in addition to the specific factors discussed in connection with such forward-looking statements individually, could affect the future results of the Registrant and could cause those results to differ materially from those expressed in the forward-looking statements contained herein.

The Registrant's estimated or anticipated future results or other non-historical facts are forward-looking and reflect the Registrant's current perspective of existing trends and information. These statements involve risks and uncertainties that cannot be predicted or quantified, and consequently actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others:

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risks related to our exploration and development activities;

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risks related to the ongoing financing of our planned operations;

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risks related estimates of mineral deposits;

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risks related to fluctuations in mineral prices;

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risks related to the title of our properties;

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risks related to the highly competitive mineral exploration and mining industry;

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risks related to potential conflicts of interest with our officers and directors;

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risks related to environmental and regulatory requirements;

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risks related to foreign currency fluctuations;

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risks related to the Registrant's possible status as a passive foreign investment company;

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risks related to the volatility of the Registrant's common stock; and

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risks related to the possible dilution of our common stock,

as well as other risks and uncertainties detailed in this report and from time to time in the Registrant's other Securities and Exchange Commission (SEC) filings.

Therefore, the Registrant cautions each reader of this document to consider carefully these factors as well as the specific factors that may be discussed with each forward-looking statement in this document or disclosed in the Registrant's filings with the SEC as such factors, in some cases, could affect the ability of the Registrant to implement its business strategy and may cause actual results to differ materially from those contemplated by the statements expressed therein. Forward-looking statements are subject to a variety of risks and uncertainties including, but not limited to, the risks referred under the section Risk Factors under Item 3.D above.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A Directors and Senior Management

In accordance with the provisions of the *Business Corporations Act (British Columbia)* the overall control of the business and affairs of the Registrant is vested in its board of directors. The board of directors of the Registrant currently consists of five members elected by the shareholders of the Registrant at each annual meeting of shareholders of the Registrant.

The directors and senior management of the Registrant as of June 15, 2010 are:

Name and Province/State and Country of Residence	*Principal Occupation and Occupation during the Past 5 Years* [1]	*Current Position with the Registrant and Period of Service*
COOKE, Bradford British Columbia, Canada	Chief Executive Officer and Director of Canarc Resource Corp. (since January 22, 1987); Chairman of Canarc Resource Corp. (since January 1, 2006); President of Canarc Resource Corp. (from January 22, 1987 to January 1, 2006); Chairman, Chief Executive Officer and Director of Endeavour Silver Corp. (since July 25, 2002).	Chief Executive Officer and Director (since January 22, 1987); Chairman (since January 1, 2006)
BULLOCK, Derek [2] Ontario, Canada	Mining Consultant	Director (since March 12, 1996)
HARRIS, Leonard [2] Colorado, U.S.A.	Retired	Director (since June 5, 2001)
PRICE, William [2] California, U.S.A.	Retired; Chairman of William L. Price Charitable Foundation; Formerly Chairman, CEO and Chief Investment Officer of RCM Capital Management LLC (formerly Dresdner RCM Global Investors LLC); Formerly Global Equity Chief Investment Officer of Allianz Global Investors AG	Director (since May 31, 2005)
BRIED, Bruce		Director

British Columbia, Canada	President and Chief Operating Officer of Canarc Resource Corp. (from February 15, 2007 to May 31, 2008); Vice-President, Mining, for Endeavour Silver Corp. (from March 2005 to February 2007); General Manager for Kinross Gold USA Inc. (from January 2004 to February 2005)	(since June 1, 2008)
BILES, Garry British Columbia, Canada	Vice-President, Mining, of Canarc Resource Corp. (from March 1, 2007 to May 31, 2008); General Manager of Glencairn Gold Corp. (from April 2005 to January 2007); General Manager of Procon Mining & Tunnelling (from July 2002 to April 2005);	President and Chief Operating Officer (since June 1, 2008)
MOORS, James British Columbia, Canada	Exploration Manager for Canarc Resource Corp. (from April 2002 to May 2005); Director of Information for BC Yukon of Mines (from 1999 to 2002)	Vice-President, Exploration (since June 2005)
LOCKWOOD, Stewart British Columbia, Canada	Barrister & Solicitor, Vector Corporate Finance Lawyers	Secretary (since 1994)
YEE, Philip British Columbia, Canada	Chief Financial Officer and Vice-President (Finance) of Parallel Resources Ltd. (since November 2009); Chief Financial Officer, Vice-President (Finance) and Director of Caza Gold Corp. (since November 2007); Finance Manager and/or Controller for Canarc Resource Corp. (from May 2003 to June 2005); Chief Financial Officer, Finance Manager and/or Controller for Endeavour Silver Corp.	Chief Financial Officer and Vice-President (Finance) (since June 2005)

(from May 2003 to February 2007);

Controller for Augusta Group

(from 1996 to 2003)

(1)

Unless otherwise stated above, each of the above-named persons has held the principal occupation or employment indicated for at least five years.

(2)

Members of the Audit Committee.

No director or officer has any family relationship with any other director or officer. The term of office of each of the directors will continue until the next annual general meeting, or until his successor is duly elected, unless his office is vacated in accordance with the articles of the Registrant. Officers hold office at the pleasure of the directors.

To the best of the Registrant's knowledge, there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of the Registrant's officers or directors was selected as an officer or director of the Registrant.

6.B Compensation

Statement of Executive Compensation

The Registrant is required, under applicable securities legislation in Canada, to disclose to its shareholders details of compensation paid to its directors and officers. The following fairly reflects all material information regarding compensation paid to the Registrant's directors and officers that has been disclosed to the Registrant's shareholders under applicable Canadian law.

During the fiscal period ended December 31, 2009, the aggregate compensation incurred by the Registrant to all individuals who were directors and officers, at the time of their remuneration, in all capacities as a group was CAD$546,466.

The table below discloses information with respect to executive compensation paid by the Registrant to its directors for the fiscal year ended December 31, 2009. The following table sets forth, for the periods indicated, the compensation of the directors and officers.

SUMMARY OF COMPENSATION

PAID TO DIRECTORS AND OFFICERS

(in terms of Canadian dollars)

Name and	Year	Salary[1]	Share-based awards	Option-based awards[2]	Non-equity incentive	Pension	All other	Total

principal position		($)	($)	($)	plan compensation[3] ($) Annual Incentive plans[3]	Long-term incentive plans[4]	value[5] ($)	compensation[6] ($)	compensation[7] ($)
Bradford J. Cooke	2009	$57,586	Nil	$17,025	Nil	Nil	Nil	$8,000	$82,611
Director, Chairman and CEO	2008	$10,500	Nil	$55,710	Nil	Nil	Nil	$18,500	$84,710
Derek Bullock	2009	Nil	Nil	$5,675	Nil	Nil	Nil	$8,000	$13,675
Director	2008	Nil	Nil	$20,891	Nil	Nil	Nil	$8,000	$28,891
Leonard Harris	2009	Nil	Nil	$5,675	Nil	Nil	Nil	$8,000	$13,675
Director	2008	Nil	Nil	$20,891	Nil	Nil	Nil	$8,000	$28,891
William Price	2009	Nil	Nil	$5,675	Nil	Nil	Nil	$8,000	$13,675
Director	2008	Nil	Nil	$20,891	Nil	Nil	Nil	$8,000	$28,891
Bruce Bried [8]	2009	Nil	Nil	$5,675	Nil	Nil	Nil	$8,000	$13,675
Director (since June 1, 2008); Former President and COO	2008	$4,805	Nil	$11,605	Nil	Nil	Nil	$13,659	$30,069
Garry D. Biles [9]	2009	$124,347	Nil	$11,350	Nil	Nil	Nil	Nil	$135,697
President and COO (since June 1, 2008)	2008	$73,766	Nil	$18,567	Nil	Nil	Nil	$7,500	$99,833
James Moors	2009	$62,018	Nil	$11,350	Nil	Nil	Nil	Nil	$73,368
Vice-President, Exploration	2008	$33,023	Nil	$23,450	Nil	Nil	Nil	$6,000	$62,473
Stewart Lockwood	2009	Nil	Nil	$4,256	Nil	Nil	Nil	$102,608 [10]	$106,864
Secretary	2008	Nil	Nil	$3,712	Nil	Nil	Nil	$67,217 [10]	$70,929

Philip Yee	2009	$81,876	Nil	$11,350	Nil	Nil	Nil	Nil	$93,226
Chief Financial Officer and Vice-President, Finance	2008	$34,614	Nil	$16,245	Nil	Nil	Nil	$6,000	$56,859

Notes:

(1)

Includes the dollar value of cash and non-cash base salary earned during a financial year covered.

(2)

The amount represents the fair value, on the date of grant, of awards made under the Company's Stock Option Plan. The grant date fair value has been calculated using the Black Scholes Model in accordance with Section 3870 of the CICA Handbook.

(3)

These amounts include annual non-equity incentive plan compensation, such as bonuses and discretionary amounts for the year ended December 31, 2009.

(4)

N/A.

(5)

N/A.

(6)

These amounts cover all compensation other than amounts already set out in the table for the year ended December 31, 2009 and include directors fees, as applicable, and annual bonuses for prior year's performance. These annual bonuses were in the form of shares of Aztec Metals Corp. which have a deemed value of CAD$0.30 per share.

(7)

These amounts include dollar value of total compensation for the covered year. This is the sum of all amounts reported in columns with footnotes 1 to 6 above for each director and officer.

(8)

Bruce Bried resigned as President and Chief Operating Officer on May 31, 2008 and was appointed to the Board of Directors on June 1, 2008.

(9)

Garry Biles was appointed President and Chief Operating Officer on June 1, 2008. Compensation for 2008 for Mr. Biles only includes the period in which he was President of the Company.

(10)

Legal fees charged to the Company by a law firm in which Stewart Lockwood is a partner.

The following table sets forth information concerning outstanding stock options under the Registrant's Stock Option Plan as at December 31, 2009 to each director and officer of the Registrant. No SARs were outstanding.

Options and Stock Appreciation Rights (SARs)

The following table discloses incentive stock options which were granted to directors and officers during the fiscal year ended December 31, 2009:

SUMMARY OF STOCK OPTIONS

GRANTED TO DIRECTORS AND OFFICERS

From January 1, 2009 to December 31, 2009

Name and Principal Position	*Date of Grant*	*Title of Underlying Security*	*Number of Underlying Security*	*Exercise Price per Share (CAD$)*	*Expiry Date*
Bradford J. Cooke Chief Executive Officer, Chairman and Director	July 15, 2009	Common shares	300,000	$0.11	July 15, 2014
Derek Bullock Director	July 15, 2009	Common shares	100,000	$0.11	July 15, 2014
Leonard Harris Director	July 15, 2009	Common shares	100,000	$0.11	July 15, 2014
William Price Director	July 15, 2009	Common shares	100,000	$0.11	July 15, 2014
Bruce Bried Director	July 15, 2009	Common shares	100,000	$0.11	July 15, 2014
Garry Biles President and Chief Operating Officer	July 15, 2009	Common shares	200,000	$0.11	July 15, 2014
James Moors Vice-President, Exploration	July 15, 2009	Common shares	200,000	$0.11	July 15, 2014
Stewart Lockwood Secretary	July 15, 2009	Common shares	75,000	$0.11	July 15, 2014
Philip Yee Chief Financial Officer and Vice-President (Finance)	July 15, 2009	Common shares	200,000	$0.11	July 15, 2014

Note:

The above stock option grant is subject to a vesting provision in which 20% of the options vest immediately and 20% vest every six months.

At the discretion of the directors, certain option grants provide the holder with 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. For the 2009 fiscal year, no share appreciation rights for common shares were exercised by option holders who were directors or officers of the Registrant at the time of exercise.

Pension Plan

The Registrant does not have any pension plan arrangements in place.

Report on Executive Compensation

The Registrant's executive compensation program is administered by the board of directors (the Board).

Compensation of Directors

Bradford J. Cooke, the Chief Executive Officer and a Director of Canarc, receives a cash compensation as consideration for his duties as an operating officer of Canarc as disclosed in the Summary Compensation Table above.

At a Board of Directors' meeting held on June 17, 2004, it was resolved that each director shall earn a remuneration of CAD$2,000 per quarter as compensation in his capacity as a director effective January 1, 2004.

During the fiscal year ended December 31, 2009, Canarc granted stock options to directors for up to 700,000 common shares in which such options have an exercise price of CAD$0.11 and an expiry date of July 15, 2014 and are subject to vesting provision in which 20% of the options vest immediately and 20% vest every six months.

Executive Compensation Program

The Registrant's executive compensation program is based on a pay for performance philosophy. The executive compensation program is designed to encourage, compensate and reward employees on the basis of individual and corporate performance, both in the short and the long term. Base salaries are set at levels which are competitive with the base salaries paid by companies within the mining industry having comparable capitalization to that of the Registrant, thereby enabling the Registrant to compete for and retain executives critical to the Registrant's long term success. Incentive compensation is directly tied to corporate and individual performance. Share ownership opportunities are provided to align the interests of executive officers with the longer term interests of shareholders.

Compensation for directors and officers, as well as for executive officers as a whole, consists of a base salary, along with annual incentive compensation in the form of an annual bonus, and a longer term incentive in the form of stock options. As an executive officer's level of responsibility increases, a greater percentage of total compensation is based on performance (as opposed to base salary and standard employee benefits) and the mix of total compensation shifts towards stock options, thereby increasing the mutuality of interest between executive officers and shareholders.

No funds were set aside or accrued by the Registrant or its subsidiaries during the year ended December 31, 2009 to provide pension, retirement or similar benefits for directors or officers of the Registrant pursuant to any existing plan provided or contributed to by the Registrant or its subsidiaries under applicable Canadian laws.

Base Salary

The Board approves ranges for base salaries for employees at all levels of the Registrant based on reviews of market data from peer groups and industry in general. The level of base salary for each employee within a specified range is determined by the level of past performance, as well as by the level of responsibility and the importance of the position to the Registrant.

The Registrant's Chief Executive Officer prepares recommendations for the Board with respect to the base salary to be paid to the CEO and other senior executive officers. The CEO's recommendations for base salaries for the senior executive officers, including the Chief Executive Officer, President and Chief Operating Officer, and the Chief Financial Officer, are then submitted for approval by the Board.

Bonus

The Board annually evaluates performance and allocates an amount for payment of bonuses to executive officers and senior management. The aggregate amount for bonuses to be paid will vary with the degree to which targeted corporate performance was achieved for the year. The individual performance factor allows the Registrant effectively to recognize and reward those individuals whose efforts have assisted the Registrant to attain its corporate performance objective.

The CEO prepares recommendations for the Board with respect to the bonuses to be paid to the executive officers and to senior management.

Stock Options

A Stock Option Plan is administered by the Board. The Stock Option Plan is designed to give each option holder an interest in preserving and maximizing shareholder value in the longer term, to enable the Registrant to attract and retain individuals with and to reward individuals for current performance and expected future performance. The Board considers stock option grants when reviewing executive officer compensation packages as a whole. experience and ability,

Other Compensation

Bradford J. Cooke, CEO, Chairman and Director of the Registrant, is a party to an arrangement with Endeavour Silver Corp. (Endeavour) whereby Endeavour is reimbursed for time spent by Mr. Cooke on a cost recovery basis. There are no specific terms relating to severance or notice beyond what may be provided by statute or common law. During the financial year ended December 31, 2009, Canarc incurred CAD$57,586 in salary paid or payable to Endeavour for services rendered by Mr. Cooke.

Directors' and Officers' Liability Insurance

In fiscal 2009, the Registrant acquired an insurance policy for itself and its directors and officers against liability incurred by them in the performance of their duties as directors and officers of the Registrant. The policy has a $1,000,000 limit of liability, retentions ranging from $nil to $50,000, and a policy period from October 29, 2008 to October 29, 2009 which was renewed for another term ending October 29, 2010.

Performance Graph

Shareholder Return Performance Graph

The graph below compares the yearly percentage change in the cumulative total shareholder return on the Registrant's common shares against the cumulative total shareholder return of the Toronto Stock Exchange 300 Total Return Index for the period commencing December 31, 2004 and ending December 31, 2009.

Comparison of Total Shareholder Return on Common Shares

of the Registrant and the Toronto Stock Exchange Indice

(based on Canadian Funds)

The graphs assume that the initial value of the investment on the stock exchange in the Registrant's common shares and in the indice was $100 on the initial date.

6.C Board Practices

Statement of Corporate Governance Practices

The Registrant is required to report annually to its shareholders on its corporate governance practices and policies with reference to National Policy 58-201, *Corporate Governance Guidelines* (the Policy) and National Instrument 58-101, *Disclosure of Corporate Governance Practices*, as adopted by the Canadian Securities Administrators, and effective June 30, 2005.

The Board of Directors

The Board currently consists of five directors, of which four directors (Bruce Bried, Derek Bullock, Leonard Harris and William Price) are currently independent in the context of the Policy. Bradford J. Cooke is not independent because he is the Chief Executive Officer of the Registrant.

Certain directors of the Registrant are presently directors of other issuers that are reporting issuers (or the equivalent) in any jurisdiction including foreign jurisdictions, as follows:

Director	**Other Reporting Issuers**
Bradford Cooke	Endeavour Silver Corp. Radius Gold Inc. Caza Gold Corp. Parallel Resources Ltd.
Derek Bullock	IAMGOLD Corporation
Leonard Harris	Alamos Gold Inc. Cardero Resource Corp. Solitario Exploration & Royalty Corp. Sulliden Gold Corporation Ltd. Endeavour Silver Corp. Kobex Minerals Inc. Golden Arrow Resources Corporation Indico Resources Ltd. Wealth Minerals Ltd. Trevali Resources Corp. Golden Alliance Resources Corp. Pediment Gold Corp.
William Price	n/a
Bruce Bried	International Montoro Resources Inc.

The independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. However, during the course of a directors' meeting, if a matter is more effectively dealt with without the presence of members of management, the independent directors ask members of management to leave the meeting, and the independent directors then meet *in camera*.

Bradford J. Cooke is the Chairman of the board of directors of Canarc. William Price, as an independent director, was appointed the Lead Director of the Board, with the mandate to ensure that the Board's Agenda will enable it to successfully carry out its duties and to do so without interference from the Chairman of the Board that could result from potential conflicts from his status as a non-independent Board member.

Since January 1, 2007, the Registrant has held board meetings at least quarterly and at which the majority, if not all, Board members have attended, either in person or by telephone conference call, during the time in which they were directors of the Registrant.

Board Mandate

The Board of Directors is responsible for supervising management in carrying on the business and affairs of the Registrant. Directors are required to act and exercise their powers with reasonable prudence in the best interests of the Registrant. The Board agrees with and confirms its responsibility for overseeing management's performance in the following particular areas:

- the strategic planning process of the Registrant;
- identification and management of the principal risks associated with the business of the Registrant;
- planning for succession of management;
- the Registrant's policies regarding communications with its shareholders and others; and
- the integrity of the internal controls and management information systems of the Registrant.

In carrying out its mandate, the Board relies primarily on management to provide it with regular detailed reports on the operations of the Registrant and its financial position. The Board reviews and assesses these reports and other information provided to it at meetings of the Board and/or of its committees. The Chairman and CEO is a member of the Board, giving the Board direct access to information in his areas of responsibility. Other management personnel regularly attend Board meetings to provide information and answer questions. Directors also consult from time to time with management and have, on occasion, visited the properties of the Registrant. The reports and information provided to the Board include details concerning the monitoring and management of the risks associated with the Registrant's activities, such as compliance with safety standards and legal requirements, environmental issues and the financial position and liquidity of the Registrant. At least annually, the Board reviews management's report on its business and strategic plan and any changes with respect to risk management and succession planning.

Position Descriptions

The Board of Directors has not yet developed written position descriptions for the Chairman, the chairman of any Board committees, the CEO, the President or the CFO. The Board is of the view that given the size of the Registrant, the relatively frequent discussions between Board members, the CEO, the President and the CFO and the experience of the individual members of the Board, the responsibilities of such individuals are known and understood without position descriptions being reduced to writing. The Board will evaluate this position from time to time, and if written position descriptions appear to be justified, they will be prepared.

Orientation and Continuing Education

The Board does not have a formal policy relating to the orientation of new directors and continuing education for directors. The appointment of a new director is a relatively infrequent event in the Registrant's affairs, and each situation is addressed on its merits on a case-by-case basis. The Registrant has a relatively restricted scope of operations, and most candidates for Board positions will likely have past experience in the mining business; they will likely be familiar therefore with the operations of a resource company of the size and complexity of the Registrant. The Board, with the assistance of counsel, keeps itself apprised of changes in the duties and responsibilities of directors and deals with material changes of those duties and responsibilities as and when the circumstances warrant. The Board will evaluate these positions, and if changes appear to be justified, formal policies will be developed and followed.

Ethical Business Conduct

The Registrant has adopted a whistle blower policy, which is set out in its Charter of the Audit Committee which is available for viewing on SEDAR as a schedule to the Registrant's Annual Information Form dated March 25, 2010.

Nomination of Directors

The Board has neither a formal policy for identifying new candidates for Board nomination nor a permanent nominating committee. If and when the Board determines that its size should be increased or if a director needs to be replaced, a nomination committee comprised entirely of independent directors will be struck. The terms of reference of such a committee will be determined when it is created, but are expected to include the determination of the independence of the candidate, his or her experience in the mining business and compatibility with the other directors.

Compensation

Taking into account the Registrant's present status as an exploration-stage enterprise, the Board of Directors reviews the adequacy and form of compensation provided to Directors on a periodic basis to ensure that the compensation is commensurate with the responsibilities and risks undertaken by an effective director.

Other Board Committees

At present, the Board has established an Audit Committee. The Board of Directors is of the view that the decision to not set up various committees such as a Nominating, Human Resources, Governance, or Compensation Committee is appropriate having regard to cost and time issues and the size of the Registrant.

Assessments

The Board has no formal process for the assessment of the effectiveness and contribution of the individual directors. Each director has extensive public company experience and is familiar with what is required of him. Frequency of attendance at Board and committee meetings and the quality of participation in such meetings are two of the criteria by which the performance of a director will be assessed.

6.D Employees

The Registrant's business is administered principally from its head office in Vancouver, British Columbia, Canada. As of June 15, 2010, the Registrant had a staff of seven part time employees based in Vancouver, BC, Canada.

6.E Share Ownership

As at June 15, 2010, the share ownership and number of stock options of the directors and officers of the Registrant are as follows:

Name and Principal Position	Share Ownership		Number of Stock Options		
	Number of Shares	*Percentage* [(1)]	*Number of Underlying Security* [(2)]	*Exercise Prices per Share (CAD$)*	*Expiry Dates*
Bradford J. Cooke	2,304,980	2.81%	750,000	$0.27	June 23, 2010
			50,000	$0.35	June 30, 2010
Chairman, Chief Executive Officer and Director			175,000	$0.69	June 29, 2011
			200,000	$0.54	June 15, 2012
			750,000	$0.46	September 26, 2012
			400,000	$0.29	May 15, 2013
			300,000	$0.11	July 15, 2014
Derek Bullock	5	0.00%	125,000	$0.69	June 29, 2011
			100,000	$0.54	June 15, 2012
Director			125,000	$0.29	May 15, 2013
			100,000	$0.11	July 15, 2014
Leonard Harris	210,000	0.26%	200,000	$0.35	June 30, 2010
			125,000	$0.69	June 29, 2011
Director			100,000	$0.54	June 15, 2012
			125,000	$0.29	May 15, 2013
			100,000	$0.11	July 15, 2014
William Price	5,556,000	6.78%	200,000	$0.35	June 30, 2010
			125,000	$0.69	June 29, 2011
Director			100,000	$0.54	June 15, 2012
			125,000	$0.29	May 15, 2013
			100,000	$0.11	July 15, 2014
Bruce Bried	300,000	0.36%	75,000	$0.69	June 29, 2011
			125,000	$0.74	January 26, 2012
Director			100,000	$0.54	June 15, 2012
			125,000	$0.29	May 15, 2013
			100,000	$0.11	July 15, 2014
Garry Biles	Nil	Nil	200,000	$0.74	January 26, 2012
			50,000	$0.54	June 15, 2012
President and Chief Operating Officer			200,000	$0.29	May 15, 2013
			200,000	$0.11	July 15, 2014
James Moors	32,012	0.04%	150,000	$0.35	June 30, 2010
			100,000	$0.69	June 29, 2011
Vice-President, Exploration			100,000	$0.54	June 15, 2012
			175,000	$0.29	May 15, 2013
			200,000	$0.11	July 15, 2014
Stewart Lockwood	215,174	0.26%	100,000	$0.35	June 30, 2010
			50,000	$0.54	June 15, 2012
Secretary			40,000	$0.29	May 15, 2013
			75,000	$0.11	July 15, 2014
Philip Yee	Nil	Nil	150,000	$0.35	June 30, 2010
			100,000	$0.69	June 29, 2011

Chief Financial Officer and	100,000	$0.54	June 15, 2012
Vice-President (Finance)	175,000	$0.29	May 15, 2013
	200,000	$0.11	July 15, 2014

(1)

As at June 15, 2010, the Registrant had 81,969,655 common shares issued and outstanding.

(2)

Common shares.

All of the Registrant's shareholders have the same voting rights.

Details of all total outstanding options, warrants and other rights to purchase securities of the Registrant and its subsidiaries as at June 15, 2010 unless otherwise stated, are set forth below:

Stock Option Summary

Amount Outstanding	Exercise Prices (CAD$)	Dates Granted	Expiry Dates
750,000	$0.27	June 23, 2000	June 23, 2010
1,090,000	$0.35	June 30, 2005	June 30, 2010
20,000	$0.40	December 5, 2005	December 5, 2010
1,200,000	$0.69	June 29, 2006	June 29, 2011
325,000	$0.74	January 26, 2007	January 26, 2012
1,065,000	$0.54	June 15, 2007	June 15, 2012
750,000	$0.46	September 26, 2007	September 26, 2012
1,730,000	$0.29	May 15, 2008	May 15, 2013
1,680,000	$0.11	July 15, 2009	July 15, 2014
8,610,000	**TOTAL**		

Warrant Summary Chart

Amount Outstanding	Exercise Price (CAD$)	Date Issued	Expiry Dates
241,570	$0.15	October 22, 2009	April 22, 2011
2,568,140	$0.15	October 22, 2009	April 22, 2011
154,410	$0.165	November 9, 2009	May 9, 2011
2,964,120	**TOTAL**		

Stock Option/Share Incentive Plan

The Registrant's directors and shareholders have approved a Share Incentive Plan (the Plan). The Plan was initially approved by the TSX in 1996. The principal purposes of the Plan are to promote a proprietary interest in the Registrant among its directors, officers and employees; to retain, attract and motivate the qualified managers of the Registrant; to provide a long-term incentive element in overall compensation; and to promote the long-term profitability of the Registrant.

Incentives to participate under the Plan may be provided by the granting of share options or share appreciation rights (SARs). The share appreciation right entitles the participant in the Plan to elect, subject to approval by the Board of Directors, in lieu of exercising an outstanding share option, to receive the number of common shares of the Registrant equivalent in value to the difference between the option exercise price and the net existing market price of the Registrant's common shares multiplied by the number of common shares over which he could otherwise exercise his option.

Under the Plan, the Board of Directors of the Registrant or its Executive Committee may from time to time grant to directors, officers, consultants and full and part time employees of the Registrant and its associated, affiliated, controlled and subsidiary companies, as the Board or its Executive Committee shall designate, the option to purchase from the Registrant such number of its common shares as the Board or its Executive Committee may designate. The Registrant's Plan allows it to grant options to its employees, directors and consultants to acquire up to 18,374,095 common shares, of which options for 8,665,000 common shares are outstanding as at December 31, 2009, provided that the total number of common shares to be optioned to any one optionee shall not exceed 5% of the issued common shares of the Registrant at the time of grant. 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 sale, 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. Pursuant to the Plan, options shall be granted pursuant to an option agreement in a form that complies with the rules and policies of the Toronto Stock Exchange, which provide as follows:

(a)

all options granted shall be non-assignable;

(b)

an option must be exercisable during a period not extending beyond 10 years from the time of grant; and

(c)

no financial assistance will be provided with respect to the exercise of stock options.

At the Registrant's annual general meeting held on June 15, 2010, shareholder approval was provided for the increase in the maximum aggregate number of common shares which may be reserved for issuance under the Plan from 11,696,450 shares to 16,335,000 shares at that time.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A Major Shareholders

To the best of the Registrant's knowledge, the Registrant is not directly or indirectly owned or controlled by another company or by any foreign government or by any other natural or legal person(s) severally or jointly. There are no arrangements, known to the Registrant, the operation of which may at a subsequent date result in a change in its control.

As at June 15, 2010, the only persons or groups known to the Registrant to beneficially own 5% or more of the Registrant's issued and outstanding common shares and the number of common shares owned, directly or indirectly, by officers and directors of the Registrant as a group are as follows:

Title of Class	Identity of Person or Group	Shares Owned [1]	Percentage of Class [2]
Common Shares	CDS & Co. Toronto, Ontario	46,645,035 [3], [4]	56.91%
Common Shares	CEDE & Co. New York, New York, U.S.A.	28,597,483 [3], [4]	34.89%
Common Shares	William Price [5] Redwood City, California, U.S.A.	5,556,000 [6]	6.78%
Common Shares	Officers and Directors as a group	8,618,171 [6]	10.51%

(1)

Common shares.

(2)

As at June 15, 2010, the Registrant had 81,969,655 common shares issued and outstanding.

(3)

Owners of record only. CDS & Co. is a clearing agency through which Canadian brokers and dealers hold their securities. CEDE & Co. is a U.S. clearing agency. The Registrant believes that all of these shares are held by the registered holder in a fiduciary, trustee, or nominee capacity, and the identities of the beneficial owners of such shares are not known to the Registrant and, except for named individuals and the officers and directors as a group, the Registrant is not aware of any person or group of persons which beneficially owns more than 5% of the Registrant's outstanding common shares.

(4)

Certain of these shares may be held in street form and may be included in the shares registered in the name of CDS & Co. or CEDE & Co.

(5)

As at June 15, 2010, William Price controlled, either directly or indirectly, 5,556,000 common shares of the Registrant, representing 6.78% of the Registrant at that time; William Price directly controls 4,556,000 common

shares and indirectly controls 1,000,000 common shares through The William L Price Charitable Foundation. William Price became a director of the Registrant at May 31, 2005, but exerts no direct control over any board member and is unrelated to any board member and is not active in the operations of the Registrant.

(6)

William Price was elected to the Board of Directors at the Registrant's annual general meeting held on May 31, 2005, and as at June 15, 2010, his shareholdings of 5,556,000 common shares are included in the 8,618,171 common shares held by officers and directors as a group.

All shares of the Registrant, including all those held by any major shareholders, are common shares with similar voting rights. As of June 15, 2010 there were 81,969,655 common shares of the Registrant issued and outstanding. Based on the records of the Registrant's registrar and transfer agent, Computershare Investor Services Inc., of 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada, as at such date there were 432 registered holders of the Registrant's common shares resident in the United States (71% of all registered holders) holding 33,656,801 common shares. This number represents approximately 41.06% of the total issued and outstanding common shares of the Registrant at that date.

Control by Another Corporation, Foreign Government or Other Persons

To the best of the Registrant's knowledge, the Registrant is not directly or indirectly owned or controlled by another corporation(s), by any foreign government or by any other natural or legal person(s) severally or jointly.

Change of Control

As of the date of this Form 20-F, there is no arrangement known to the Registrant which may at a subsequent date result in a change of control of the Registrant.

7.B Related Party Transactions

For the fiscal year ended December 31, 2009, the Registrant had transactions with related parties.

General and administrative costs during 2009 include:

-

CAD$57,586 (2008 - CAD$52,561 and 2007 - CAD$120,987) of salaries to an employee who is a director;

-

CAD$40,000 (2008 - CAD$36,659 and 2007 - CAD$35,604) to directors in their capacity as directors of the Company. As at December 31, 2009, the Company accrued CAD$68,659 (2008 - CAD$28,659) in directors fees;

-

CAD$102,608 (2008 - CAD$67,217 and 2007 - CAD$106,316) in legal fees to a law firm in which a senior officer of the Company is a partner. As at December 31, 2009, the Company owed CAD$114,883 (2008 - CAD$32,859) to the law firm;

-

CAD$262,322 (2008 - CAD$272,572 and 2007 - CAD$32,005) in office rent and salary allocations recovered from companies sharing certain common directors. As at December 31, 2009, the Company was owed CAD$56,169 (2008 - CAD$22,778) from such companies; and

-

CAD$79,827 (2008 - CAD$119,976 and 2007 - CAD$35,273) in office rent and salary allocations incurred to a company sharing certain common directors. As at December 31, 2009, the Company owed CAD$46,191 (2008 - CAD$1,435) 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.

In December 2007, the Registrant's previous wholly-owned subsidiary, Caza, received proceeds of CAD$300,000 in demand loans of which CAD$180,000 were from directors and officers of the Registrant. The loans were repayable on demand and had an interest rate of 9% per annum. In June 2008, the Company closed a Plan of Arrangement with Caza in which Caza is no longer a wholly-owned subsidiary of the Registrant.

Items 4.A, 5.A and 5.B provide further details of transactions with Aztec and Caza.

In each case the transactions described below were, in the Registrant's view, completed on terms no less favourable to the Registrant than if they had been entered into with unaffiliated parties.

Compensation to Directors and Senior Officers and Options to Purchase Securities

Item 6 provides further details of compensation paid to, and options granted to and held by, directors and senior officers of the Registrant.

Indebtedness of Directors and Senior Officers

At any time during the Registrant's last completed financial year, no director, executive officer or senior officer of the Registrant, proposed management nominee for election as a director of the Registrant or each associate or affiliate of any such director, executive or senior officer or proposed nominee is or has been indebted to the Registrant or any of its subsidiaries or is and has been indebted to another entity where such indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Registrant or any of its subsidiaries, other than routine indebtedness and other than as disclosed in the Registrant's audited financial statements and in the Form 20-F.

Interest of Insiders in Material Transactions

Other than as set forth below and in the Form 20-F and in the Registrant's audited financial statements and other than transactions carried out in the ordinary course of business of the Registrant or any of its subsidiaries, none of the directors or senior officers of the Registrant, a proposed management nominee for election as a director of the Registrant, any member beneficially owning shares carrying more than 5% of the voting rights attached to the shares of the Registrant nor an associate or affiliate of any of the foregoing persons had since January 1, 2009 (being the commencement of the Registrant's last audited fiscal period) any material interest, direct or indirect, in any transactions which materially affected or would materially affect the Registrant or any of its subsidiaries.

The Registrant'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 Registrant may participate, the directors of the Registrant may have a conflict of

interest in negotiating and concluding terms respecting the extent of such participation. Also, certain directors and officers of Canarc Resource Corp. are directors, officers and / or employees of Aztec and Caza. The interests of these companies may differ from time to time. Items 4.D and 6.C provide further details.

7.C Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A Consolidated Statements and Other Financial Information

Consolidated financial statements audited by an independent registered public accounting firm and accompanied by an audit report are comprised of the following, which are attached hereto and form a part hereof.

(a)

Consolidated Balance Sheets as of December 31, 2009 and 2008;

(b)

Consolidated Statements of Operations and Comprehensive (Loss) Income for each of the years ended December 31, 2009, 2008, and 2007;

(c)

Consolidated Statements of Shareholders' Equity for each of the years ended December 31, 2009, 2008, and 2007;

(d)

Consolidated Statements of Cash Flows for each of the years ended December 31, 2009, 2008, and 2007; and

(e)

Notes to the consolidated financial statements.

The Registrant is not involved and has not been involved in the recent past in any legal or arbitration proceedings which may have, or had in the recent past, significant effects on the Registrant's financial position or profitability, including governmental proceedings pending or known to be contemplated other than as disclosed in the Company's continuous disclosure documents, regulatory filings, Form 20-F and consolidated financial statements for the years then ended.

Dividend Policy

On June 25, 2008, the Registrant proceeded to close the Plan of Arrangement (the Arrangement) with Caza whereby approximately 83% of the Registrant's interest in Caza was distributed to the shareholders of the Registrant. Under the Arrangement, the Registrant transferred all its interest in its wholly-owned Mexican subsidiary which holds all the rights to the Mexican gold exploration properties to Caza in return for 14,346,527 shares of Caza, of which the Registrant distributed 11,950,577 Caza shares by way of a dividend in kind to the Registrant's shareholders on the basis of one share of Caza for every six shares of the Registrant held by shareholders as of the dividend record date.

The Registrant has not, during its last five completed financial years, declared or paid any cash dividends on its common shares and does not currently intend to pay cash dividends. Management intends for earnings, if any, to be retained to finance further growth and activities relating to the business of the Registrant.

The Directors of the Registrant may from time to time declare and authorize payment of such dividends, if any, as they may deem advisable and need not give notice of such declaration to any shareholder. No dividend shall be paid otherwise than out of funds and/or assets properly available for the payment of dividends and a declaration by the Directors as to the amount of such funds or assets available for dividends shall be conclusive. The Registrant may pay any such dividend wholly or in part by the distribution of specific assets and in particular by paid up shares, bonds, debentures or other securities of the Registrant or any other corporation or in any one or more such ways as may be authorized by the Registrant or the Directors and where any difficulty arises with regard to such a distribution the Directors may settle the same as they think expedient, and in particular may fix the value for distribution of such specific assets or any part thereof, and may determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled shall be made to any shareholders on the basis of other value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees for the persons entitled to the dividend as may seem expedient to the Directors.

Any dividend declared on shares of any class by the Directors may be made payable on such date as is fixed by the Directors.

Subject to the rights of shareholders (if any) holding shares with special rights as to dividends, all dividends on shares of any class shall be declared and paid according to the number of such shares held.

The Directors may, before declaring any dividend, set aside out of the funds properly available for the payment of dividends such sums as they think proper as a reserve or reserves, which shall, at the discretion of the Directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which such funds of the Registrant may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Registrant or be invested in such investments as the Directors may from time to time think fit. The Directors may also, without placing the same in reserve, carry forward such funds, which they think prudent not to divide.

If several persons are registered as joint holders of any share, any one of them may give an effective receipt for any dividend, bonuses or other moneys payable in respect of the share.

No dividend shall bear interest against the Registrant. Where the dividend to which a shareholder is entitled includes a fraction of a cent, such fraction shall be disregarded in making payment thereof and such payment shall be deemed to be payment in full.

Any dividend, bonuses or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder, or in the case of joint holders, to the registered address of that one of the joint holders who is first named in the register, or to such person and to such address as the holder or joint holders may direct in writing. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. The mailing of such cheque or warrant shall, to the extent of the sum represented thereby (plus the amount of any tax required by law to be deducted) discharge all liability for the dividend, unless such cheque or warrant shall not be paid on presentation or the amount of tax so deducted shall not be paid to the appropriate taxing authority.

Notwithstanding anything contained in the Registrant's Articles of Incorporation, the Directors may from time to time capitalize any undistributed surplus on hand of the Registrant and may from time to time issue as fully paid and non-assessable any unissued shares, or any bonds, debentures or debt obligations of the Registrant as a dividend representing such undistributed surplus on hand or any part thereof.

Legal Proceedings

The Registrant is not involved in any legal or arbitration proceedings which have, or may have had in the recent past, significant effects on the Registrant's financial position or profitability other than as disclosed in the Registrant's continuous disclosure documents, regulatory filings, Form 20-F and consolidated financial statements for the years then ended.

More specifically, pursuant to an audit by CRA in 2009, Canarc 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 Canarc has recognized a flow through financing cost of $489,000. In February 2010, an initial proposal by CRA to Canarc disallowed approximately CAD$1.2 million in CEE of which Canarc 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 Canarc 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 $113,000 for expenditures incurred in 2005 and 2006, as reviewed by CRA, and GST receivable of approximately $47,000, resulting in an estimated income tax balance payable of $329,000 as at December 31, 2009.

8.B Significant Changes

There has been no significant change in the financial condition of the Registrant since December 31, 2009 other than as disclosed in this Form 20-F.

ITEM 9. THE OFFER AND LISTING

9.A Offer and Listing Details

This Form 20-F is being filed as an annual report under the Exchange Act and does not relate to a new offer of securities, and accordingly, the information called for is not required other than the price history information below.

The Registrant's common shares are traded on The Toronto Stock Exchange in Canada (the TSX) under the symbol CCM . The following prices are stated in terms of Canadian dollars.

The following tables set forth the high and low prices of the common shares for the periods indicated.

(Stated in terms of Canadian dollars)

Fiscal Year	High (CAD$)	Low (CAD$)
2009	$0.21	$0.06
2008	$0.44	$0.04
2007	$0.83	$0.33
2006	$0.95	$0.55
2005	$0.62	$0.31

Quarter	High (CAD$)	Low (CAD$)
2010		
1st Quarter	$0.19	$0.11
2009		
4th Quarter	$0.20	$0.11

3rd Quarter	$0.21	$0.09
2nd Quarter	$0.12	$0.07
1st Quarter	$0.10	$0.06
2008		
4th Quarter	$0.11	$0.04
3rd Quarter	$0.30	$0.09
2nd Quarter	$0.31	$0.23
1st Quarter	$0.44	$0.23

Month	High (CAD$)	Low (CAD$)
2010		
May	$0.13	$0.10
April	$0.13	$0.11
March	$0.13	$0.11
February	$0.17	$0.11
January	$0.19	$0.13
2009		
December	$0.15	$0.11

9.B Plan of Distribution

Not applicable.

9.C Markets

Since November 2, 1994, the Registrant's common shares have traded on the TSX. From March 16, 1988 to June 2, 1995 and from September 1996 to February 12, 1999, the Registrant's common shares traded on the Vancouver Stock Exchange (VSE) (the VSE merged with the Alberta Stock Exchange in 2000, which became known as the Canadian Venture Exchange, and then the Toronto Stock Exchange acquired the Canadian Venture Exchange to form the TSX Venture Exchange). In February 1997, the Registrant was listed for trading on the Berlin Stock Exchanges and has since voluntarily delisted from the exchange. On August 3, 1998, the Registrant was listed on the Frankfurt Exchange. Management of the Registrant is not aware of any trading market for the Registrant's common shares in the United States apart from the United States OTC Bulletin Board, on which the Registrant trades under the symbol CRCUF.

9.D Selling Shareholders

Not applicable.

9.E Dilution

Not applicable.

9.F Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A Share Capital

Not applicable.

10.B Notice of Articles and Articles of Association

The Registrant's Notice of Articles and articles of association, and related matters, are summarized below.

1.

The Registrant was incorporated under the laws of British Columbia on January 22, 1987 under the name, Canarc Resource Corp. by registration of its Memorandum and Articles with the British Columbia Registrar of Companies. At the Registrant's annual and extraordinary general meeting held in May 2005, the shareholders approved the Notice of Articles be altered to remove the application of the Pre-Existing Company Provisions as set forth in Table 3 of the Business Corporations Regulations under the B.C. *Business Corporations Act*, S.B.C. 2002 (the BCBCA) and the replacement of the Articles with a new set of Articles which comply with the BCBCA. The Registrant no longer has a Memorandum, which has been replaced by, in part, its Notice of Articles.

The Registrant's Memorandum and Articles do not provide for any specific objects or purposes.

2.

Set forth below is a summary of provisions contained in the Registrant's Articles with respect to:

(a)

Director's power to vote on a proposal, arrangement or contract in which the director is materially interested:

A director who holds a disclosable interest in a contract or transaction into which the Registrant has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

(b)

Directors' power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body:

See (a), above. A director does not hold a disclosable interest in a contract or transaction merely because the contract or transaction relates to the remuneration of the director in that person's capacity as director, officer, employee or agent of the Registrant or of an affiliate of the Registrant.

(c)

Borrowing powers exercisable by the directors and how such borrowing powers can be varied:

The Registrant, if authorized by the directors, may:

(i)

borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

(ii)

issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Registrant or any other person and at such discounts or premiums and on such other terms as they consider appropriate;

(iii)

guarantee the repayment of money by any other person or the performance of any obligation of any other person; and

(iv)

mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Registrant.

(d)

Retirement or non-retirement of directors under an age limit requirement:

The directors are not required to retire upon reaching a specific age.

(e)

Number of shares, if any, required for director's qualification:

A director is not required to hold any shares of the Registrant.

3.

All common shares of the Registrant rank equally as to dividends, voting powers and participation in assets (in the event of liquidation) and in all other respects. Dividend entitlement is set by way of the shareholders status as a shareholder on the chosen record date and does not lapse over time. Each share carries one vote per share at meetings of the shareholders of the Registrant. Directors do not stand for re-election on staggered terms at present. There are no indentures or agreements limiting the payment of dividends and there are no conversion rights, special liquidation rights, pre-emptive rights or subscription rights attached to the common shares. The shares presently issued are not subject to any calls or assessments. There is a Shareholders Right Plan as detailed in Item 10.B under Summary of Shareholders Rights Plan.

4.

The rights of holders of common shares may not be modified other than by vote of 2/3 of the common shares voting on such modification. The quorum for the transaction of business at a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting. Due to the quorum requirements, the rights of holders of common shares may be modified by

the votes of less than a majority of the issued common shares of the Registrant.

5.

The directors of the Registrant call all annual general meetings and extraordinary general meetings. The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any solicitor for the Registrant, the auditor of the Registrant and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

6.

There are no limitations on the rights to own securities.

7.

There are no provisions in the Registrant's Articles that would have an effect on delaying, deferring or preventing a change of control other than that the Registrant may remove any director before the expiration of his or her term of office only by way of special resolution. In addition, there is a Shareholders Right Plan as detailed in Item 10.B under Summary of Shareholders Rights Plan.

8.

There are no by-law provisions governing the ownership threshold above which shareholder ownership must be disclosed.

9.

The law of British Columbia, Canada, relating to Items 2-8 is not significantly different from the law of the United States.

10.

There are no conditions in the Memorandum and Articles governing changes in capital that are more stringent than is required by law.

11.

The BCBCA permits an unlimited authorized share capital, and shares may be created with or without par value.

12.

There are no residency requirements for directors under the BCBCA.

13.

Special Resolutions of shareholders can be passed by a minimum of a two-thirds majority at a meeting of shareholders.

14.

General meetings can be held outside British Columbia if the location is approved by resolution of the directors.

15.

The BCBCA provides for shareholder proposals to be made at general meetings. Generally, shareholders holding at least 1% of the voting shares may submit proposals to the Registrant three months prior to the anniversary of the last annual general meeting of shareholders of the Registrant.

16.

Under the BCBCA, dividends may be declared out of profits, capital or otherwise. As well, the BCBCA does not automatically make directors liable to the Registrant for the declaration of dividends while the Registrant is insolvent.

17.

The BCBCA does not require that a company's offer to purchase or redeem its own shares be made on a pro-rata basis to all shareholders.

18.

The BCBCA permits a company to indemnify its directors without court approval, and may also require reimbursement of expenses in certain cases for claims that are successfully defended. Defense costs may also be advanced by a company in certain cases.

19.

All filings with the Registrar under the BCBCA must be made electronically.

20.

Directors' and shareholders' meetings may be held by any form of communications medium permitted under the Articles, including internet chat lines and telephones. In addition, directors' consent resolutions may be passed in the manner provided under the Articles, including e-mail.

21.

A company may provide financial assistance in connection with the purchase of its shares under the BCBCA.

22.

A company may, in limited circumstances, amalgamate with a foreign company under the BCBCA, without the requirement to first continue the second company into British Columbia. Amalgamations do not require court approval, although court approval may still be requested.

23.

The requisite majority to pass a special resolution at a meeting of shareholders is a two-thirds majority.

24.

General meetings of shareholders may, if the location is approved by directors' resolution, be held outside British Columbia.

25.

General Meetings of shareholders of the Registrant are required to be held each calendar year and not more than 15 months after the holding of the last preceding annual general meeting.

26.

Any offer by the Registrant to purchase or redeem its own shares, need not be made pro-rata to all the shareholders.

27.

Changes to the Registrant's capital structure may be effected by ordinary resolution, including the following changes:

creation or cancellation of one or more classes or series of shares;

creation or removal of special rights and restrictions attaching to any class or series of shares;

changing the authorized capital;

consolidating or subdividing all or any of the Registrant's issued or unissued shares; and

other alterations to the share capital and authorized capital, where permitted under the BCBCA.

28.

The Registrant's name may be changed by ordinary resolution or resolution of the directors.

29.

The removal of court approval of any agreement to indemnify a director or officer in most cases, as well as mandatory indemnification on certain eligible cases.

30.

The remuneration of the auditor of the Registrant may be set by the directors, without the need of seeking a resolution of the shareholders authorizing the directors to set such remuneration.

31.

A director of the Registrant may be removed as a director of the Registrant before the expiration of the director's term of office pursuant to an ordinary resolution of the shareholders.

For further information, refer to the full text of the Notice of Articles and Articles of the Registrant, which are available online at www.sedar.com as part of the Registrant's publicly available filings under the heading Other , as filed on November 10, 2005.

Summary of the Shareholder Rights Plan

The following is a summary of the terms of the Shareholder Rights Plan which was approved at the Registrant's annual and extraordinary meeting held in May 2005, and ratified and confirmed in April 2008.

General

The rights will be issued pursuant to a shareholder rights plan agreement dated and effective April 30, 2005, between the Registrant and Computershare Trust Company of Canada as the rights agent. Each right will entitle the holder to purchase from the Registrant one common share at the exercise price of CAD$50.00 per share, subject to adjustments, at any time after the separation time (defined below). However, if a flip-in event (defined below) occurs, each right will entitle the holder to receive, upon payment of the exercise price, common shares having a market value equal to two-times the exercise price. The rights are non-exercisable until the separation time.

Trading of Rights

Until the separation time, the rights will be evidenced by the outstanding certificates for common shares and the rights will be transferred with, and only with, the common shares. As soon as practicable following the separation time, separate certificates evidencing the rights will be mailed to holders of record of common shares as of the close of business at the separation time and the separate rights certificates will thereafter evidence the rights.

Separation Time and Acquiring Person

The rights will separate and trade apart from the common shares and become exercisable at the separation time. Separation time generally means the close of business on the 10th trading day following the commencement or announcement of the intent of any person to commence a take-over bid, other than a permitted bid or a competing bid, but under certain circumstances can mean the eighth trading day after a person becomes an acquiring person by acquiring 20% or more of the voting shares of any class.

Flip-in Event

A flip-in event will, in general terms, occur when a person becomes an acquiring person. Upon the occurrence of a flip-in event, each right will entitle the holder to acquire, on payment of the exercise price, that number of common shares having a market value equal to two-times the exercise price. However, any rights beneficially owned by an acquiring person or by any direct or indirect transferees of such person, will be void. The term beneficial ownership is defined to include, under certain circumstances, shares owned indirectly through affiliates, associates, trusts and partnerships, other situations of ownership deemed by operation of law, shares subject to acquisition or voting agreements and shares owned by persons acting jointly or in concert. There are several exceptions, including exceptions directed towards investment managers, trust companies, and independent managers of pension plans who are not participating in a take-over bid.

Permitted Bids

Permitted bids are exempted from the operation of the Shareholder Rights Plan. In summary, a permitted bid is a take-over bid made by way of take-over bid circular which complies with the following provisions:

(a)

It is made to all holders of voting shares of the Registrant of a particular class and for all those voting shares.

(b)

No voting shares can be taken up and paid for before the close of business on the Permitted Bid Expiry Date , as described below, and unless more than 50% of voting shares held by shareholders independent of the offeror are tendered and not withdrawn.

(c)

Voting shares may be tendered at any time until the Permitted Bid Expiry Date and may be withdrawn until taken up and paid for.

(d)

If the condition described in (b) above is met, there will be a public announcement and the take-over bid will be open for a further period of 10 business days.

The Shareholder Rights Plan contains provisions designed to ensure that, if considered appropriate, the time for tendering to two or more competing permitted bids will occur on the same date.

Permitted Bid Expiry Date

The Permitted Bid provisions require that for a Take-Over to be a Permitted Bid it must be left open until the Permitted Bid Expiry Date. The Permitted Bid Expiry Date means 60 days following the date of the Take-Over Bid.

Exchange Option

Under certain circumstances, the board of directors of the Registrant can, on exercise of a right and payment of the exercise price, issue other securities or assets of the Registrant in lieu of common shares. The board of directors of the Registrant can also determine to issue in exchange for the rights, but without payment of the exercise price, common shares having a value equal to the exercise price or other securities or assets of the Registrant having the same value.

Adjustments

The exercise price, the number and kind of shares subject to purchase upon exercise of each right and the number of rights outstanding are subject to adjustment from time to time to prevent dilution in the event that the Registrant takes certain actions involving the Registrant's share capital which would otherwise have a dilutive effect.

Redemption

At any time before the occurrence of a flip-in event, the board of directors may elect to redeem the rights in whole at a redemption price of $0.0001 per right.

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Waiver

The board of directors may waive the application of the Shareholder Rights Plan to any flip-in event if it determines that a person became an acquiring person by inadvertence, conditional upon such person having, within 10 days after the determination by the board of directors, reduced its beneficial ownership of shares such that it is no longer an acquiring person. The board of directors may also, until a flip-in event has occurred, waive the application of the Shareholder Rights Plan to any particular flip-in event, but in that event, the board of directors shall be deemed to have waived the application of the Shareholder Rights Plan to any other flip-in event which may arise under any take-over bid then in effect.

Amendments

The board of directors may amend the Shareholder Rights Plan to correct clerical or typographical errors, to maintain the validity of the plan as a result of any changes in any applicable legislation or to increase or decrease the exercise price. Any amendments required to maintain the validity of the Shareholder Rights Plan must be submitted to the shareholders of the Registrant or, after the separation time, to the holders of the rights for confirmation.

Other amendments can only be made with the approval of the shareholders of the Registrant or, after the separation time, the holders of the rights. Any supplements or amendments to the Shareholder Rights Plan require the prior written consent of the TSX Toronto Stock Exchange.

Term

The Shareholder Rights Plan has a term of 10 years; however, it is subject to ratification at the Meeting, and also at each of the shareholder meetings following the third and sixth anniversaries of the effective date of the Shareholder Rights Plan. If the Shareholder Rights Plan is not so ratified at any meeting, the Shareholder Rights Plan shall terminate forthwith.

The text of the ordinary resolution, in substantially the form which was presented to the shareholders, subject to such changes not affecting the general intent of the said resolution as may be required by the regulatory authorities or by counsel for the Registrant, is set forth below:

BE IT RESOLVED, with or without amendment, as an ordinary resolution, that the Shareholder Rights Plan Agreement, dated for reference April 30, 2005, between the Company and Computershare Trust Company of Canada, as described in the Information Circular of the Company dated as at April 26, 2005, be and it is hereby approved, ratified and confirmed.

10.C Material Contracts

On June 25, 2008, the Registrant closed the Plan of Arrangement (the Arrangement) with Caza whereby approximately 83% of the Registrant's interest in Caza was distributed to the shareholders of the Registrant. Items 5.A and 8.A provides further details.

For the two years immediately preceding June 15, 2010, there were no material contracts entered into, other than contracts entered into in the ordinary course of business, to which the Registrant or any member of the group was a party, and other than as disclosed in this Form 20-F. For a description of those contracts entered into in the ordinary course of business refer to Items 4.B and 4.D.

10.D Exchange Controls

There are no governmental laws, decrees or regulations in Canada relating to restrictions on the export or import of capital, or affecting the remittance of interest, dividends or other payments to non-resident holders of the Registrant's common shares. Any remittances of dividends to United States residents are, however, subject to a 15% withholding tax (10% if the shareholder is a corporation owning at least 10% of the outstanding common shares of the Registrant) pursuant to Article X of the reciprocal tax treaty between Canada and the United States.

Except as provided in the Investment Canada Act (the Act), there are no limitations under the laws of Canada, the Province of British Columbia or in the charter or any other constituent documents of the Registrant on the right of foreigners to hold or vote the common shares of the Registrant.

Management of the Registrant considers that the following general summary is materially complete and fairly describes those provisions of the Investment Canada Act pertinent to an investment by an American investor in the Registrant.

The following discussion summarizes the principal features of the Investment Canada Act for a non-resident who proposes to acquire the common shares.

The Investment Canada Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture (each an entity) that is not a "Canadian" as defined in the Investment Canada Act (a non-Canadian), unless after review, the Director of Investments appointed by the minister responsible for the Investment Canada Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in the common shares by a non-Canadian other than a WTO Investor (as that term is defined by the Investment Canada Act, and which term includes entities which are nationals of or are controlled by nationals of member states of the World Trade Organization) when the Company was not controlled by a WTO Investor, would be reviewable under the Investment Canada Act if it was an investment to acquire control of the Registrant and the value of the assets of the Registrant, as determined in accordance with the regulations promulgated under the Investment Canada Act, equals or exceeds $5 million for direct acquisition and over $50 million for indirect acquisition, or if an order for review was made by the federal cabinet on the grounds that the investment related to Canada's cultural heritage or national identity, regardless of the value of the assets of the Registrant. An investment in the common shares by a WTO Investor, or by a non-Canadian when the Registrant was controlled by a WTO Investor, would be reviewable under the Investment Canada Act if it was an investment to acquire control of the Registrant and the value of the assets of the Registrant, as determined in accordance with the regulations promulgated under the Investment Canada Act was not less than a specified amount. A non-Canadian would acquire control of the Registrant for the purposes of the Investment Canada Act if the non-Canadian acquired a majority of the common shares. The acquisition of one third or more, but less than a majority of the common shares would be presumed to be an acquisition of control of the Registrant unless it could be established that, on the acquisition, the Registrant was not controlled in fact by the acquirer through the ownership of the common shares.

Certain transactions relating to the common shares would be exempt from the Investment Canada Act, including: (a) an acquisition of the common shares by a person in the ordinary course of that person's business as a trader or dealer in securities; (b) an acquisition of control of the Registrant in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provisions of the Investment Canada Act; and (c) an acquisition of control of the Registrant by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of the Registrant, through the ownership of the common shares, remained unchanged.

10.E Taxation

ALL SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE INCOME AND OTHER TAX CONSEQUENCES ARISING IN THEIR PARTICULAR CIRCUMSTANCES. THE FOLLOWING IS A SUMMARY ONLY AND OF A GENERAL NATURE AND IS NOT INTENDED, NOR SHOULD IT BE CONSTRUED, TO BE LEGAL OR TAX ADVISE TO ANY PARTICULAR SHAREHOLDER.

United States Federal Income Tax Consequences

The following is a discussion of material United States federal income tax consequences, under current law, applicable to a US Holder (as hereinafter defined) of common shares of the Registrant. This discussion does not address consequences peculiar to persons subject to special provisions of federal income tax law, such as those described below as excluded from the definition of a US Holder. In addition, this discussion does not cover any state, local or foreign tax consequences. (Refer to Certain Canadian Federal Income Tax Considerations for material Canadian federal income tax consequences).

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended (the Code), Treasury Regulations, published Internal Revenue Service (IRS) rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time and which are subject to differing interpretations. This discussion does not consider the potential effects, both adverse and beneficial, of any proposed legislation that, if enacted, could be applied, possibly on a retroactive basis, at any time. This discussion is for general information only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of common shares of the Registrant and no opinion or representation with respect to the United States federal income tax consequences to any such holder or prospective holder is made. Accordingly, holders and prospective holders of common shares of the Registrant should consult their own tax advisors about the federal, state, local, and foreign tax consequences of purchasing, owning and disposing of common shares of the Registrant.

U.S. Holders

As used herein, a U.S. Holder means a holder of common shares of the Registrant who is (i) a citizen or individual resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate whose income is taxable in the United States irrespective of source or (iv) a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to specific provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, persons or entities that have a functional currency other than the U.S. dollar, shareholders subject to the alternative minimum tax, shareholders who hold common shares as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own common shares as capital assets within the meaning of Section 1221 of the Code. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares.

Distribution on Common Shares of the Company

U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares of the Registrant are required to include in gross income for United States federal income tax purposes the gross amount of such distributions, equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that the Registrant has current or accumulated earnings and profits, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder's federal income tax liability or, alternatively, may be deducted in computing the U.S. Holder's federal taxable income by those who itemize deductions. (The section, Foreign Tax Credit , below provides more details). To the extent that distributions exceed current or accumulated earnings and profits of the Registrant, they will be treated first as a return of capital up to the U.S. Holder's adjusted basis in the common shares and thereafter as gain from the sale or exchange of the common shares. Preferential tax rates for long-term capital gains are applicable to a U.S. Holder that is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder that is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss. However, an individual whose realized gain does not exceed $200 will not recognize that gain, to the extent that there are no expenses associated with the

transaction that meet the requirements for deductibility as a trade or business expense (other than travel expenses in connection with a business trip) or as an expense for the production of income.

Dividends paid on the common shares of the Registrant generally will not be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations. A U.S. Holder which is a corporation and which owns shares representing at least 10% of the voting power and value of the Registrant may, under certain circumstances, be entitled to a 70% (or 80% if the U.S. Holder owns shares representing at least 20% of the voting power and value of the Registrant) deduction of the United States source portion of dividends received from the Registrant (unless the Registrant qualifies as a passive foreign investment company, as defined below). The availability of this deduction is subject to several complex limitations that are beyond the scope of this discussion.

Certain information reporting and backup withholding rules may apply with respect to the Registrant's common shares. In particular, a payor or middleman within the U.S., or in certain cases outside the U.S., will be required to withhold 31% of any payments to a holder of the Registrant's common shares of dividends on, or proceeds from the sale of, such common shares within the U.S., unless the holder is an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding tax requirements. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS. U.S. Holders are urged to consult their own tax counsel regarding the information reporting and backup withholding rules applicable to the Registrant's common shares.

Foreign Tax Credit

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of common shares of the Registrant may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations that apply to the credit among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's United States income tax liability that the U.S. Holder's foreign source income bears to his or its worldwide taxable income. In the determination of the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as passive income , high withholding tax interest, financial services income, shipping income, and certain other classifications of income. Dividends distributed by the Registrant will generally constitute passive income or, in the case of certain U.S. Holders, financial services income for these purposes. In addition, U.S. Holders which are corporations that own 10% or more of the voting stock of the Registrant may be entitled to an indirect foreign tax credit under Section 902 with respect to the payment of dividends by the Registrant under certain circumstances and subject to complex rules and limitations. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific, and U.S. Holders of common shares of the Registrant should consult their own tax advisors regarding their particular circumstances.

Disposition of Common Shares of the Company

A U.S. Holder will recognize gain or loss upon the sale of common shares of the Registrant equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder's tax basis in the common shares of the Registrant. Preferential tax rates apply to long-term capital gains of U.S. Holders that are individuals, estates or trusts. This gain or loss will be capital gain or loss if the common shares are a capital asset in the hands of the U.S. Holder, which will be long-term capital gain or loss if the common shares of the Registrant are held for more than one year. Deductions for net capital losses are subject to significant limitations. For U.S. Holders which are not corporations, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted. For U.S. Holders that are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

Other Considerations

In the following circumstances, the above sections of this discussion may not describe the United States federal income tax consequences resulting from the holding and disposition of common shares:

Foreign Investment Company

If 50% or more of the combined voting power or total value of the Registrant's outstanding shares is held, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships or companies, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), and the Registrant is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that the Registrant may be treated as a "foreign investment company" as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging common shares to be treated as ordinary income rather than capital gain. The Registrant does not believe that it currently qualifies as a foreign investment company. However, there can be no assurance that the Registrant will not be considered a foreign investment company for the current or any future taxable year.

Passive Foreign Investment Company

As a foreign corporation with U.S. Holders, the Registrant could potentially be treated as a passive foreign investment company ("PFIC"), as defined in Section 1297 of the Code, depending upon the percentage of the Registrant's income which is passive, or the percentage of the Registrant's assets which produce or are held for the production of passive income. U.S. Holders owning common shares of a PFIC are subject to the highest rate of tax on ordinary income in effect for the applicable taxable year and to an interest charge based on the value of deferral of tax for the period during which the common shares of the PFIC are owned with respect to certain excess distributions on and dispositions of PFIC stock. However, if the U.S. Holder makes a timely election to treat a PFIC as a qualified electing fund ("QEF") with respect to such shareholder's interest therein, the above-described rules generally will not apply. Instead, the electing U.S. Holder would include annually in his gross income his pro rata share of the PFIC's ordinary earnings and net capital gain regardless of whether such income or gain was actually distributed. A U.S. Holder of a QEF can, however, elect to defer the payment of United States federal income tax on such income inclusions. Special rules apply to U.S. Holders who own their interests in a PFIC through intermediate entities or persons. In addition, subject to certain limitations, U.S. Holders owning, actually or constructively, marketable (as specifically defined) stock in a PFIC will be permitted to elect to mark that stock to market annually, rather than be subject to the excess distribution regime of section 1291 described above. Amounts included in or deducted from income under this alternative (and actual gains and losses realized upon disposition, subject to certain limitations) will be treated as ordinary gains or losses. This alternative will apply to taxable years of U.S. Holders beginning after 1997 and taxable years of foreign corporations ending with or within such taxable years of U.S. Holders.

Because the PFIC determination is made annually on the basis of income and assets, there can be no assurance that the Registrant will not be classified a PFIC in the current or in a subsequent year. In addition, there can be no assurance that the Registrant's determination concerning its PFIC status will not be challenged by the IRS, or that it will be able to satisfy record keeping requirements which will be imposed on QEFs in the event that it qualifies as a PFIC.

Controlled Foreign Registrant

If more than 50% of the total combined voting power of all classes of shares entitled to vote or the total value of the shares of the Registrant is owned, actually or constructively, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), each of which own, actually or constructively, 10% or more of the total combined voting power of all classes of shares entitled to vote of the Registrant (United States Shareholder), the Registrant could be treated as a controlled foreign corporation (CFC) under Subpart F of the Code. This classification would affect many complex results, one of which is the inclusion of certain income of a CFC which is subject to current U.S. tax. The United States generally taxes United States shareholders of a CFC currently on their pro rata shares of the Subpart F income of the CFC. Such United States shareholders are generally treated as having received a current distribution out of the CFC's Subpart F income and are also subject to current U.S. tax on their pro rata shares of the CFC's earnings invested in U.S. property. The foreign tax credit described above may reduce the U.S. tax on these amounts. In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Holder of common shares of the Registrant which is or was a United States Shareholder at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of earnings and profits of the Registrant attributable to the shares sold or exchanged. If a foreign corporation is both a PFIC and a CFC, the foreign

corporation generally will not be treated as a PFIC with respect to United States Shareholders of the CFC. This rule generally will be effective for taxable years of United States Shareholders beginning after 1997 and for taxable years of foreign Registrants ending with or within such taxable years of United States Shareholders. Special rules apply to United States Shareholders who are subject to the special taxation rules under Section 1291 discussed above with respect to a PFIC. Because of the complexity of Subpart F, a more detailed review of these rules is outside of the scope of this discussion. The Registrant does not believe that it currently qualifies as a CFC. However, there can be no assurance that the Registrant will not be considered a CFC for the current or any future taxable year.

Certain Canadian Federal Income Tax Considerations

A brief description of certain provisions of the tax treaty between Canada and the United States is included below, together with a brief outline of certain taxes, including withholding provisions, to which United States security holders are subject under existing laws and regulations of Canada. The consequences, if any, of provincial, state and local taxes are not considered.

The following information is general and security holders should seek the advice of their own tax advisors, tax counsel or accountants with respect to the applicability or effect on their own individual circumstances of the matters referred to herein and of any provincial, state, or local taxes.

The discussion under this heading summarizes the principal Canadian federal income tax consequences of acquiring, holding and disposing of shares of common stock of the Registrant for a shareholder of the Registrant who is not a resident of Canada but is a resident of the United States and who will acquire and hold shares of common stock of the Registrant as capital property for the purposes of the *Income Tax Act* (Canada) (the Canadian Tax Act). This summary does not apply to a shareholder who carries on business in Canada through a permanent establishment situated in Canada or performs independent personal services in Canada through a fixed base in Canada if the shareholder's holding in the Registrant is effectively connected with such permanent establishment or fixed base. This summary is based on the provisions of the Canadian Income Tax Act and the regulations thereunder and on an understanding of the administrative practices of Canada Customs & Revenue Agency, and takes into account all specific proposals to amend the Canadian Tax Act or regulations made by the Minister of Finance of Canada as of the date hereof. It has been assumed that there will be no other relevant amendment of any governing law although no assurance can be given in this respect. This discussion is general only and is not a substitute for independent advice from a shareholder's own Canadian and U.S. tax advisors.

The provisions of the Canadian Tax Act are subject to income tax treaties to which Canada is a party, including the Canada-United States Income Tax Convention (1980), as amended (the Convention).

Dividends on Common Shares and Other Income

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25 percent on dividends paid or deemed to have been paid to him or her by a corporation resident in Canada. The Convention limits the rate to 15 percent if the shareholder is a resident of the United States and the dividends are beneficially owned by and paid to such shareholder, and to 5 percent if the shareholder is also a corporation that beneficially owns at least 10 percent of the voting stock of the payor corporation.

The amount of a stock dividend (for tax purposes) would generally be equal to the amount by which the paid up or stated capital of the Registrant had increased by reason of the payment of such dividend. The Registrant will furnish additional tax information to shareholders in the event of such a dividend. Interest paid or deemed to be paid on the Registrant's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities and any applicable tax treaty.

The Convention generally exempts from Canadian income tax dividends paid to a religious, scientific, literary, educational or charitable organization or to an organization operated exclusively to administer or provide pension, retirement or employee benefit fund, if the organization is a resident of the United States and is generally exempt from income tax under the laws of the United States provided it is not carrying on a trade or business.

Dispositions of Common Shares

Under the Canadian Tax Act, subject to certain restrictions, a taxpayer's capital gain or capital loss from a disposition of a share of common stock of the Registrant is the amount, if any, by which his or her proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of his or her adjusted cost base of the share and reasonable expenses of disposition. The capital gain or loss must be computed in Canadian currency using a weighted average adjusted cost base for identical properties. Fifty percent of the capital gains net of losses are included in income. The amount by which a shareholder's capital loss exceeds the capital gain in a year may be deducted from a capital gain realized by the shareholder in the three previous years or any subsequent year, subject to certain restrictions in the case of a corporate shareholder.

Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian tax on taxable capital gains, and may deduct allowable capital losses, realized on a disposition of "taxable Canadian property . Shares of common stock of the Registrant will constitute taxable Canadian property of a shareholder at a particular time if the shareholder used the shares in carrying on business in Canada, or if at any time in the five years immediately preceding the disposition 25% or more of the issued shares of any class or series in the capital stock of the Registrant belonged to one or more persons in a group comprising the shareholder and persons with whom the shareholder and persons with whom the shareholder did not deal at arm's length and in certain other circumstances.

The Convention relieves United States residents from liability for Canadian tax on capital gains derived on a disposition of shares unless:

(a)

the value of the shares is derived principally from real property in Canada, including the right to explore for or exploit natural resources and rights to amounts computed by reference to production;

(b)

the shareholder was resident in Canada for 120 months during any period of 20 consecutive years preceding the disposition, and at any time during the 10 years immediately preceding, the disposition and the shares were owned by him or her when he or she ceased to be resident in Canada; or

(c)

the shares formed part of the business property of a permanent establishment that the holder has or had in Canada within the 12 months preceding the disposition.

10.F Dividends and Paying Agents

Not applicable.

10.G Statement by Experts

Not applicable.

10.H Documents on Display

Copies of documents referred to in this Form 20-F may be inspected at the Registrant's corporate office at Suite #301 - 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8. The Registrant may require the payment of a reasonable fee in respect of a request made by a person who is not a security holder of the Registrant.

The Registrant's documents publicly filed with the Securities and Exchange Commission may also be viewed and inspected at the SEC's Public Reference Room located at 100 F St. NE, Washington, DC, USA, 20549. Copies may also be obtained from the SEC at prescribed rates.

10.I Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Registrant believes that it does not have any material exposure to interest rate risks. The Registrant does not engage in any hedging transactions and does not have any outstanding long-term debt.

Canarc does not have any derivative instruments for Canadian GAAP purposes. However for fiscal 2009 Canarc determined that it has derivative instruments for U.S. GAAP purposes. In June 2008, the FASB issued Emerging Issues Task Force (EITF) 07-5, *Determining Whether an Instrument is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 would result in share purchase warrants being classified as a derivative liability if they are not indexed to the underlying common shares. EITF 07-5 is effective for fiscal years ending after September 15, 2009. Canarc's functional currency is the U.S. dollar and Canarc has issued and outstanding warrants that have exercise prices which are denominated in Canadian dollars. Because the exercise prices of the share purchase warrants are denominated in a currency other than Canarc's functional currency, the warrants are not considered indexed to Canarc's common shares. These warrants are treated as derivative liabilities carried at fair values as determined by the Black-Scholes option pricing model for U.S. GAAP purposes with changes in fair values recorded as gains or losses in the statement of

operations. On January 1, 2009, Canarc recorded the fair value of warrants to liability in the amount of $4,100 with the offsetting balance to deficit for the incremental fair value of the derivative liability under U.S. GAAP. During the year ended December 31, 2009, the fair values of the warrants increased to $177,300 with the offsetting balance to losses in the statement of operations for the incremental fair value of the derivative liability under U.S. GAAP. The fair values of the share purchase warrants were determined using the Black-Scholes method based on the following factors:

	December 31, 2009	January 1, 2009
Risk-free interest rate	1.41%	1.11%
Expected dividend yield	0%	0%
Expected stock price volatility	104%	98%
Expected life of warrants in years	1.21	1.41

Item 3.D provides information concerning risk factors.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

14.A - D

None.

14.E Proceeds

Not Applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

At the end of the period covered by this report, an evaluation was carried out under the supervision of and with the participation of the Registrant's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a 15(e) and Rule 15d 15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that as of the end of the period covered by this report, the Registrant's disclosure controls and procedures were adequately designed and effective at the reasonable assurance level to ensure that: (i) information required to be disclosed by the Registrant in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to the Registrant's management, including its CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

The Registrant's management, including the CEO and CFO, does not expect that its disclosure controls and procedures or internal controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Registrant have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Registrant's controls include policies and procedures that:

-

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Registrant;

-

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP; and

-

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Registrant's assets that could have a material effect on the annual financial statements or interim financial statements.

Management conducted an evaluation of the design and operation of the Registrant's internal control over financial reporting as of December 31, 2009 based on the criteria in a framework developed by the Registrant's management pursuant to and in compliance with the SEC's *Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*, Release No. 33-8810 and based on the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based upon its assessment, management, including the Registrant's Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2009, the Registrant's internal control over financial reporting was effective.

The Registrant 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 Registrant shall engage the services of an external accounting firm, which is independent of the Registrant's current auditors, to assist in applying complex areas of accounting as needed. In December 2007, the Registrant has hired a consultant to design and implement internal controls over financial reporting. Management concluded that the financial statements for the year ended December 31, 2009 fairly present the Company's financial position and the results of its operations for the year then ended, and that no material misstatements were identified. Ongoing staff training and development in complex accounting issues and engagement of services of external consultants with knowledge and skills in complex areas of accounting, when needed, shall contribute to reduce the risk of a material weakness in the Registrant's internal control over financial reporting and assist in providing reasonable assurance that its internal control over financial reporting is effective.

The Registrant's independent registered public accounting firm is not required to provide an attestation on management's report on internal control over financial reporting until the Registrant's annual report for the fiscal year ended December 31, 2010. Therefore, this report does not include an attestation report of the Registrant's independent registered public accounting firm regarding internal controls over financial reporting pursuant to temporary rules of the Securities and Exchange Commission that permit the Registrant to provide only management's report in this annual report.

Changes in Internal Controls over Financial Reporting

There were no changes in the Registrant's internal controls over financial reporting identified in connection with the evaluation described above that occurred during the period covered by this annual report that has materially affected or is reasonably likely to affect the Registrant's internal control over financial reporting.

ITEM 16. AUDIT COMMITTEE FINANCIAL EXPERT, CODE OF ETHICS AND PRINCIPAL ACCOUNTANT FEES AND SERVICES

16.A Audit Committee Financial Expert

The Registrant's audit committee is comprised of three directors, as set forth below:

Derek Bullock Leonard Harris William Price

No one person has been identified as a financial expert given that all of the members of the audit committee are financially literate, meaning that they must be able to read and understand financial statements. The Board of Directors has determined that its members of the Audit Committee have sufficient skills to satisfy its duties given the stage and size of the Registrant.

Relevant Education and Experience

Derek Bullock - Mr. Bullock has a Masters degree from Queens University and is the past President of Iamgold Corporation. He has been on the audit committee of Iamgold Corporation and Goldcrest Resources Ltd.

Leonard Harris - Mr. Harris is a professional engineer with a metallurgy diploma and 50 years experience in all aspects of mineral processing and mining operations world wide, including the construction of the Yanacocha gold mine in Peru. Mr. Harris is currently a director for twelve small cap mining and exploration public companies including Alamos Gold Inc. and Endeavour Silver Corp.

William Price Mr. Price has significant experience and expertise in the financial world, having served as the Chairman, CEO and CIO of RCM Capital Management LLC and as Global Chief Investment Officer of Allianz Global Investors AG. Mr. Price was a research analyst in the 1960's for well recognized firms in the US equity markets, taking on the additional responsibility of portfolio manager with Donaldson, Lufkin, Jenrette in 1970. Starting in 1977, Mr. Price became an early partner in RCM Capital Management and ultimately led the Company as CEO. RCM Capital Management had more than US$30 billion under management upon his retirement in 2003.

16.B Code of Ethics

The Registrant has not adopted a formal written code of ethics given its relatively small size.

Directors, including the director/employee of the Registrant, are subject to the laws of the Province of British Columbia, Canada, whereby they are required to act honestly, in good faith and in the best interests of the Registrant. Also, the corporate secretary who is a securities lawyer is available to the management of the Registrant to provide a high standard of due care in the activities of the Registrant and to provide guidance when needed.

The Registrant expects all directors, officers and employees to abide by the following code of ethics which have been communicated to them:

-

act with honesty and integrity and in an ethical manner resolve any actual or apparent conflicts of interest between personal and professional relationships;

-

ensure that any public filings or announcements, whether they are statutory or regulatory filings or other documents submitted for public disclosure and communication, are accurate, complete, fair, timely and understandable in all material respects, taking into consideration applicable standards and regulations;

-

compliance with applicable laws, rules and regulations; and

-

prompt internal reporting of any violations, whether actual or potential, in the code of ethics.

16.C Principal Accountant Fees and Services

The following table discloses accounting fees and services of the Registrant:

(Stated in terms of Canadian dollars)

Type of Services Rendered	2009 Fiscal Year (CAD$)	2008 Fiscal Year (CAD$)
(a) Audit Fees	$50,000	$50,000
(b) Audit-Related Fees	Nil	Nil
(c) Tax Fees	Nil	Nil
(d) All Other Fees	Nil	Nil

At an Audit Committee meeting held in March 2010, the Audit Committee pre-approved all services to be performed by the auditors including certain non-audit services requested by management for the 2010 fiscal year until the next Audit Committee meeting concerning the financial statements for the year ended December 31, 2010, which services are not prohibited services under the independence requirements of the Securities and Exchange Commission or professional standards in Canada or the United States.

16.D Exemptions from the Listing Standards for Audit Committees

Not applicable.

16.E Purchases of Equity Securities by the Registrant and Affiliated Purchasers

None.

16.F Change in Registrant's Certifying Accountant

In November 2008, Smythe Ratcliffe LLP replaced KPMG LLP as the auditors for Canarc at the request of Canarc's Board of Directors. The auditors' reports for their respective years expressed audit opinions without reservation on the

financial statements.

There have not been any disagreements or reportable events with our predecessor auditors.

16.G Corporate Governance

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

The following financial statements and related schedules are included in this Item:

Financial Statements	Page # in Sequential Numbering System
1.1 Report of Independent Registered Public Accounting Firm dated March 24, 2010, except as to Note 15 which is as of June 24, 2010.	83
1.2 Report of Independent Registered Public Accounting Firm dated March 14, 2008, except as to Note 15 which is as of July 11, 2008.	84
1.3 Consolidated balance sheets as at December 31, 2009 and 2008 together with the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2009, 2008 and 2007.	85

ITEM 18. FINANCIAL STATEMENTS

Not Applicable

ITEM 19. EXHIBITS

Exhibit #	Exhibits Description	Page # in Sequential Numbering System
1-1	Notice of Articles and Articles (Business Corporations Act of British Columbia)	Previously filed as Exhibit 2.1 in the Form 20-F with the SEC on July 12, 2005
1-2	Shareholders Right Plan dated April 30, 2005	Previously filed as Exhibit 2.2 in the Form 20-F with the SEC on July 12, 2005
8-1	List of Material Subsidiaries	127
12-1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Bradford J. Cooke)	80
12-2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Philip Yee)	81
13-1.	Certification pursuant to Title 18, United States Code, Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Bradford J. Cooke)	129
13-2	Certification pursuant to Title 18, United States Code, Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Philip Yee)	129
15-1	Resource Potential, New Polaris Project (dated March 14, 2007)	Previously filed on Form 6-K with the SEC in July 2008
15-2	New Polaris Project, Preliminary Assessment (dated December 23, 2009)	Previously filed on Form 6-K with the SEC in July 2010
15-3	2009 Diamond Drilling Program on the Tay-LP Property (dated March 30, 2010)	Previously filed on Form 6-K with the SEC in July 2010

15-4	Letter from predecessor auditors regarding Item 16.F which confirms that there have not been any disagreements or reportable events with our predecessor auditors. (dated July 14, 2010)	128

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Canarc Resource Corp.

Form 20-F

SIGNATURE

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

DATED at Vancouver, British Columbia, Canada, as of June 29, 2010.

CANARC RESOURCE CORP.

Per:

/s/ Bradford J. Cooke

Bradford J. Cooke, Chief Executive Officer and Director

Canarc Resource Corp.

Form 20-F

EXHIBIT 12.1

CERTIFICATIONS

I, Bradford J. Cooke, certify that:

1.

I have reviewed this annual report on Form 20-F of Canarc Resource Corp.;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4.

The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a.

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c.

Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.

Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5.

The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

a.

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b.

Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

DATED at Vancouver, British Columbia, Canada, as of June 29, 2010.

/s/ Bradford J. Cooke

Bradford J. Cooke, Chief Executive Officer and Director

EXHIBIT 12.2

CERTIFICATIONS

I, Philip Yee, certify that:

1.

I have reviewed this annual report on Form 20-F of Canarc Resource Corp.;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4.

The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a.

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c.

Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.

Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5.

The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

a.

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b.

Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

DATED at Vancouver, British Columbia, Canada, as of June 29, 2010.

/s/ Philip Yee

Philip Yee, Chief Financial Officer

Consolidated Financial Statements of

CANARC RESOURCE CORP.

(expressed in thousands of United States dollars)

Years ended December 31, 2009, 2008 and 2007

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of Canarc Resource Corp.

We have audited the consolidated balance sheets of Canarc Resource Corp. as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive (loss) income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with Canadian generally accepted accounting principles.

The consolidated financial statements for the year ended December 31, 2007 were audited by another firm of auditors who expressed an opinion without reservation on those statements in their report dated March 14, 2008, except as to Note 15 which was as of July 11, 2008.

Smythe Ratcliffe LLP (signed)

Chartered Accountants

Vancouver, Canada

March 24, 2010, except as to Notes 6(a)(ii) and 15

which is as of July 8, 2010

COMMENTS BY AUDITORS FOR UNITED STATES READERS US Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as described in note 1 to the consolidated financial statements. Our report to the shareholders dated March 24, 2010, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Smythe Ratcliffe LLP (signed)

Chartered Accountants

Vancouver, Canada

March 24, 2010, except as to Notes 6(a)(ii) and 15

which is as of July 8, 2010

KPMG LLP

Chartered Accountants

PO Box 10426 777 Dunsmuir Street

Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Canarc Resource Corp.

We have audited the accompanying consolidated statements of operations and comprehensive income, shareholders' equity and cash flows of Canarc Resource Corp. for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our audit opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Canarc Resource Corp.'s operations and its cash flows for the year ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 15 to the consolidated financial statements.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 14, 2008, except as to note 15
which is as of July 11, 2008

KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG
network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to
KPMG LLP.

CANARC RESOURCE CORP.

Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	December 31,	
	2009	2008
ASSETS		
CURRENT ASSETS		
Cash	**$ 155**	$ 155
Receivables and prepaids	**145**	295
Royalty receivable - current portion (Note 6(c)(i))	**50**	50
Total Current Assets	**350**	500
NON-CURRENT ASSETS		
Mineral properties (Note 6)	**12,626**	12,071
Equipment (Note 7)	**2**	3
Royalty receivable - long-term portion (Note 6(c)(i))	**46**	88
Long-term investments (Notes 8 and 10)	**143**	167
Total Non-Current Assets	**12,817**	12,329
Total Assets	**$ 13,167**	$ 12,829
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 607**	$ 306
Notes payable (Note 10)	**63**	-
Income taxes payable (Note 13)	**329**	-
Total Current Liabilities	**999**	306
SHAREHOLDERS' EQUITY		
Share capital (Note 9(a))	**56,436**	55,349
Contributed surplus	**2,354**	2,217
Deficit	**(46,622)**	(45,043)
Total Shareholders' Equity	**12,168**	12,523
Total Liabilities and Shareholders' Equity	**$ 13,167**	$ 12,829

Nature of operations and going concern (Note 1)

Commitments and contingencies (Notes 6 and 13)
Subsequent event (Note 13)

Refer to the accompanying notes to the consolidated financial statements.

Approved by the Directors:

/s/

Bradford Cooke

/s/

William Price

Director

Director

CANARC RESOURCE CORP.

Consolidated Statements of Operations and Comprehensive (Loss) Income

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

	Years ended December 31,		
	2009	2008	2007
Expenses:			
Amortization	**$ 1**	$ 2	$ 2
Corporate development	**37**	17	65
Employee and director remuneration (Note 11)	**406**	350	618
Foreign exchange loss (gain)	**87**	77	(198)
General and administrative (Note 11)	**195**	348	592
Shareholder relations	**62**	121	198
Stock-based compensation (Note 9(b))	**117**	203	442
Loss before the undernoted	**(905)**	(1,118)	(1,719)
(Loss) gain on disposition of marketable securities	**-**	(32)	1,152
Gain on disposition of long-term investment	**93**	228	-
Gain from disposition of subsidiary (Note 6(b))	**-**	221	-
Investment and other income	**-**	2	28
Accretion of royalty receivable (Note 6(c)(i))	**8**	11	15
Write-off of mineral properties (Note 6(c)(ii))	**(57)**	(6,275)	-
Interest expense	**(3)**	-	-
Flow through financing costs (Note 13)	**(489)**	-	-
Loss before income tax	**(1,353)**	(6,963)	(524)
Future income tax (expense) recovery (Notes 9(a)(i) and (iii))	**(226)**	-	2,039

Net (loss) income for the year	**(1,579)**	(6,963)	1,515
Other comprehensive (loss) income:			
Unrealized (loss) gain on available-for-sale securities	**-**	(3)	289
Realized gain on sale of available-for-sale securities	**-**	32	(1,152)
Foreign exchange on unrealized gain	**-**	-	68
Foreign exchange on realized gain	**-**	(1)	(70)
Comprehensive (loss) income for the year	**$ (1,579)**	$ (6,935)	$ 650
Basic and diluted (loss) earnings per share	**$ (0.02)**	$ (0.10)	$ 0.02
Weighted average number of common shares outstanding	**74,486,023**	71,793,931	69,907,839

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Shareholders' Equity

(expressed in thousands of United States dollars)

	Years ended December 31,					
	2009		2008		2007	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Share capital:						
Balance, beginning of year	**72,704,505**	**$ 55,349**	71,734,505	$ 55,289	68,470,476	$ 55,629
Issued:						
Private placement, net of share issuance costs (Note 9(a))	**9,104,900**	**837**	1,000,000	77	2,200,000	1,039
Property acquisition (Notes 6(a)(ii), 6(d)(iii) and (v))	**160,250**	**24**	-	-	45,000	24
Exercise of options	**-**	**-**	-	-	830,000	530
Exercise of share appreciation rights	**-**	**-**	-	-	189,029	106
Provision for flow-through shares (Notes 9(a)(i) and (iii))	**-**	**226**	-	-	-	(2,039)
Write-off of mineral properties (Note 6(d)(iii))	**-**	**-**	(30,000)	(17)	-	-
Balance, end of year	**81,969,655**	**56,436**	72,704,505	55,349	71,734,505	55,289
Contributed surplus:						
Balance, beginning of year		**2,217**		2,014		1,855
Exercise of options		**-**		-		(177)
Fair value of stock options recognized		**117**		203		405
Fair value of share appreciation rights		**-**		-		(69)
Fair value of finders' fee warrants		**20**		-		-
Balance, end of year		**2,354**		2,217		2,014
Accumulated other comprehensive income:						
Balance, beginning of year		**-**		(28)		-
Adoption of new accounting policy for available-for-sale securities (Note 2(b))		**-**		-		837
Unrealized (loss) gain on available-for-sale securities		**-**		(3)		289
Realized loss (gain) on sale of available-for-sale securities		**-**		32		(1,152)
		-		-		68

Foreign exchange on unrealized gain on available-for-sale securities			
Foreign exchange on realized gain on available-for-sale securities	**-**	(1)	(70)
Balance, end of year	**-**	-	(28)
Deficit:			
Balance, beginning of year	**(45,043)**	(37,795)	(39,272)
Adoption of new accounting policy for royalty receivable (Note 2(b))	**-**	-	(38)
Disposition of subsidiaries pursuant to plan of arrangement (Note 5)	**-**	78	-
Dividends pursuant to plan of arrangement (Note 5)	**-**	(363)	-
Net (loss) income for the year	**(1,579)**	(6,963)	1,515
Balance, end of year	**(46,622)**	(45,043)	(37,795)
Total Shareholders' Equity	**$ 12,168**	$ 12,523	$ 19,480

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	Years ended December 31,		
	2009	2008	2007
Cash provided from (used for):			
Operations:			
Net (loss) income for the year	**$ (1,579)**	$ (6,963)	$ 1,515
Items not involving cash:			
Accretion of royalty receivable (Note 6(c)(i))	**(8)**	(11)	(15)
Accrued interest	**3**	-	-
Amortization	**1**	2	2
Employee remuneration	**-**	58	-
Loss (gain) on disposition of marketable securities	**-**	32	(1,152)
Gain on disposition of long-term investment	**(93)**	(228)	-
Gain on disposition of subsidiary (Note 6(b))	**-**	(221)	-
Stock-based compensation	**117**	203	442
Unrealized currency translation loss (gain)	**1**	22	(47)
Write-off of mineral property (Note 6(c)(ii))	**57**	6,275	-
Future income tax (expense) recovery	**226**	-	(2,039)
Flow-through financing costs	**489**	-	-
	(786)	(831)	(1,294)
Changes in non-cash working capital items:			
Receivables and prepaids	**103**	180	(106)
Accounts payable and accrued liabilities	**244**	51	96
Cash used by operating activities	**(439)**	(600)	(1,304)
Financing:			
Issuance of common shares, net of share issuance costs	**857**	77	1,392
Proceeds from notes payable	**60**	-	304

Cash from financing activities	**917**	77	1,696
Investing:			
Proceeds from disposal of marketable securities	**-**	12	1,690
Proceeds from royalties and debt settlement (Note 6(c)(i))	**50**	50	50
Proceeds from disposition of subsidiary (Note 6(b))	**-**	204	-
Acquisition of marketable securities	**-**	-	(13)
Mineral properties, net of recoveries	**(644)**	(79)	(3,696)
Cash of subsidiaries pursuant to plan of arrangement (Note 5)	**-**	(345)	-
Equipment	**-**	-	(3)
Proceeds from disposal of long-term investments (Note 8)	**116**	203	(54)
Cash (used by) from investing activities	**(478)**	45	(2,026)
Decrease in cash	**-**	(478)	(1,634)
Cash, beginning of year	**155**	633	2,267
Cash, end of year	**$ 155**	$ 155	$ 633

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	Years ended December 31,		
	2009	2008	2007
Non-cash financing and investing activities:			
Dividends issued pursuant to plan of arrangement (Note 5)	**$ -**	$ 363	$ -
Shares returned to treasury from disposition of mineral property interest (Note 6(d)(iii))	**-**	17	-
Fair value of stock options allocated to shares issued on exercise of:			
Share appreciation rights	**-**	-	69
Stock options	**-**	-	177
Fair value of finders' fees warrants	**20**	-	24
Issuance of shares for mineral property interests (Notes 6(a)(ii) and 9(a)(i))	**24**	-	-
Mineral exploration tax (adjustment) credit, receivable on mineral properties	**(113)**	-	315
Accounts payable related to write-off of mineral properties	**57**	-	-
GST recoverable applied to corporate tax liability	**(47)**	-	-
Income taxes paid	**-**	-	-
Interest paid	**-**	-	-

Refer to the accompanying notes to the consolidated financial statements.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2009, 2008 and 2007

(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 $46.6 million at December 31, 2009. Furthermore, the Company has working capital deficiency of $649,000 as at December 31, 2009, 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 as follows:

-

Carib Industries Ltd., in which the Company previously held a 78.5% interest and was consolidated but was disposed of in fiscal 2008 (Note 6(b));

-

Caza Gold Corp. (Caza), in which the Company previously held a 100% interest and was consolidated but was divested pursuant to a plan of arrangement (Note 5) and held a 7% interest as at December 31, 2009 (2008 11%), and such investment was accounted for using the cost method;

-

Minera Canarc de Mexico SA de CV (Minera Canarc), in which the Company previously held a 100% interest and was consolidated but was transferred to Caza in fiscal 2008 pursuant to a plan of arrangement (Note 5); and

-

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

Years ended December 31, 2009, 2008 and 2007

(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 year 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 year 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 year 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. This change in accounting policy resulted in an increase of $837,000 in the carrying value of its marketable securities on initial adoption on January 1, 2007.

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. This change in accounting policy resulted in a decrease of $38,000 in the carrying value of its royalty receivable from disposition of subsidiary on initial adoption on January 1, 2007.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2009, 2008 and 2007

(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 year 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.

Accordingly, the Company now includes 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

Years ended December 31, 2009, 2008 and 2007

(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

Years ended December 31, 2009, 2008 and 2007

(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 December 31, 2009 or 2008.

(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 year. For all years 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 year. 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 year 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 year. 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

Years ended December 31, 2009, 2008 and 2007

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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)

Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future tax assets are recognized to the extent they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the

estimated realizable amount.

(p)

Changes in accounting policies:

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 new section was effective for the Company on January 1, 2009. The Company has no goodwill or intangible assets as of December 31, 2009.

(q)

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 currently evaluating the impacts of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

Form 20-F

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2009, 2008 and 2007

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

2.

Significant Accounting Policies (continued)

(q)

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 and proceeds from notes payable. The Company is not subject to any externally imposed capital requirements.

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

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

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 during difficult economic conditions. The Company will continue to rely on debt and 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 year.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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4.

Management of Financial Risk

The Company's investments in shares of Aztec Metals Corp. (Aztec) and 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 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 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 in the first quarter of fiscal 2010, 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.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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(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 December 31, 2009, 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	$ 39
Receivables and prepaids	145
Accounts payable and accrued liabilities	(428)
Notes payable	(63)
Income taxes payable	(329)
Net financial assets (liabilities)	$ (636)

Based upon the above net exposure as at December 31, 2009 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 $63,600 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 year-end and the notes payable are stated at a fixed interest rate.

CANARC RESOURCE CORP.

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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

	2009			2008		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
British Columbia:						
New Polaris (Note 6(a)(i))	$ 3,605	$ 8,556	$ 12,161	$ 3,605	$ 8,466	$ 12,071
Yukon:						
Tay-LP (Note 6(a)(ii))	25	440	465	-	-	-
	$ 3,630	$ 8,996	$ 12,626	$ 3,605	$ 8,466	$ 12,071

(a)

Canada:

(i)

New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2009 include a reclamation bond for CAD$250,000.

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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.

On March 31, 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.

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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 December 31, 2009.

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	(50)
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	(50)
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	(50)
Long-term portion of royalty receivable as at December 31, 2009	$ 46

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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, 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.

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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).

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6.

Mineral Properties (continued)

(e)

Expenditure options:

As at December 31, 2009, to maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

	Option Payments (CAD$000s)	Exploration Commitments (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)):					
April 30, 2010	$ 30	$ -			
October 31, 2010	50	-			
October 31, 2011	50	423			
October 31, 2012	850	600			
Annual advance royalty payments until commercial production			$ 25		
				$ 1,950	

Net smelter reduction from 3% to 1.5%					
	$ 980	$ 1,023	$ 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.

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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

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 140	$ 138	$ 2	$ 140	$ 137	$ 3

8.

Long-Term Investments

As at December 31, 2009, the Company had an interest of 11% (2008 - 13%) in Aztec and 7% (2008   11%) in Caza.

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9.

Share Capital

(a)

Authorized and issued:

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

(i)

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.

On November 4, 2009, the Company issued 160,250 shares at a price of CAD$0.156 per share as the annual advance NSR royalty for CAD$25,000 for the Tay-LP property. Note 6(a)(ii) provides further details.

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.

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. Note 13 provides further details.

(ii)

In December 2008, the Company closed a non-brokered private placement for 1,000,000 units at CAD$0.10 per unit for gross proceeds of CAD$100,000. 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 an exercise price of CAD$0.15 until June 1, 2010.

In May 2008, the Company wrote-off the Providencia property and 30,000 shares which were previously issued on acquisition were returned to treasury and cancelled. Note 6(d)(iii) provides further details.

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9.

Share Capital (continued)

(a)

Authorized and issued: (continued)

(iii)

In March 2007, the Company renounced CAD$7 million in exploration expenditures from the proceeds of the flow-through private placements in 2006, resulting in the recognition of a future income tax liability of approximately $2 million.

In July 2007, the Company closed a non-brokered private placement for 2,200,000 units at CAD$0.52 per unit for gross proceeds of CAD$1,144,000. Each unit was comprised of one common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at an exercise price of CAD$0.65 until July 24, 2008. Finders' fees of CAD$37,440 were paid in cash.

The Company issued 45,000 common shares for property acquisitions (Notes 6(d)(iii) and (v)).

(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 18,374,095 common shares, of which options for 8,665,000 common shares are outstanding as at December 31, 2009. 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.

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9.

Share Capital (continued)

(b)

Stock option plan: (continued)

The continuity of stock options for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009		2008		2007	
	Number of Shares	Weighted average exercise price (CAD$)	Number of Shares	Weighted average exercise price (CAD$)	Number of Shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	8,079,000	$0.48	7,074,000	$0.54	7,929,000	$0.54
Granted	1,680,000	$0.11	1,800,000	$0.29	2,190,000	$0.54
Exercised	-	-	-	-	(830,000)	$0.44
Converted to stock appreciation rights on exercise	-	-	-	-	(410,000)	$0.37
Forfeited	(60,000)	$0.38	(75,000)	$0.53	(760,000)	$0.58
Expired	(1,034,000)	$0.73	(720,000)	$0.55	(1,045,000)	$0.71

Outstanding, end of year	8,665,000	$0.38	8,079,000	$0.48	7,074,000	$0.54
Exercise price range (CAD$)	$0.11 - $0.74		$0.25 - $1.00		$0.25 - $1.00	

The following table summarizes information about stock options exercisable and outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
Price Intervals (CAD$)	Number Outstanding at Dec 31, 2009	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD$)	Number Exercisable at Dec 31, 2009	Weighted Average Exercise Prices (CAD$)
$0.11	1,680,000	4.6	$0.11	336,000	$0.11
$0.25 - $0.49	4,375,000	2.5	$0.33	4,022,000	$0.33
$0.50 - $0.74	2,610,000	2.0	$0.63	2,610,000	$0.63
	8,665,000	2.7	$0.38	6,968,000	$0.44

At December 31, 2009, 8,665,000 options are outstanding of which 6,968,000 options are exercisable and expire at various dates from June 23, 2010 to July 15, 2014, with a weighted average remaining life of 2.7 years.

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9.

Share Capital (continued)

(b)

Stock option plan: (continued)

During the year ended December 31, 2009, the Company recognized stock-based compensation of $117,570 (2008 - $203,000 and 2007 - $405,115) based on the fair value of options granted that were earned by the provision of services during the year, and recognized share appreciation rights of $Nil ($Nil 2008 and 2007 - $37,181). Stock-based compensation is segregated between directors and employees as follows:

	2009	2008	2007
Directors	$ 59	$ 79	$ 40
Employees	58	124	365
	$ 117	$ 203	$ 405

For the options granted in June 2007, options for 500,000 common shares with an exercise price of CAD$0.54 and an expiry date of June 15, 2012 have vesting provisions in which options for 250,000 common shares vested on June 15, 2008 and the balance of 250,000 vested on June 15, 2009.

Options for 1.8 million common 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 common 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.

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

	2009	2008	2007
Fair value of options granted during the year	$0.09	$0.21	$0.18
Risk-free interest rate	2.41%	2.59%	3.31%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	79%	57%	54%
Expected option life in years	4	4	4

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9.

Share Capital (continued)

(c)

Warrants:

At December 31, 2009, the Company had outstanding warrants as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2008	Issued	Exercised	Expired	Oustanding at December 31, 2009
$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
		500,000	2,964,120	-	-	3,464,120

At December 31, 2008, the Company had outstanding warrants as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2007	Issued	Exercised	Expired	Oustanding at December 31, 2008
$0.65	July 24, 2008	1,100,000	-	-	(1,100,000)	-
$0.15	June 1, 2010	-	500,000	-	-	500,000
		1,100,000	500,000	-	(1,100,000)	500,000

At December 31, 2007, the Company had outstanding warrants as follows:

Exercise Prices (CAD$)	Expiry Dates	Oustanding at December 31, 2006	Issued	Exercised	Expired	Oustanding at December 31, 2007
$0.82	March 17, 2007	231,000	-	-	(231,000)	-
$1.25	October 18, 2007	2,150,000	-	-	(2,150,000)	-
$0.82	October 18, 2007	247,800	-	-	(247,800)	-
$0.95	October 18, 2007	350,000	-	-	(350,000)	-
$0.65	July 24, 2008	-	1,100,000	-	-	1,100,000
		2,978,800	1,100,000	-	(2,978,800)	1,100,000

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9.

Share Capital (continued)

(c)

Warrants: (continued)

The fair value of the 411,670 finders' fee warrants which were issued pursuant to the private placements in the amount of $19,969 (2008 - $Nil) and included as a reduction to share capital was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009
Risk-free interest rate	1.37%
Expected dividend yield	0%
Expected stock price volatility	103.33%
Expected option life in years	2

(d)

Fully diluted number of common shares:

	Number of Shares
Outstanding, December 31, 2009	81,969,655
Property agreements (Note 6(e))	150,000
Stock options (Note 9(b))	8,665,000
Warrants (Note 9(c))	3,464,120
Fully diluted, December 31, 2009	94,248,775

(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.

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Years ended December 31, 2009, 2008 and 2007

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

10.

Notes Payable

In December 2007, the Company's previous wholly-owned subsidiary, Caza, received proceeds of CAD$300,000 in demand loans of which CAD$180,000 were from directors and officers of the Company. The loans were repayable on demand and had an interest rate of 9% per annum. In June 2008, the Company closed a Plan of Arrangement with Caza in which Caza was no longer a wholly-owned subsidiary of the Company (Note 5).

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 December 31, 2009, interest of CAD$3,719 has been accrued.

11.

Related Party Transactions

General and administrative costs during 2009 include:

-

CAD$57,586 (2008 - CAD$52,561 and 2007 - CAD$120,987) of salaries to an employee who is a director;

-

CAD$40,000 (2008 - CAD$36,659 and 2007 - CAD$35,604) to directors in their capacity as directors of the Company. As at December 31, 2009, the Company accrued CAD$68,659 (2008 - CAD$28,659) in directors fees;

-

CAD$102,608 (2008 - CAD$67,217 and 2007 - CAD$106,316) in legal fees to a law firm in which a senior officer of the Company is a partner. As at December 31, 2009, the Company owed CAD$114,883 (2008 - CAD$32,859) to the law firm;

-

CAD$262,322 (2008 - CAD$272,572 and 2007 - CAD$32,005) in office rent and salary allocations recovered from companies sharing certain common directors. As at December 31, 2009, the Company was owed CAD$56,169 (2008 - CAD$22,778) from such companies; and

-

CAD$79,827 (2008 - CAD$119,976 and 2007 - CAD$35,273) in office rent and salary allocations incurred to a company sharing certain common directors. As at December 31, 2009, the Company owed CAD$46,191 (2008 - CAD$1,435) 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 transactions with 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.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2009, 2008 and 2007

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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 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 $113,000 for expenditures incurred in 2005 and 2006, as reviewed by CRA, and GST receivable of approximately $47,000, resulting in an estimated income tax balance payable of $329,000.

14.

Income Taxes

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

	2009	2008	2007
Canadian statutory tax rates	30.00%	31.50%	34.12%
Expected recovery	$ (406)	$ (2,194)	$ (179)
Temporary differences	(69)	-	-
Permanent differences	35	64	(58)
Benefit of tax attributes and other items	(534)	215	845
Write-off of mineral properties	-	1,977	-
Change in valuation allowance	1,005	(72)	(2,647)
Effect of change in tax rate	195	10	-
Future income tax expense (recovery)	$ 226	$ -	$ (2,039)

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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14.

Income Taxes (continued)

The significant components of the Company's future income tax assets as at December 31, 2009 and 2008 are as follows:

	2009	2008
Future income tax assets:		
Resource properties	$ (259)	$ (653)
Equipment	380	259
Share issue costs	53	55
Non-capital losses	1,628	1,128
Capital losses	12	21
Total future income tax assets	1,814	810
Valuation allowance	(1,814)	(810)
Future income tax assets, net	$ -	$ -

At December 31, 2009, the Company has non-capital losses for Canadian tax purposes of approximately $6.5 million, and Canadian capital losses of approximately $92,000 which are without expiry. The non-capital losses expire as follows:

2010	$ 888
2014	683
2015	83
2026	743
2027	1,774
2028	749
2029	1,591
	$ 6,511

Funds raised through the issuance of flow through shares are required to be expended on qualified Canadian mineral exploration expenditures as defined pursuant to Canadian income tax legislation. As at December 31, 2009, the amount of flow through proceeds to be expended in 2010 is CAD$4,761 (2008 - $Nil).

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

Accounting practices under Canadian and United States generally accepted accounting principles (GAAP), as they affect the Company, are substantially the same, except for the following.

(a)

Unrealized holding gains and losses on marketable securities:

For Canadian GAAP effective January 1, 2007, 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 recorded in net earnings and unrealized gains recorded in other comprehensive income. On January 1, 2007, there was an increase of $837,000 in the carrying value of the Company's marketable securities on initial adoption of accounting policy for Canadian GAAP purposes. Marketable securities were classified as available-for-sale securities for U.S. GAAP prior to January 1, 2007.

(b)

Royalty receivable:

For Canadian GAAP, the Company's royalty receivable from disposition of subsidiary is classified as loans and receivables which is measured at amortized cost and is amortized to interest income using the effective interest rate method. For U.S. GAAP, the royalty receivable is recorded at the face value of the total expected receipts from the royalties.

(c)

Exploration expenditures for mineral properties:

For Canadian GAAP, acquisition costs and exploration expenditures related to mineral properties are capitalized. For U.S. GAAP, exploration costs incurred in locating areas of potential mineralization are expensed as incurred.

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Pursuant to the Securities and Exchange Commission's (SEC) Industry Guide 7 (Guide 7), an entity can only disclose proven and probable reserves, as defined within the Guide 7, in its reserve calculations. In compliance with Guide 7, commercial feasibility consists of identifying that part of mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. After an area of interest has been assessed as commercially feasible, expenditures specific to the area of interest for further development are capitalized. In deciding when an area of interest is likely to be commercially feasible, management may consider, among other factors, the results of pre-feasibility studies, detailed analysis of drilling results, the supply and cost of required labour and equipment, and whether necessary mining and environmental permits can be obtained. Accordingly, for all periods presented, the Company has expensed all mineral property exploration costs for U.S. GAAP purposes.

For Canadian GAAP, cash flows relating to mineral property exploration costs are reported as investing activities. For U.S. GAAP, these costs would be characterized as operating activities.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2009, 2008 and 2007

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

15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(d)

Write-off of equipment and write-down of mineral properties:

Under U.S. GAAP, loss before undernoted would be calculated inclusive of write-off of equipment and write-down of mineral properties (2009 - $1,491,000; 2008 - $1,573,000; 2007 - $1,719,000).

(e)

Divestiture of interests in subsidiaries:

For Canadian GAAP, when a subsidiary issues its shares to interests outside the consolidated entity, the effect on any change in the parent's interest as a result of the share issue by the subsidiary is recognized in the determination of consolidated net income (or loss). Under U.S. GAAP, changes in a parent company's proportionate share of subsidiary's equity resulting from additional equity raised by the subsidiary should be accounted for as an equity transaction in consolidation, particularly when the subsidiary is a development stage enterprise. Accordingly, the deemed gain on disposition of Aztec, which is an enterprise in the development stage, for Canadian GAAP purposes due to Aztec issuing shares to third parties is recorded as an equity transaction for U.S. GAAP purposes. The Company no longer retained a controlling interest in Aztec after Aztec issued additional shares to third parties in 2005 and applied the accounting guidance of SAB Topic 5:H which was in effect at that time.

(f)

Flow-through equity financings:

The Company raises cash from time-to-time through the issuance of flow-through shares where the funds received are to be used for mining purposes and the related tax benefits are assigned to the investor. For U.S. GAAP purposes, funds raised through the issuance of flow-through shares be shown as restricted cash until expended and should not be considered to be a component of cash and cash equivalents. In addition, the amount of restricted cash would be excluded from cash and cash equivalents in the statement of cash flows and shown as an item within financing activities.

For Canadian GAAP, a provision is recognized at the date of the actual renunciation, by a reduction in the amount included in share capital relating to the flow-through shares, for the future income taxes related to the deductions foregone by the Company, resulting in the Company recording reductions aggregating $2,182,000 in share capital to December 31, 2008. The Company did not renounce any qualified exploration expenditures in 2009. During the year ended December 31, 2009, for Canadian GAAP, the Company recognized a future income tax expense of $226,000 relating to expenditures that do not qualify as flow-through expenditures (Note 9(a)(i)) that were previously renounced in March 2007. As at December 31, 2009, the aggregate reductions in share capital were $1,956,000.

For U.S. GAAP, the amount received by the Company on the issuance of flow-through shares in excess of the fair value of common shares is required to be credited to liabilities and included in operations when the Company renounces the qualified expenditures. As at December 31, 2007, total flow-through share fair value premiums were $111,000 which relate to the renunciation of qualified expenditures in 2007.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Years ended December 31, 2009, 2008 and 2007

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

15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(g)

Unit offerings:

Under Canadian GAAP, the proceeds received on issuance of units, consisting of common shares and warrants, are not required to be allocated to the individual common share and warrant components when the instruments and its components are all determined to be equity instruments. Under U.S. GAAP, the Company is required to allocate the proceeds received on unit offerings to the individual common share and warrant components on a relative fair value basis. The fair value of the share purchase warrants was determined using the Black-Scholes method based on the following factors:

	2008	2007
Risk-free interest rate	1.54%	3.28%
Expected dividend yield	0%	0%
Expected stock price volatility	87%	35%
Expected life of warrants in years	1.5	1

The weighted average fair value of warrants issued during the year ended December 31, 2009 was $Nil per warrant (2008 - $0.02 and 2007 - $0.04).

Under U.S. GAAP, share capital would be reduced and contributed surplus would be increased by an additional $Nil at December 31, 2009 (2008 - $12,000 and 2007 - $43,000) to reflect the relative fair values of the shares and warrants. The cumulative adjustment at December 31, 2008 to reduce share capital and increase contributed surplus is $287,000.

(h)

Stock-based compensation:

U.S. GAAP requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. In calculating compensation to be recognized, U.S. GAAP requires the Company to estimate future forfeitures. For Canadian GAAP purposes, the Company uses the fair value method to account for all stock option grants but accounts for forfeitures as they occur. Based on the Company's estimated future forfeiture rates of stock options, the expense recognized for U.S. GAAP purposes is $1,000 less (2008 - $25,000 and 2007 - $90,000) than the amount recorded for Canadian GAAP purposes with corresponding reductions in the balance of contributed surplus.

Under U.S. GAAP, employee and director remuneration would be reported as 2009 $522,000 (2008 - $528,000 and 2007 - $970,000) as it would include the stock-based compensation expense reported separately for Canadian GAAP.

(i)

Consolidated statement of cash flows:

Under Canadian GAAP, the Company has included a subtotal in cash flows from operating activities. Under U.S. GAAP, no such subtotal would be disclosed.

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(j)

Uncertainty in income taxes:

FASB Interpretation (FIN) No. 48: *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, was adopted by the Company on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the Company recognize the impact of a tax position in the financial statements if the position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. In accordance with the provisions of FIN 48, any cumulative effect resulting from the change in accounting principle is to be recorded as an adjustment to the opening balance of deficit. The adoption of FIN 48 did not result in a material impact on the Company's consolidated financial position or results of operations.

(k)

Derivative liability:

In June 2008, the FASB issued Emerging Issues Task Force (EITF) 07-5, *Determining Whether an Instrument is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 would result in share purchase warrants being classified as a derivative liability if they are not indexed to the Company's underlying common shares. EITF 07-5 is effective for fiscal years ending after September 15, 2009.

The Company's functional currency is the U.S. dollar and the Company has issued and outstanding warrants that have exercise prices which are denominated in Canadian dollars. Because the exercise prices of the share purchase warrants are denominated in a currency other than the Company's functional currency, the warrants are not considered indexed to the Company's common shares. These warrants are treated as derivative liabilities carried at fair values as determined by the Black-Scholes option pricing model for U.S. GAAP purposes with changes in fair values recorded as gains or losses in operations.

On January 1, 2009, the Company recorded the fair value of warrants as a derivative liability in the amount of $4,100 with a corresponding amount to deficit for the incremental fair value of the derivative liability under U.S. GAAP.

During the year ended December 31, 2009, the fair values of the warrants increased to $177,300 with a corresponding amount to losses in the statement of operations for the incremental fair value of the derivative liability under U.S. GAAP.

The fair values of the share purchase warrants were determined using the Black-Scholes method based on the following factors:

	December 31, 2009	January 1, 2009
Risk-free interest rate	1.41%	1.11%
Expected dividend yield	0%	0%
Expected stock price volatility	104%	98%
Expected life of warrants in years	1.21	1.41

CANARC RESOURCE CORP.

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(l)

Cumulative development stage reporting:

The Company is not required and has opted to not report such information for Canadian reporting and for U.S. GAAP purposes; the Company is considered an exploration stage company. U.S. GAAP requires the disclosure of cumulative-to-date information for each line item on the statements of operations and cash flow plus annual summaries of each component of shareholders' equity since inception. Canadian GAAP does not require reporting of this information. Had the consolidated financial statements been prepared in accordance with U.S. GAAP such information would have been disclosed.

(m)

Changes in accounting policies:

(i)

Hierarchy of generally accepted accounting principles:

In June 2009, the FASB issued new standards for *The Hierarchy of Generally Accepted Accounting Principles*. These standards, ASC 105, culminated a multi-year project to replace the previous U.S. GAAP hierarchy and established *Accounting Standard Codification* (the Codification). The Codification does not change U.S. GAAP, but combines all authoritative standards into a comprehensive, topically organized online database. After the launch of the Codification on July 1, 2009, only one level of authoritative U.S. GAAP for non-governmental entities exists, other than guidance issued by the SEC. The adoption of this statement was effective September 30, 2009. The adoption of this new standard only had the effect of amending references to authoritative accounting guidance in the Company's consolidated financial statements.

(ii)

Business combinations:

In December 2007, the FASB revised its accounting standards for *Business Combinations*. The standard, ASC 805, requires the acquiring entity to recognize and measure in its financial statements all the assets acquired, the liabilities assumed, any non-controlling interest in the acquired entity and the goodwill acquired, and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed. Furthermore, acquisition-related and other costs will now be expensed rather than treated as cost components of the acquisition. ASC 805 also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination.

The revision to this guidance applies prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The adoption of this new standard had no impact on the Company's consolidated financial statements.

CANARC RESOURCE CORP.

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(m)

Changes in accounting policies: (continued)

(iii)

Fair value measurement and disclosures:

In October 2008, the FASB amended accounting standards for *Fair Value Measurements and Disclosures*. The amended standard, ASC 820, clarifies the application of fair value measurements in a market that is not active. The amendment is intended to address the following application issues: (a) how the reporting entity's own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist; (b) how available observable inputs in a market that is not active should be considered when measuring fair value; and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. The changes were effective on issuance, including prior periods. The adoption of this new standard had no impact on the Company's consolidated financial statements.

(iv)

Investments other:

In January 2009, the FASB amended accounting standards for *Investments Other*. The amended standard, ASC 325, addresses certain practices or issues related to the recognition of interest income and impairment on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets, by making its other-than-temporary impairment (OTTI) assessment guidance consistent with the accounting standards for *Investments Debt and Equity Securities*. The amendment removes the reference to the consideration of a market participant's estimates of cash flows and instead requires an assessment of whether it is probable, based on current information and events, that the holder of the security will be unable to collect all amounts due according to the contractual terms. If it is probable that there has been an adverse change in estimated cash flows, an OTTI is deemed to exist, and a corresponding loss shall be recognized in earnings equal to the entire difference between the investment's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. This amendment became effective for interim and annual reporting periods ending after December 15, 2008, and is to be applied prospectively. The adoption of this new standard had no impact on the Company's consolidated financial statements.

(v)

Subsequent events:

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements*. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in this update are effective upon issuance of the final update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

CANARC RESOURCE CORP.

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(n)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows:

	December 31,	
	2009	2008
Total Assets under Canadian GAAP	$ 13,167	$ 12,829
Adjustments to reconcile to U.S. GAAP:		
Mineral property exploration costs (Note 15(c))	(8,996)	(8,466)
Royalty receivable (Note 15(b))	4	12
Total Assets under U.S. GAAP	$ 4,175	$ 4,375

	December 31,	
	2009	2008
Total Liabilities under Canadian GAAP	$ 999	$ 306

Adjustments to reconcile to U.S. GAAP:		
Derivative liability for warrants (Note 15(k))	177	-
Total Liabilities under U.S. GAAP	$ 1,176	$ 306

CANARC RESOURCE CORP.

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(n)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows: (continued)

	December 31, 2009	2008
Share capital under Canadian GAAP	$ 56,436	$ 55,349
Adjustments to reconcile to U.S. GAAP:		
Provision for flow-through shares (Note 15(f))	1,956	2,182
Fair value of share purchase warrants (Note 15(g))	-	(287)
Adjustment for flow through shares (Note 15(f))	(111)	(111)
Share capital under U.S. GAAP	$ 58,281	$ 57,133

	December 31, 2009	2008

Contributed surplus under Canadian GAAP	$ 2,354	$ 2,217
Adjustments to reconcile to U.S. GAAP:		
Forfeiture of stock options (Note 15(h))	(116)	(115)
Gain on dilution of long term investment (Note 15(e))	621	621
Fair value of share purchase warrants (Note 15(g))	-	287
Contributed surplus under U.S. GAAP	$ 2,859	$ 3,010

CANARC RESOURCE CORP.

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(n)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows: (continued)

	December 31, 2009	2008
Deficit under Canadian GAAP	$ (46,622)	$ (45,043)
Adjustments to reconcile to U.S. GAAP:		
Mineral property exploration costs (Note 15(c))	(8,996)	(8,466)
Royalty receivable (Note 15(b))	4	12
Future income tax recovery (Note 15(f))	(1,956)	(2,182)
Forfeiture of stock options (Note 15(h))	116	115
Gain on dilution of long term investment (Note 15(e))	(621)	(621)
Adjustment for flow through shares (Note 15(f))	111	111
Adjustment on adoption of EITF 07-5 (Note 15(k))	(4)	-
Unrealized loss on derivative liability for warrants (Note 15(k))	(173)	-
Deficit under U.S. GAAP	$ (58,141)	$ (56,074)

CANARC RESOURCE CORP.

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(n)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows: (continued)

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CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(n)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows: (continued)

	Years ended December 31,		
	2009	2008	2007
Cash used by operating activities under Canadian GAAP	$ (439)	$ (600)	$ (1,304)
Adjustment to reconcile to U.S. GAAP: Mineral property exploration costs (Note 15(c))	(644)	(79)	(3,196)
Cash used by operating activities under U.S. GAAP	$ (1,083)	$ (679)	$ (4,500)

	Years ended December 31,		
	2009	2008	2007

Cash from (used by) investing activities under Canadian GAAP	$ (478)	$ 45	$ (2,026)
Adjustments to reconcile to U.S. GAAP:			
Mineral property exploration costs (Note 15(c))	644	79	3,196
Cash from investing activities under U.S. GAAP	$ 166	$ 124	$ 1,170

	Years ended December 31,		
	2009	2008	2007
Cash from financing activities under Canadian GAAP	$ 917	$ 77	$ 1,696
Adjustments to reconcile to U.S. GAAP:			
Adjustment for restricted cash (Note 15(f))	(5)	-	-
Cash from financing activities under U.S. GAAP	$ 912	$ 77	$ 1,696

CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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15.

Differences between Canadian and United States Generally Accepted Accounting Principles

(continued)

(n)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows: (continued)

The Company's financial assets measured at fair value by level within the fair value hierarchy would be as follows:

	Level 1	Level 2	Level 3	Total
Derivative liability for warrants	$ -	$ 177	$ -	$ 177

The derivative liability for the warrants (Note 15(k)) would be classified as held-for-trading.

EXHIBIT 8-1

LIST OF MATERIAL SUBSIDIARIES

The Registrant carries on its business in large part through its subsidiaries. The Registrant has a number of direct or indirect wholly or majority owned subsidiaries as follows:

Benzdorp Gold N.V. was incorporated under the laws of Suriname on February 4, 2004 when Suriname presidential assent was received. The Registrant owns 40% of the voting shares of this company with the right to acquire an additional 40%.

Canarc (Barbados) Mining Ltd. is a company duly incorporated under the laws of Barbados on July 26, 1993. The Registrant owns 100% of the issued and outstanding shares.

Canarc Suriname (Barbados) Ltd. is a company duly incorporated under the laws of Barbados on January 26, 1994. The Registrant owns 100% of the issued and outstanding shares.

Canarc van Suriname N.V. is a company duly incorporated under the laws of Suriname on November 10, 1995. The Registrant owns 100% of the issued and outstanding shares.

New Polaris Gold Mines Ltd. (formerly Golden Angus Mines Ltd. - name change effective April 21, 1997) is a corporation formed through the amalgamation of 2820684 Canada Inc. (2820684), a former wholly-owned subsidiary of the Registrant incorporated under the Canada Business Corporation Act on May 13, 1992, and Suntac Minerals Inc. The Registrant owns 100% of the issued and outstanding shares.

EXHIBIT 15-4

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Canada

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Internet www.kpmg.ca

July 14, 2010

Securities and Exchange Commission
Washington, D.C. 20549

Ladies and Gentlemen

We were previously principal accountants for Canarc Resource Corp. (the Company) and, under the date of March 14, 2008, except as to note 15 which was as of July 11, 2008, we reported on the consolidated financial statements of the Company as of and for the three years ended December 31, 2007. On November 21, 2008, we resigned at the request of the Company. We have read the Company's statements included under Item 16-F of its Form 20-F dated July 14, 2010, and we agree with such statements.

Very truly yours

KPMG LLP (signed)

Chartered Accountants

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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Canarc Resource Corp.

Form 20-F

EXHIBIT 13.1

Certification of Chief Executive Officer pursuant to

Title 18, United States Code, Section 1350, as adopted pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

I, Bradford Cooke, Chairman and Chief Executive Officer of Canarc Resource Corp. ("Canarc"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

1.

The Annual Report on Form 20-F of Canarc Resource Corp. for the year ended December 31, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canarc.

	\/s/ Bradford Cooke
Vancouver, Canada	Bradford Cooke
June 29, 2010	Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Canarc and will be retained by Canarc and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 13.2

Certification of Chief Financial Officer pursuant to

Title 18, United States Code, Section 1350, as adopted pursuant to

Section 906 of The Sarbanes-Oxley Act of 2002

I, Philip Yee, Chief Financial Officer of Canarc Resource Corp. ("Canarc"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

1.

The Annual Report on Form 20-F of Canarc Resource Corp. for the year ended December 31, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canarc.

	by: */s/ Philip Yee*
Vancouver, Canada	Philip Yee
June 29, 2010	Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Canarc and will be retained by Canarc and furnished to the Securities and Exchange Commission or its staff upon request.