



CANARC RESOURCE CORP.

First Quarter Report

Condensed Consolidated Interim Financial Statements

(expressed in United States dollars)

Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

**Notice of No Auditor Review of
Unaudited Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2017**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these unaudited condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Canarc Resource Corp. (the “Company”) for the three months ended March 31, 2017 (the “Financial Statements”) have been prepared by and are the responsibility of the Company’s management, and have not been reviewed by the Company’s auditors. The Financial Statements are stated in terms of United States dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 (“IAS 34”) and International Financial Reporting Standards (“IFRS”).

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Notes	March 31, 2017	December 31, 2016
ASSETS			
CURRENT ASSETS			
Cash		\$ 5,400	\$ 8,079
Marketable securities	7(a) and 8	880	955
Receivables and prepaids	6	199	142
Total Current Assets		6,479	9,176
NON-CURRENT ASSETS			
Restricted cash	9(a)(i)	-	35
Mineral property interests	7 and 9	12,665	10,496
Equipment	10	1	1
Total Non-Current Assets		12,666	10,532
Total Assets		\$ 19,145	\$ 19,708
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	11 and 14	\$ 115	\$ 101
Total Liabilities		115	101
SHAREHOLDERS' EQUITY			
Share capital	12(b)	66,191	66,210
Reserve for share-based payments		770	759
Accumulated other comprehensive loss		(3,082)	(3,269)
Deficit		(44,849)	(44,093)
Total Shareholders' Equity		19,030	19,607
Total Liabilities and Shareholders' Equity		\$ 19,145	\$ 19,708

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

Approved on behalf of the Board:

/s/ *Bradford Cooke*

Director

/s/ *Martin Burian*

Director

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income

(Unaudited – Prepared by Management)

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

	Notes	Three Months ended March 31,	
		2017	2016
Expenses:			
Amortization		\$ -	\$ 1
Corporate development	13	39	5
Employee and director remuneration	14	471	91
General and administrative	13 and 14	33	45
Shareholder relations		82	53
Share-based payments	12(c) and 14	29	49
Loss before the undernoted		(654)	(244)
Interest income		14	-
Change in fair value of marketable securities	8	(85)	-
Loss from derivative liability		-	(29)
Foreign exchange loss		(11)	(17)
Net loss for the period		(736)	(290)
Other comprehensive income (loss):			
Items that will not be reclassified into profit or loss:			
Foreign currency translation adjustment		187	686
Comprehensive (loss) income for the period		\$ (549)	\$ 396
Basic and diluted (loss) earnings per share		\$ -	\$ -
Weighted average number of shares outstanding		216,976,511	198,059,444

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Share Capital		Reserve for Share-Based Payments	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
	Number of Shares	Amount				
Balance, December 31, 2015	191,620,557	\$ 64,537	\$ 530	\$ (3,339)	\$ (50,914)	\$ 10,814
Private placement, net of share issue costs	22,699,596	1,440	-	-	-	1,440
Finders fee shares	311,111	26	-	-	-	26
Property acquisition (Note 9(a)(iii))	250,000	19	-	-	-	19
Exercise of stock options	1,000,000	115	(54)	-	-	61
Share-based payments	-	-	301	-	-	301
Cancellation and expiration of stock options	-	-	(26)	-	26	-
Exercise of warrants	1,250,000	77	-	-	-	77
Exercise of finder fee warrants	58,333	6	(2)	-	-	4
Finders fee warrants	-	(10)	10	-	-	-
Other comprehensive income (loss):						
Foreign currency translation adjustment	-	-	-	70	4	74
Net income for the year	-	-	-	-	6,791	6,791
Balance, December 31, 2016	217,189,597	66,210	759	(3,269)	(44,093)	19,607
Exercise of share appreciation rights	272,727	20	(17)	-	(3)	-
Share issuance expense	-	(2)	-	-	-	(2)
Share-based payments	-	-	29	-	-	29
Cancellation and expiration of stock options	-	-	(1)	-	1	-
Common share buy-back under normal course issuer bid	(530,000)	(37)	-	-	-	(37)
Other comprehensive income (loss):						
Foreign currency translation adjustment	-	-	-	187	(18)	169
Net loss for the period	-	-	-	-	(736)	(736)
Balance, March 31, 2017	216,932,324	\$ 66,191	\$ 770	\$ (3,082)	\$ (44,849)	\$ 19,030
Balance, December 31, 2015	191,620,557	\$ 64,537	\$ 530	\$ (3,339)	\$ (50,914)	\$ 10,814
Private placement, net of share issue costs	22,699,596	1,448	-	-	-	1,448
Finders fee shares	311,111	26	-	-	-	26
Share-based payments	-	-	49	-	-	49
Cancellation and expiration of stock options	-	-	(21)	-	21	-
Finders fee warrants	-	(10)	10	-	-	-
Other comprehensive income (loss):						
Foreign currency translation adjustment	-	-	-	686	6	692
Net loss for the period	-	-	-	-	(290)	(290)
Balance, March 31, 2016	214,631,264	\$ 66,001	\$ 568	\$ (2,653)	\$ (51,177)	\$ 12,739

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months ended March 31,	
	2017	2016
Cash provided from (used by):		
Operations:		
Loss for the period	\$ (736)	\$ (290)
Items not involving cash:		
Amortization	-	1
Share-based payments	29	49
Change in fair value of marketable securities	85	-
Loss from derivative liability	-	29
	(622)	(211)
Changes in non-cash working capital items:		
Receivables and prepaids	(57)	(261)
Accounts payable and accrued liabilities	14	(16)
Cash used by operating activities	(665)	(488)
Financing:		
Issuance of common shares, net of share issuance costs	(2)	1,474
Share buyback under normal course issuer bid	(37)	-
Cash (used by) provided from financing activities	(39)	1,474
Investing:		
Mineral property interests, net of recoveries	(1,975)	(341)
Cash used by investing activities	(1,975)	(341)
(Decrease) increase in cash	(2,679)	645
Cash, beginning of period	8,079	354
Cash, end of period	\$ 5,400	\$ 999

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

CANARC RESOURCE CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months ended March 31,	
	2017	2016
Non-cash financing and investing activities:		
Fair value of share appreciation rights	\$ 20	\$ -
Fair value of finders fee warrants	-	10
Expiration of stock options	1	21
Income taxes paid	-	-
Interest paid	-	-

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

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

1. Nature of Operations and Going Concern

Canarc Resource Corp. (the “Company”), a company incorporated under the laws of British Columbia on January 22, 1987, is in the mineral exploration business and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of reserves in its mineral property interests, the ability of the Company to arrange appropriate financing and receive necessary permitting for the exploration and development of its mineral property interests, and upon future profitable production or proceeds from the disposition thereof. The address of the Company’s registered office is #910 – 800 West Pender Street, Vancouver, BC, Canada, V6C 2V6 and its principal place of business is #301 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8.

The Company has no operating revenues, has incurred a significant net loss of \$736,000 for the three months ended March 31, 2017 (March 31, 2016 - \$290,000) and has a deficit of \$44.8 million as at March 31, 2017 (December 31, 2016 - \$44.1 million). These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and repayment 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 would need to raise the necessary capital to meet its planned business objectives and continues to seek financing opportunities. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim 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. Basis of Presentation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Standards Interpretations Committee. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required for full and complete annual financial statements, and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016. The Company has consistently applied the same accounting policies for all periods as presented. Certain of the prior periods’ comparative figures may have been reclassified to conform to the presentation adopted in the current period.

(b) Approval of consolidated financial statements:

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors on May 5, 2017.

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Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(c) Basis of presentation:

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as disclosed in Note 5. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(d) Functional currency and presentation currency:

The functional currency of the Company and its subsidiaries is the Canadian dollar, and accounts denominated in currencies other than the Canadian dollar have been translated as follows:

- Monetary assets and liabilities at the exchange rate at the condensed consolidated interim statement of financial position date;
- Non-monetary assets and liabilities at the historical exchange rates, unless such items are carried at fair value, in which case they are translated at the date when the fair value was determined;
- Shareholders' equity items at historical exchange rates; and
- Revenue and expense items at the rate of exchange in effect on the transaction date.

The Company's presentation currency is the United States dollar. For presentation purposes, all amounts are translated from the Canadian dollar functional currency to the United States dollar presentation currency for each period. Statement of financial position accounts, with the exception of equity, are translated using the exchange rate at the end of each reporting period, transactions on the statement of comprehensive income (loss) are recorded at the average rate of exchange during the period, and equity accounts are translated using historical actual exchange rates.

Exchange gains and losses arising from translation to the Company's presentation currency are recorded as cumulative translation adjustment, which is included in accumulated other comprehensive income (loss).

(e) Critical accounting estimates and judgements:

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and judgements and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests, receivables and long-term investments; valuation of certain marketable securities; the determination of accrued liabilities; accrued site remediation; amount of flow-through obligations and recognition of deferred income tax liability; the variables used in the determination of the fair value of stock options granted and finder's fees warrants issued or modified; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

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(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(e) Critical accounting estimates and judgements: (continued)

The Company applies judgment in assessing the functional currency of each entity consolidated in these condensed consolidated interim financial statements. The functional currency of the Company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates.

The Company applies judgment in assessing whether material uncertainties exist that would cast substantial doubt as to whether the Company could continue as a going concern.

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore; expected renewals of exploration rights; whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned; and results of exploration and evaluation activities on the exploration and evaluation assets.

In the acquisition of Oro Silver Resources Ltd. (“Oro Silver”) in October 2015 and American Innovative Minerals, LLC (“AIM”), judgment was required to determine if the acquisition represented a business combination or an asset purchase. More specifically, management concluded that Oro Silver and AIM did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisitions represented the purchase of assets, there was no goodwill recognized on the transactions and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements. (Note 7).

Judgment is applied in determining whether disposal groups or cash generating unit represent a component of the entity, the results of which should be recorded in discontinued operations in the condensed consolidated interim statements of comprehensive income (loss) and cash flows.

(f) New accounting standards and recent pronouncements:

The standards listed below include only those which the Company reasonably expects may be applicable to the Company in the current period and at a future date. The Company is currently assessing the impact of these future standards on the condensed consolidated interim financial statements.

(i) The following standard became effective in the current period:

Disclosure Initiative (*Amendments to IAS 1 Presentation of Financial Statements*)

The amendments:

- Clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes; and
- Provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements.

The change had no effect to these condensed consolidated interim financial statements.

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For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(ii) The following standards will become effective in future periods:

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments are applicable for annual period beginning January 1, 2017.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 *Income Taxes*)

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments are applicable for annual period beginning January 1, 2017.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-based Payment*)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are applicable for annual period beginning January 1, 2018.

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Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(ii) The following standards will become effective in future periods: (continued)

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*

Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- *Classification and measurement of financial liabilities:*

When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*

An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*

Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The standard is applicable for annual period beginning January 1, 2018.

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For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(ii) The following standards will become effective in future periods: (continued)

IFRS 16 Leases

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is applicable for annual period beginning January 1, 2019.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

(a) Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries including New Polaris Gold Mines Ltd. and American Innovative Minerals, LLC (“AIM”). The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date control commences until the date control ceases. All significant intercompany transactions and balances are eliminated on consolidation.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(b) Financial instruments:

The Company classifies its financial assets in the following categories: fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity (“HTM”) and available-for-sale (“AFS”). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

The Company classifies its financial liabilities in the following categories: FVTPL and other financial liabilities.

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

4. 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 mineral property interests contain 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 debt. Recently the Company has generated cash inflows from the disposition of marketable securities. The Company is not subject to any externally imposed capital requirements.

The Company defines its capital as debt and 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.

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For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

4. Management of Capital (continued)

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 will be able to continue this financing in the future. The Company will continue to rely on debt and equity financings to meet its commitments as they become due, to continue exploration work on its mineral property interests, and to meet its administrative overhead costs for the coming periods.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2017.

5. Management of Financial Risk

The Company has classified its cash and restricted cash as financial assets at FVTPL; marketable securities as held for trading financial assets at FVTPL; and long-term investments as AFS financial assets; receivables as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The Company's investments in shares of Aztec Metals Corp. ("AzMet") and Aztec Minerals Corp. ("AzMin"), both companies sharing one common director with the Company, are classified as FVTPL. There is no separately quoted market value for the Company's investments in the shares of AzMet.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash and certain marketable securities are measured at fair values using Level 1 inputs. Marketable securities of AzMin were measured using Level 2 of the fair value hierarchy at March 31, 2017 but would be measured using Level 1 upon listing of AzMin shares on the TSX Venture Exchange, and investment in AzMet is measured using Level 3 of the fair value hierarchy.

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

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For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

5. Management of Financial Risk (continued)

(a) Credit risk:

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

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions.

Management has reviewed the items comprising the accounts receivable balance which may include amounts receivable from certain related parties, and determined that all accounts are collectible; accordingly, there has been no allowance for doubtful accounts recorded.

(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. As at March 31, 2017, the Company had a working capital of \$6.4 million (December 31, 2016 – \$9.1 million). The Company has sufficient funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2017.

Accounts payable and accrued liabilities are due in less than 90 days, and the notes payable, if any, are due on demand.

(c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

Certain of the Company's mineral property interests and operations are in Canada. A certain portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the Canadian dollar would affect the Company's cumulative translation adjustment as its condensed consolidated interim financial statements are presented in U.S. dollars.

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Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

5. Management of Financial Risk (continued)

(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

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

	Stated in U.S. Dollars	
	Held in	Total
	Canadian Dollars	
Cash	\$ 5,324	\$ 5,324
Marketable securities	880	880
Receivables	28	28
Accounts payable and accrued liabilities	(57)	(57)
Net financial assets (liabilities), March 31, 2017	\$ 6,175	\$ 6,175
Cash	\$ 7,984	\$ 7,984
Marketable securities	955	955
Receivables	24	24
Accounts payable and accrued liabilities	(101)	(101)
Net financial assets (liabilities), December 31, 2016	\$ 8,862	\$ 8,862

Based upon the above net exposure as at March 31, 2017 and assuming all other variables remain constant, a 5% (December 31, 2016 - 15%) depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$309,000 (December 31, 2016 - \$1.3 million) in the cumulative translation adjustment in the Company's shareholders' equity.

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

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(Unaudited – Prepared by Management)

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

5. Management of Financial Risk (continued)

(c) Market risk: (continued)

(ii) Interest rate risk:

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

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market and commodity prices.

The Company's other price risk includes equity price risk, whereby investment in marketable securities are held for trading financial assets with fluctuations in quoted market prices recorded at FVTPL. There is no separately quoted market value for the Company's investment in the shares of AzMet.

As certain of the Company's marketable securities are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's marketable securities. Based upon the net exposure as at March 31, 2017 and assuming all other variables remain constant, a net increase or decrease of 10% (December 31, 2016 - 100%) in the market prices of the underlying securities would increase or decrease respectively net income (loss) by \$88,000 (December 31, 2016 - \$955,000).

In February 2017, the Company adopted a normal course issuer bid whereby the Company may acquire up to 10.9 million common shares of the Company, and shall pay the prevailing market price at the time of purchase (Note 12(b)(i)). The cash consideration paid for any such purchases would be subject to fluctuations in the market price of its common shares.

6. Promissory Note Receivable

Pursuant to an agreement in July 2014, the Company advanced a promissory note loan of \$200,000, which bore an interest rate of 12% per annum compounded monthly; both the principal and interest were due and payable on January 15, 2015, and any past due principal and interest bore an interest rate of 14%. In September 2014, the Company advanced further funds of \$20,000. In December 2014, the promissory note receivable along with accrued interest was determined to be impaired as collectability was doubtful, and was written off. In 2016, the Company received notice for the distribution of funds from the bankruptcy estate in which funds of \$10,000 as included in receivables and prepaids were received in January 2017.

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7. Acquisition and Disposition of Companies

(a) Oro Silver Resources Ltd.

(i) Acquisition of Oro Silver Resources Ltd.

On October 8, 2015, the Company entered into the Agreement for the Purchase of all the Shares of Oro Silver Resources Ltd. (“Oro Silver”) with Marlin Gold Mining Ltd. (“Marlin Gold”) which closed on October 30, 2015 (the “Share Purchase Agreement”). As consideration the Company issued 19 million common shares to Marlin Gold to acquire a 100% interest in Marlin Gold’s wholly-owned subsidiary, Oro Silver, which owns the El Compas project through its wholly owned Mexican subsidiary, Minera Oro Silver de Mexico SA de CV (“Minera Oro Silver”). On each of the first three anniversaries of the closing date of the Share Purchase Agreement, 55 troy ounces of gold (or the U.S. dollar equivalent) shall be paid by the Company to Marlin Gold or to any of its subsidiaries. Certain mineral concessions named Altiplano included a 3% NSR royalty and a buy back option. Marlin Gold retained the Altiplano royalty and buy back option, and shall receive a 1.5% NSR on all non-Altiplano claims that currently have no royalties associated with them. The closing of the Share Purchase Agreement resulted in Marlin Gold becoming an Insider of the Company, at that time, by virtue of having a 10.79% interest in the Company as at the closing date of October 30, 2015.

The Share Purchase Agreement was considered to be outside the scope of IFRS 3 *Business Combinations* since Oro Silver did not meet the definition of a business, and as such, the transaction was accounted for as an asset acquisition.

(ii) Sale of Oro Silver Resources Ltd.

On May 6, 2016, the Company entered into a Purchase and Sale Agreement with Endeavour which closed on May 27, 2016 pursuant to which the Company sold to Endeavour 100% of the shares of the Company’s wholly-owned subsidiary, Oro Silver, which indirectly holds a 100% interest in the El Compas project in Zacatecas, Mexico, in consideration for 2,147,239 common shares of Endeavour (the “Sale Transaction”) with a fair value of CAD\$3.99 per share on May 27, 2016.

As additional consideration, Endeavour assumed the Company’s obligation to deliver an aggregate of 165 troy ounces of gold (or the US Dollar equivalent) to Marlin Gold in three equal payments of 55 troy ounces which are due in October 2016, 2017 and 2018. The foregoing gold delivery obligation was incurred by the Company in connection with its acquisition of Oro Silver from Marlin Gold (Note 7(a)(i)).

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7. Acquisition and Disposition of Companies

(b) American Innovative Minerals, LLC

On February 28, 2017, the Company entered into a lettered purchase agreement (the “Letter Agreement”) with American Innovative Minerals, LLC (“AIM”) to acquire 100% legal and beneficial interests in mineral resource properties located in Nevada, Idaho and Utah for a total purchase price of \$2 million. Upon execution of the Letter Agreement, the Company deposited \$200,000 “in trust” towards the purchase price. The deposit was only refundable upon limited circumstances including status of title, material encumbrances, corporate standing, financial conditions, environmental liabilities, and litigation. On March 20, 2017, the Company entered into and closed the Membership Interest Purchase Agreement with AIM (the “Membership Agreement”) which replaced and superseded the Letter Agreement, and the Company paid the remaining balance of \$1.8 million. Certain of the mineral properties are subject to royalties.

The Membership Agreement was considered to be outside the scope of IFRS 3 *Business Combinations* since AIM did not meet the definition of a business, and as such, the transaction was accounted for as an asset acquisition.

The following table sets forth an allocation of the purchase price to assets acquired and liabilities assumed, based on their fair values at the date of acquisition in March 2017:

	<u>American Innovative Minerals, LLC</u>
Assets:	
Mineral property interests	\$ 2,000
Liabilities:	
Accounts payables and other accrued liabilities	-
Total	<u>\$ 2,000</u>

Consideration paid for AIM in March 2017:

Cash	\$ 2,000
Total consideration	<u>\$ 2,000</u>

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8. Marketable Securities

Balance, December 31, 2015	\$	-
Held for trading securities received from:		
Sale Agreement (Note 7(a)(ii))		6,571
Property option agreement (Note 9(a)(iii))		81
Distribution of AzMin by reduction of AzMet's paid up capital		86
Disposition of held for trading securities at fair value		(8,760)
Change in fair value of marketable securities		2,985
Foreign currency translation adjustment		(8)
<hr/>		
Balance, December 31, 2016		955
Change in fair value of marketable securities		(85)
Foreign currency translation adjustment		10
<hr/>		
Balance, March 31, 2017	\$	880

In September 2016, AzMet and AzMin completed a distribution by way of a reduction of AzMet's paid up capital pursuant to Section 74 of the British Columbia *Business Corporations Act* whereby AzMet distributed all its 11 million common shares of AzMin to its shareholders on the basis of one AzMin share for every two AzMet shares held.

There are no separately quoted market values for the AzMet shares.

The quoted market value and fair value of shares of companies was \$880,000 at March 31, 2017 (December 31, 2016 - \$955,000).

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9. Mineral Property Interests

	British Columbia (Canada)			USA	Mexico	Total
	New Polaris (Note 9(a)(i))	Windfall Hills (Note 9(a)(ii))	FG Gold (Note 9(a)(iii))	Fondaway Canyon (Note 7(b))	El Compas (Notes 7(a) and 9(c))	
Acquisition Costs:						
Balance, December 31, 2015	\$ 3,851	\$ 339	\$ -	\$ -	\$ 1,126	\$ 5,316
Additions	2	-	19	-	-	21
Disposition of subsidiary (Note 7(a))	-	-	-	-	(1,256)	(1,256)
Foreign currency translation adjustment	5	10	-	-	130	145
Balance, December 31, 2016	3,858	349	19	-	-	4,226
Additions, net of recoveries	-	-	-	2,006	-	2,006
Foreign currency translation adjustment	1	3	-	1	-	5
Balance, March 31, 2017	\$ 3,859	\$ 352	\$ 19	\$ 2,007	\$ -	\$ 6,237
Deferred Exploration Expenditures:						
Balance, December 31, 2015	\$ 5,556	\$ 356	\$ -	\$ -	\$ 183	\$ 6,095
Additions, net of recoveries	12	80	6	-	393	491
Disposition of subsidiary (Note 7(a))	-	-	-	-	(576)	(576)
Foreign currency translation adjustment	249	11	-	-	-	260
Balance, December 31, 2016	5,817	447	6	-	-	6,270
Additions, net of recoveries	12	1	6	61	-	80
Foreign currency translation adjustment	74	4	-	-	-	78
Balance, March 31, 2017	\$ 5,903	\$ 452	\$ 12	\$ 61	\$ -	\$ 6,428
Mineral property interests:						
Balance, December 31, 2016	\$ 9,675	\$ 796	\$ 25	\$ -	\$ -	\$ 10,496
Balance, March 31, 2017	9,762	804	31	2,068	-	12,665

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9. Mineral Property Interests (continued)

(a) Canada:

(i) New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at March 31, 2017 include a reclamation bond for \$188,000 (December 31, 2016 - \$187,000).

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra Gold (British Columbia) Limited, a wholly-owned subsidiary of PanTerra Gold Limited, (“PanTerra”). PanTerra had a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of predevelopment activities. In Stage One, PanTerra shall spend CAD\$500,000 for laboratory production of flotation concentrate followed by test work through the Glencore Technology Albion pilot plant, and for comprehensive technical and economic review and commencement of environmental baseline data collection required for permitting. In Stage Two, PanTerra can earn a 20% interest in the New Polaris project by spending CAD\$3.5 million in predevelopment expenditures which would include 10,000 metre drilling program and engineering and completion of field data required for environmental permitting. In Stage Three, PanTerra can earn an additional 30% interest in the project for a total interest of 50% by spending CAD\$6 million in predevelopment expenditures which would primarily focus on the completion of a definitive feasibility study and would include further 10,000 metres of infill drilling, additional metallurgical test work, and preliminary engineering. PanTerra can increase its interest in the New Polaris project to 51% by purchasing 1% from the Company within six months of completion of the definitive feasibility study at a cost of 1% of the net present value established by the definitive feasibility study using a 10% discount rate. The Company had received the CAD\$500,000 for Stage One in 2015. As at December 31, 2016, funds of US\$35,000 remain for Stage One expenditures as specified pursuant to the agreement between the Company and PanTerra, which remaining funds were used to settle existing payables for Stage One expenditures in 2017.

In August 2015, PanTerra had informed the Company that it will not be able to commit to further expenditures to commence Stage Two exploration and permitting work on the Company’s New Polaris project until PanTerra received the approval from the Dominican Republic government for importing New Polaris gold concentrate into the country for processing. In September 2016, PanTerra provided 30-day notice of its intent to withdraw from the first option of the agreement, which agreement was effectively terminated on October 22, 2016.

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9. Mineral Property Interests (continued)

(a) Canada: (continued)

(ii) Windfall Hills:

In April 2013, the Company entered into a property purchase agreement with Atna Resources Ltd. (“Atna”) whereby the Company acquired a 100% undivided interest in the Uduk Lake properties by the issuance of 1,500,000 common shares at a fair value of CAD\$0.10 per share, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting Atna a 3% NSR production royalty.

In April 2013, the Company entered into a property purchase agreement whereby the Company acquired a 100% undivided interest in the Dunn properties by the issuance of 500,000 common shares at a fair value of CAD\$0.10 per share and granting the vendor a 2% NSR royalty which can be reduced to 1% NSR royalty for \$500,000.

(iii) FG Gold:

On August 24, 2016, the Company entered into a property option agreement with Eureka Resources, Inc., (“Eureka”) which closed on October 12, 2016. In consideration for the grant of the property option agreement, the Company issued 250,000 common shares at a value of CAD\$0.10 per share to Eureka, and subscribed to Eureka’s private placement for 750,000 units at a price of CAD\$0.14 per unit for a total of CAD\$105,000; each unit was comprised of one common share of Eureka and one-half of one common share purchase warrant with an exercise price of CAD\$0.20 and expiry date of September 9, 2018. The Company can earn up to a 75% interest in the FG gold property in two stages.

In the first stage, the Company can earn an initial 51% interest over three years by:

- incurring CAD\$1.5 million in exploration expenditures with an annual minimum of CAD\$500,000;
- issuing 750,000 common shares in three annual tranches of 250,000 shares; and
- paying 50% of the annual BC mineral exploration tax credits (“BC METC”) claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

In the second stage, the Company can earn an additional 24% interest for a total interest of 75% over the following two years by:

- incurring CAD\$1.5 million in exploration expenditures;
- issuing 1.5 million common shares in two annual tranches of 750,000 shares; and
- paying the greater of: (i) CAD\$75,000 and (ii) 50% of the annual BC METC claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

If the Company fails to satisfy the consideration necessary to exercise the second stage, then a joint venture will be deemed to have formed with the Company having a 51% interest and Eureka with a 49% interest.

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9. Mineral Property Interests (continued)

(b) United States:

On March 20, 2017, the Company closed the Membership Agreement with AMI whereby the Company acquired 100% legal and beneficial interests in mineral resource properties located in Nevada, Idaho and Utah for a total purchase price of \$2 million (Note 7(b)). Certain of the mineral properties are subject to royalties.

(c) Mexico:

El Compas:

In October 2015, the Company acquired the El Compas project located in Zacatecas, Mexico, pursuant to the Share Purchase Agreement with Marlin Gold by way of the acquisition of a 100% interest in Oro Silver (Note 7(a)). On each of the first three anniversaries of the date of the Share Purchase Agreement, 55 troy ounces of gold (or the U.S. dollar equivalent) was to be paid by the Company to Marlin Gold or to any of its subsidiaries. Certain mineral concessions named Altiplano include a 3% NSR royalty and a buy back option. Marlin Gold will retain the Altiplano royalty and buy back option, and will receive a 1.5% NSR on all non-Altiplano claims that currently have no royalties associated with them.

In January 2016, the Company signed a definitive agreement with the Zacatecas state government to lease and operate the permitted 500 tonne per day La Plata ore processing plant located in the city of Zacatecas, Mexico. Highlights of the lease agreement included the following:

- lease term was for 5 years with the right to extend for another 5 years;
- the Company assumed responsibility for the plant as of January 29, 2016;
- the Company was to pay a monthly lease payment of MXP 136,000; and
- grace period of 6 months to allow time for plant refurbishing.

In May 2016, the Company entered into the Sales Transaction with Endeavour pursuant to which the Company sold to Endeavour 100% of the shares of the Company's wholly-owned subsidiary, Oro Silver, which indirectly holds a 100% interest in the El Compas project in Zacatecas, Mexico (Note 7(a)). Endeavour assumed responsibility for the troy ounces of gold payable to Marlin Gold and the lease for the ore processing plant.

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9. Mineral Property Interests (continued)

(d) Expenditure options:

As at March 31, 2017, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

	Cash Payments (CAD\$000)	Exploration Expenditures (CAD\$000)	Number of Shares
New Polaris (Note 9(a)(i)):			
Net profit interest reduction or buydown	\$ -	\$ -	150,000
FG Gold (Note 9(a)(iii)):			
(i) Stage One:			
By December 31:			
2017	50% of BC METC ⁽¹⁾	484	-
2018	50% of BC METC ⁽¹⁾	500	-
2019	50% of BC METC ⁽¹⁾	500	-
2020	50% of BC METC ⁽¹⁾	-	-
On or before September 9:			
2017	-	-	250,000
2018	-	-	250,000
2019	-	-	250,000
(ii) Stage Two:			
2021	Greater of ⁽¹⁾ : (i) CAD\$75,000 and (ii) 50% of BC METC	-	-
2022	Greater of ⁽¹⁾ : (i) CAD\$75,000 and (ii) 50% of BC METC	-	-
On or before September 9:			
2020	-	-	750,000
2021	-	1,500	750,000
		\$ 2,984	2,400,000

⁽¹⁾ Maximum aggregate exploration expenditures for BC METC payable to Eureka is CAD\$1.5 million for each of Stage One and Stage Two.

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

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9. Mineral Property Interests (continued)

(e) Title to mineral property interests:

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

(f) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the mineral 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 reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

(g) Environmental:

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

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

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

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10. Equipment

	Building	Field Equipment	Office Equipment	Total
Cost:				
Balance, December 31, 2015	\$ 7	\$ 17	\$ 9	\$ 33
Disposition of subsidiary (Note 7(a))	(8)	(18)	(1)	(27)
Foreign currency translation adjustment	1	1	-	2
Balance, December 31, 2016	-	-	8	8
Foreign currency translation adjustment	-	-	-	-
Balance, March 31, 2017	-	-	8	8
Accumulated amortization:				
Balance, December 31, 2015	\$ -	\$ -	\$ 8	\$ 8
Amortization	-	2	-	2
Disposition of subsidiary (Note 7(a))	-	(2)	(1)	(3)
Foreign currency translation adjustment	-	-	-	-
Balance, December 31, 2016	-	-	7	7
Amortization	-	-	-	-
Foreign currency translation adjustment	-	-	-	-
Balance, March 31, 2017	-	-	7	7
Net book value:				
Balance, December 31, 2016	\$ -	\$ -	\$ 1	\$ 1
Balance, March 31, 2017	\$ -	\$ -	\$ 1	\$ 1

11. Accounts Payable and Accrued Liabilities

(a) Debt Settlement and Derecognition:

In 2016, the Company entered into a debt settlement with a creditor whereby a debt of \$138,000 was settled with a cash payment of \$33,000, resulting in a gain on debt settlement of \$105,000. In 2016, the Company also derecognized debt of \$3,000 owed to a foreign creditor, and recognized a gain of \$3,000 from the derecognition of accounts payable.

(b) Flow-Through Tax Indemnification:

In 2015, the Company incurred a shortfall of CAD\$14,000 in Canadian exploration expenditures for flow through purposes, and recognized a provision of US\$2,000 for flow through indemnification as at March 31, 2017 (December 31, 2016 – US\$2,000) which is included in accounts payable and accrued liabilities.

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12. Share Capital

(a) Authorized:

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

(b) Issued:

(i) Normal course issuer bid:

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid is effective on February 8, 2017 and will terminate on February 7, 2018, or on such earlier date as the bid is complete. The actual number of common shares purchased under the bid and the timing of any such purchases will be at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company will pay the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be cancelled. In 2017, the Company purchased 380,000 common shares for CAD\$34,250 with an average price of CAD\$0.09 per share, and the cancellation of such shares will be completed in due course.

In March 2017, stock options for 500,000 common shares were cancelled for the exercise of share appreciation rights for 272,727 common shares.

On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000. Finder fees were comprised of CAD\$32,500 in cash and 250,000 warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until April 21, 2019.

(ii) In March 2016, the Company closed a private placement in two tranches totalling 22.7 million units at a price of CAD\$0.09 per unit for gross proceeds of CAD\$2.04 million with each unit comprised of one common share and one-half of one common share purchase warrant; each whole warrant is exercisable to acquire one common share at an exercise price of CAD\$0.12 per share for a period of three years. On March 3, 2016, the Company closed the first tranche for 17.7 million units for gross proceeds of CAD\$1.59 million. On March 14, 2016, the Company closed the second tranche for 5 million units for gross proceeds of CAD\$449,500 with a finder's fee of 311,111 units issued with the same terms as the underlying units in the private placement.

In September 2016, the Company issued 250,000 common shares at a value of CAD\$0.10 per share to Eureka for the FG gold property (Note 9(a)(iii)).

In 2016, warrants for 1.31 million shares were exercised for proceeds of CAD\$104,700 which included finder fee warrants for 58,333 shares with a fair value of US\$2,000. In 2016, stock options for 1 million shares were exercised for proceeds of CAD\$80,000 with fair values of US\$54,300.

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12. Share Capital (continued)

(c) Stock option plan:

The Company has a stock option plan that allows it to grant stock options to its directors, officers, employees, and consultants to acquire up to 18,888,434 common shares, of which stock options for 15,945,000 common shares are outstanding as at March 31, 2017. The exercise price of each stock option cannot be lower than the last recorded sale of a board lot on the TSX during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the TSX based on the last five trading days before the date of the grant. Stock 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 stock options is made at the discretion of the board at the time the stock options are granted.

At the discretion of the board, certain stock 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 stock options.

The continuity of outstanding stock options for the three months ended March 31, 2017 is as follows:

	March 31, 2017	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	16,445,000	\$0.08
Cancelled for share appreciation rights	<u>(500,000)</u>	\$0.05
Outstanding balance, end of period	<u>15,945,000</u>	\$0.08
Exercise price range (CAD\$)	<u>\$0.06 - \$0.145</u>	

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12. Share Capital (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options exercisable and outstanding at March 31, 2017:

Exercise Prices (CAD\$)	Options Outstanding			Options Exercisable		
	Number Outstanding at March 31, 2017	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)	Number Exercisable at March 31, 2017	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.145	30,000	0.22	\$0.145	30,000	0.22	\$0.145
\$0.08	1,425,000	1.24	\$0.08	1,425,000	1.24	\$0.08
\$0.10	3,650,000	2.29	\$0.10	3,650,000	2.29	\$0.10
\$0.06	5,350,000	3.69	\$0.06	4,012,500	3.69	\$0.06
\$0.08	5,490,000	4.27	\$0.08	1,620,000	4.27	\$0.08
	15,945,000	3.34	\$0.08	10,737,500	2.97	\$0.08

During the three months ended March 31, 2017, the Company recognized share-based payments of \$29,000 (March 31, 2016 - \$49,000), net of forfeitures, based on the fair value of options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants, as applicable, as follows:

	March 31	
	2017	2016
Directors and officers	\$ 29	\$ 46
Employees	-	3
	\$ 29	\$ 49

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12. Share Capital (continued)

(c) Stock option plan: (continued)

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants are estimated using the Black-Scholes option pricing model as follows:

	March 31,	
	2017	2016
Number of stock options granted	-	-
Fair value of stock options granted (CAD\$)	n/a	n/a
Market price of shares on grant date (CAD\$)	n/a	n/a
Pre-vest forfeiture rate	n/a	n/a
Risk-free interest rate	n/a	n/a
Expected dividend yield	n/a	n/a
Expected stock price volatility	n/a	n/a
Expected option life in years	n/a	n/a

Expected stock price volatility is based on the historical price volatility of the Company's common shares.

In fiscal 2016, the Company granted the following stock options:

- 3,260,000 stock options to directors, officers and employees with an exercise price of CAD\$0.08 and an expiry date of July 7, 2021, and which are subject to vesting provisions in which 25% of the options vest immediately on the grant date and 25% vest every six months thereafter;
- 3,000,000 stock options to a director, officers and a consultant with an exercise price of CAD\$0.08 and an expiry date of July 7, 2021, and which shall vest only when the Company closes a material transaction or at the discretion of the Company's Board of Directors;
- 1,000,000 stock options to consultants with an exercise price of CAD\$0.08 and an expiry date of July 7, 2021, and which fully vested on grant date; and
- 750,000 stock options to a consultant with an exercise price of CAD\$0.11 and an expiry date of September 21, 2021, and which fully vest on December 20, 2016.

In March 2017, stock options for 500,000 common shares were cancelled for the exercise of share appreciation rights for 272,727 common shares.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(d) Warrants:

Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2016	Issued	Exercised	Expired	Outstanding at March 31, 2017
\$0.10	July 31, 2017 ⁽¹⁾	8,450,000	-	-	-	8,450,000
\$0.15	March 18, 2017	55,000	-	-	(55,000)	-
\$0.15	September 18, 2018 ⁽¹⁾	5,254,055	-	-	-	5,254,055
\$0.15	September 18, 2018 ^{(1),(2)}	661,718	-	-	-	661,718
\$0.15	April 3, 2017	346,250	-	-	-	346,250
\$0.15	October 3, 2018 ⁽¹⁾	4,153,750	-	-	-	4,153,750
\$0.15	October 3, 2018 ^{(1),(3)}	60,725	-	-	-	60,725
\$0.08	September 21, 2018	5,332,776	-	-	-	5,332,776
\$0.08	September 21, 2018 ⁽⁴⁾	536,511	-	-	-	536,511
\$0.12	March 3, 2019	8,852,576	-	-	-	8,852,576
\$0.12	March 14, 2019	2,497,222	-	-	-	2,497,222
\$0.12	March 14, 2019 ⁽⁵⁾	155,556	-	-	-	155,556
		36,356,139	-	-	(55,000)	36,301,139

⁽¹⁾ On August 28, 2015, the Company extended the terms of the expiry periods of the warrants by 18 months.

⁽²⁾ As these warrants are agent's warrants, a fair value of \$43,120 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$4,622 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

12. Share Capital (continued)

(d) Warrants: (continued)

⁽³⁾ As these warrants are agent's warrants, a fair value of \$3,335 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$386 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.

⁽⁴⁾ As these warrants are agent's warrants, a fair value of \$20,747 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 147%, risk-free rate 0.57%, expected life 3 years, and expected dividend yield 0%.

⁽⁵⁾ As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.

(e) Common shares reserved for issuance as at March 31, 2017:

	Number of Shares
Stock options (Note 12(c))	15,945,000
Warrants (Note 12(d))	36,301,139
Common shares reserved for issuance	52,246,139

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

13. Corporate Development and General and Administrative

	Three months ended March 31,	
	2017	2016
Corporate Development:		
Geology and advisory	\$ 23	\$ 1
Sundry	5	-
Travel and transportation	11	4
	<u>\$ 39</u>	<u>\$ 5</u>
General and Administrative:		
Legal	\$ 2	\$ 10
Office and sundry	16	17
Regulatory	7	9
Rent	8	9
	<u>\$ 33</u>	<u>\$ 45</u>

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

14. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management is disclosed in the table below.

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the Company had the following general and administrative costs with related parties during the three months ended March 31, 2017 and 2016:

	Three months ended March 31,		Net balance receivable (payable)	
	2017	2016	March 31, 2017	December 31, 2016
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 367	\$ 95	\$ -	\$ -
Directors fees	90	2	-	(1)
Share-based payments	29	46	-	-
	<u>\$ 486</u>	<u>\$ 143</u>	<u>\$ -</u>	<u>\$ (1)</u>
Net office, sundry, rent and salary allocations recovered from (charged by) company(ies) sharing certain common director(s) ⁽²⁾	\$ (8)	\$ (11)	\$ (3)	\$ (4)

(1) Includes key management compensation which is included in employee and director remuneration, mineral property interests and corporate development.

(2) The companies include AzMin and Endeavour.

The above transactions are incurred in the normal course of business. Notes 7(a)(i) provide disclosure for the acquisition of Oro Silver from Marlin Gold; Note 7(a)(ii) for the Sale Transaction with Endeavour; and Note 8 for marketable securities held in Endeavour, AzMet and AzMin.

CANARC RESOURCE CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months ended March 31, 2017

(Unaudited – Prepared by Management)

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

15. Segment Disclosures

The Company has one operating segment, being mineral exploration, with assets located in Canada and the United States, as follows:

	March 31, 2017			December 31, 2016	
	Canada	USA	Total	Canada	Total
Restricted cash	\$ -	\$ -	\$ -	\$ 35	\$ 35
Mineral property interests	10,597	2,068	12,665	10,496	10,496
Equipment	1	-	1	1	1

16. Commitments

In January 2016, the Company signed a definitive agreement with the Zacatecas state government to lease and operate the permitted 500 tonne per day La Plata ore processing plant located in the city of Zacatecas, Mexico. The lease commitments were assumed by Endeavour in May 2016. (Note 9(c)).

In February 2017, the Company entered into an office lease arrangement for a term of five years with a commencement date of August 1, 2017. The basic rent per year is CAD\$46,000 for years 1 to 3 and CAD\$48,000 for years 4 to 5. Effective August 1, 2017, the Company is committed to the following payments for base rent at its corporate head office in Vancouver, BC, as follows:

	Amount (CAD\$)
Year:	
2017	\$ 19
2018	46
2019	46
2020	47
2021	48
2022	28
	\$ 234

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DIRECTORS

Bradford Cooke
Martin Burian
Deepak Malhotra
Leonard Harris

OFFICERS

Catalin Chiloflischii ~ Chief Executive Officer
Garry Biles ~ President and Chief Operating Officer
Philip Yee ~ Chief Financial Officer and Corporate Secretary (Interim)

**REGISTRAR AND
TRANSFER AGENT**

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REGISTERED OFFICE**

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SHARES LISTED

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



CANARC RESOURCE CORP.

First Quarter Report

Management Discussion and Analysis

(expressed in United States dollars)

Three Months ended March 31, 2017

CANARC RESOURCE CORP.
(the “Company”)

First Quarter Report

Management’s Discussion and Analysis
For the Three Months ended March 31, 2017
(expressed in United States dollars)

CAUTION – FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

The following Management’s Discussion and Analysis (“MD&A”) of Canarc Resource Corp. (the “Company”) should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017, audited consolidated statement of financial position as at December 31, 2016 and 2015 and the consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the years ended December 31, 2016, 2015 and 2014, and a summary of significant accounting policies and other explanatory information, all of which are available at the SEDAR website at www.sedar.com.

Financial information in this MD&A is prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”) based upon the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and all dollar amounts are expressed in United States dollars unless otherwise indicated.

All information contained in the MD&A is as of May 5, 2017 unless otherwise indicated.

1.1 Background

The Company was incorporated under the laws of British Columbia, and is engaged in the acquisition, exploration, development and exploitation of precious metal properties.

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

CANARC RESOURCE CORP.

Management's Discussion and Analysis

For the Three Months ended March 31, 2017

(expressed in United States dollars)

1.2 Overall Performance

The Company currently owns a direct interest in the precious metal properties, known as the New Polaris property (British Columbia), the Windfall Hills properties (British Columbia) and Fondaway Canyon property (Nevada), and has an option to earn up to a 75% interest in the FG Gold property (British Columbia).

Purchase Agreement with American Innovative Minerals, LLC

On February 28 2017, the Company entered into a purchase letter agreement (the "Letter Agreement") with American Innovative Minerals, LLC ("AIM") and certain securityholders of AIM ("the AIM Securityholders") to acquire either a direct or indirect 100% legal and beneficial interests in mineral resource properties located in Nevada, Idaho and Utah (USA) for a total purchase price of \$2 million. Upon execution of the Letter Agreement, the Company deposited \$200,000 "in trust" towards the purchase price. On March 20, 2017, the Company entered into and closed the Membership Interest Purchase Agreement with AIM (the "Membership Agreement") which replaced and superseded the Letter Agreement, and the Company paid the remaining balance of \$1.8 million, whereby the Company acquired all interests in AIM from the AIM Securityholders. Certain of the mineral properties are subject to royalties.

AIM owns 10 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates, and owns one gold property in Idaho, and has two royalty interests on other properties. These properties include the following:

- **Fondaway Canyon** is an advanced exploration stage gold property located in Churchill County, Nevada. The land package contains 136 unpatented lode claims. The property has a history of previous surface exploration and mining in the late 1980s and early 1990s. The Fondaway Canyon mineralization is contained in a series of 12 steeply dipping *en-echelon* quartz-sulphide shears outcropping at surface and extending laterally over 1200 m, with drill-proven depth extensions to > 400m. Additional exploration targets include near-surface oxide gold along favourable structural and host rock targets and deeper extensions of the sulphide zones.
- **Dixie Comstock**, also located in Churchill County, Nevada, consists of 26 unpatented lode claims. It has evidence of some historic mining but no records of production are available.
- **Clear Trunk** property is located in Pershing and Humboldt Counties, Nevada on 4500 acres of fee mineral and unpatented claims in the Sonoma Range, south of Winnemucca. Identified exploration target include breccia pipes and quartz stockwork with untested gold anomalies and untested soil gold anomaly overlying intrusive host rock.
- **Bull Run** property is located in Elko County, Nevada on two large patented claim groups of 500 acres near Jerritt Canyon.
- **Hot Springs Point** property is located in Eureka County, Nevada on 160 acres of fee land on north end of the prolific Cortez Trend. Klondex Mining claims surround the project on three sides.
- **Jarbidge** property is located in Elko County, Nevada on 8 patented claims along the east end of major gold veins in the Jarbidge mining district.
- **Lightning Tree** property is located in Lemhi County, Idaho on 11 unpatented claims near the Musgrove gold deposit.
- **Silver King** property is located in Humboldt County, Nevada on 4 patented claims near Golconda Summit. Previous exploration focused on low grade gold values but the property was never been explored for silver.

CANARC RESOURCE CORP.

Management's Discussion and Analysis

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(expressed in United States dollars)

- **A&T** property is located in Humboldt Co., Nevada on 2 patented claims on Winnemucca Mountain. The property contains two veins and a quartz breccia in altered shale adjacent to intrusive dikes.
- **Eimis** property is located in Elko County, Nevada on one 20 acre patented claim adjacent to a new Coleman Canyon gold discovery by Arnevt Resources. Gold anomalies extend onto Eimis property.
- **Silver Peak** property is located in Esmeralda County, Nevada on 2 patented (40 acre) mining claims. The property is surrounded by claim blocks held by Scorpio Gold Corporation at the Mineral Ridge mine.

In April 2017, the Company commissioned Techbase International, Ltd ("Techbase") of Reno, Nevada to complete a technical Report for the Fondaway Canyon Project. The resource estimate was prepared by Michael Norred, SME Registered Member 2384950, President of Techbase, and Simon Henderson, MSc, MAusIMM CP 110883 (Geology), Consulting Geologist with Wairaka Rock Services Limited of Wellington, New Zealand, both Qualified Persons (QPs), as defined by NI 43-101. The resource estimate included in the technical report is shown in the table below:

Resource Category	Tonnes ¹ (t)	Grade (g/t) Au	Ounces ² (oz) Au	Type
Indicated	2,050,000	6.18	409,000	UG/Sulfide
Inferred	3,200,000	6.40	660,000	UG/Sulfide

¹ Resource based on cut-off of 1.8m horizontal width \geq 3.43 g/t
² Rounding differences may occur

1. *CIM Definition Standards were followed for reporting the Mineral Resource estimates.*
2. *Mineral Resources are reported on a dry, in-situ basis. A bulk density of 2.56 tonnes/m³ was applied for volume to tonnes conversion.*
3. *The reporting cutoff grade of 3.43 g/t was based on capital and operating costs for a similar project, the three-year trailing average Au price of \$US 1,225/ oz Au , a metallurgical recovery of 90%, and an underground mining method suitable for steeply-dipping veins.*
4. *Mineral Resources are estimated from surface to approximately 400 m depth.*
5. *The quantity and grade of Inferred Resources in this estimate are uncertain in nature, there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category. Environmental, geotechnical, permitting, legal, title, taxation, socio-political, marketing or other relevant issues could materially affect the mineral resource estimate.*

The Fondaway Canyon mineralization is contained in a series of 12 steeply dipping, en-echelon quartz-sulfide vein-shear zones outcropping at surface and extending laterally over 1200 m and vertically to depths of > 400m. The Paperweight, Half-moon and Colorado zones host the bulk of the resources, with the remainder in parallel veins or splays of the major vein-shears. A total of 591 historic drill holes were validated for resource estimation, with coordinate information and down hole assays. These included 8411 m of core drilling in 49 holes and 40,675 m of RC drilling in 551 holes. Drill core was inspected at the Fallon, NV storage facility and assay certificates were viewed to verify gold intercept grades used in the estimate. Check assays were run systematically on approximately 5% of the total assays, including 23% of assays greater than 3.43 g/t. Duplicate assays were run on slightly less than 1% of the total assays, including 14% of assays greater than 3.43 g/t. Consistency was good for the check assays and duplicates, with correlations greater than 98% in each case. A mineral resource was estimated for each vein using polygonal estimation on drill intercepts projected onto a vertical long-

CANARC RESOURCE CORP.

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(expressed in United States dollars)

section parallel to the average strike direction of that vein. The polygons were truncated at faults that were interpreted to limit the extent of the mineralization. The mineral resources are reported at a cut-off of 3.43 g/t, over a minimum horizontal width of 1.8m, based on projects of similar size, a gold price of \$US 1,225 per oz, a metallurgical recovery of 90%, and an underground mining method suitable for steeply-dipping veins. A processing method has not yet been selected. Metallurgical testing showed that acceptable recoveries could be obtained from the sulfide material by using an oxidizing pre-treatment, followed by CIL leaching, with recoveries up to 86 to 95%. Further metallurgical testing and design work will be needed in order to design the most cost-effective method. No capping or cutting of grades was applied. The assayed grades were found to be very consistent when compared to check assays and duplicates, as well as between twinned holes. The consistency in assay results was interpreted as being due to the very fine-grained nature of the gold mineralization (1 to 10 µm). This consistency provided confidence that the higher-grade assays were reasonable.

A 30-hole drill program, estimated to cost \$2.0 million, has been recommended by Techbase to explore the identified targets as well upgrade more of the resources into the indicated category.

FG Gold property (British Columbia, Canada)

On August 24, 2016, the Company entered into a property option agreement with Eureka Resources, Inc., ("Eureka") which closed on October 12, 2016. In consideration for the grant of the property option agreement, the Company issued 250,000 common shares at a value of CAD\$0.10 per share to Eureka, and subscribed to Eureka's private placement for 750,000 units at a price of CAD\$0.14 per unit for a total of CAD\$105,000; each unit was comprised of one common share of Eureka and one-half of one common share purchase warrant with an exercise price of CAD\$0.20 and expiry date of September 9, 2018. The Company can earn up to a 75% interest in the FG gold property in two stages.

In the first stage, the Company can earn an initial 51% interest over three years by:

- incurring CAD\$1.5 million in exploration expenditures with an annual minimum of CAD\$500,000;
- issuing 750,000 common shares in three annual tranches of 250,000 shares; and
- paying 50% of the annual BC mineral exploration tax credits ("BC METC") claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

In the second stage, the Company can earn an additional 24% interest for a total interest of 75% over the following two years by:

- incurring CAD\$1.5 million in exploration expenditures;
- issuing 1.5 million common shares in two annual tranches of 750,000 shares; and
- paying the greater of: (i) CAD\$75,000 and (ii) 50% of the annual BC METC claimed by the Company to Eureka to an aggregate maximum exploration expenditure of CAD\$1.5 million.

If the Company fails to satisfy the consideration necessary to exercise the second stage, then a joint venture will be deemed to have formed with the Company having a 51% interest and Eureka with a 49% interest.

The FG Gold project is located in the historic Cariboo Gold Camp within the Quesnel Trough area of central British Columbia. Mineralization occurs as quartz veins and stringer zones containing coarse free gold and finer grained iron sulphides bearing gold in a broad shear zone conformable to bedding within deformed and metamorphosed Paleozoic sedimentary rocks. The property consists of 33 contiguous mineral claims totalling 10,400 hectares.

The Company plans to implement an exploration program in the summer of 2017, which will consist of diamond drilling on the most advanced prospective targets along the northwest extension of the main zone and conducting soil sampling, prospecting and mapping to follow up on other highly prospective areas of the property that have been identified by geophysics work done on the property. Six to eight diamond drill holes measuring 200 to 300 meters each, totaling approximately 2,000 meters, will be drilled into the northwest extension zone and the northwest offset zone of the main zone. The estimated budget for this exploration program is CAD\$500,000.

CANARC RESOURCE CORP.

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(expressed in United States dollars)

El Compas property (Mexico) (Share Purchase Agreement with Marlin Gold Mining Ltd. and Purchase and Sale Agreement with Endeavour Silver Corp.)

On October 8, 2015, the Company entered into the Agreement for the Purchase of all the Shares of Oro Silver Resources Ltd. ("Oro Silver") with Marlin Gold Mining Ltd. ("Marlin Gold") which closed on October 30, 2015 (the "Share Purchase Agreement"). As consideration the Company issued 19 million common shares to Marlin Gold to acquire a 100% interest in Marlin Gold's wholly-owned subsidiary, Oro Silver, which owns the El Compas project through its wholly owned Mexican subsidiary, Minera Oro Silver de Mexico SA de CV ("Minera Oro Silver"). On each of the first three anniversaries of the closing date of the Share Purchase Agreement, 55 troy ounces of gold (or the U.S. dollar equivalent) shall be paid by the Company to Marlin Gold or to any of its subsidiaries. Certain mineral concessions named Altiplano included a 3% NSR royalty and a buy back option. Marlin Gold retained the Altiplano royalty and buy back option, and shall receive a 1.5% NSR on all non-Altiplano claims that currently have no royalties associated with them. The closing of the Share Purchase Agreement resulted in Marlin Gold becoming an Insider of the Company, at that time, by virtue of having a 10.79% interest in the Company as at the closing date of October 30, 2015.

The El Compas property is a fully permitted gold silver project located in Zacatecas, Mexico, and is comprised of 24 concessions totaling 3,900 hectares. The project is supported by a lease agreement with the Zacatecas state government for the nearby La Plata processing facility, which is fully permitted as a flotation based operation including a permitted tailings management facility and with a capacity of 500 tpd.

In October 2015, the Company commissioned Mining Plus Canada Consulting Ltd. ("Mining Plus") to complete a NI 43-101 resource report and preliminary economic assessment for the El Compas project to determine the project's potential viability which was completed in January 2016. Their technical report entitled "NI 43-101 Technical Report for the El Compas Project" (the "El Compas Technical Report") was authored by J Collins PGeo, N Schunke PEng, S Butler PGeo, L Bascome MAIG and F Wright PEng, who are independent Qualified Person as defined by NI 43-101, dated January 19, 2016, and was prepared in compliance with NI 43-101, to the best of the Company's knowledge. The El Compas Technical Report is available at www.sedar.com.

On May 6, 2016, the Company entered into a Purchase and Sale Agreement with Endeavour Silver Corp., a company sharing one common director, ("Endeavour") pursuant to which the Company sold to Endeavour 100% of the shares of the Company's wholly-owned subsidiary, Oro Silver, which indirectly holds a 100% interest in the El Compas project in Zacatecas, Mexico, in consideration for 2,147,239 free-trading common shares of Endeavour, with an aggregate deemed value of CAD\$10.5 million (the "Sale Transaction"). The Endeavour shares had a deemed price of CAD\$4.89 per share, equal to the volume-weighted average trading price on the TSX for the 10 trading-day period immediately prior to May 6, 2016. As additional consideration, Endeavour assumed the Company's obligation to deliver an aggregate of 165 troy ounces of gold (or the US Dollar equivalent) to Marlin Gold in three equal payments of 55 troy ounces which are due in October 2016, 2017 and 2018. The Sale Transaction closed on May 27, 2016 at which time the Company received 2,147,239 free-trading common shares of Endeavour with a fair value of CAD\$3.99 per share at that date.

Item 1.5 provides the financial effects to the Company from the sale of El Compas to Endeavour.

New Polaris property (British Columbia, Canada)

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

On February 24, 2015, the Company entered into a Pre-Development and Earn-In Binding Agreement with PanTerra Gold (British Columbia) Limited, a wholly-owned subsidiary of PanTerra Gold Limited, ("PanTerra"). PanTerra had a 30-month option to earn a 50% interest in the New Polaris project by spending a total of CAD\$10 million in three stages of

CANARC RESOURCE CORP.

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(expressed in United States dollars)

predevelopment activities including metallurgical test work, drilling, detailed mine planning, tailings dam design, environmental permitting, and completion of a definitive feasibility study. In Stage One, PanTerra was to spend CAD\$500,000 for laboratory production of flotation concentrate followed by test work through the Glencore Technology Albion pilot plant, and for comprehensive technical and economic review and commencement of environmental baseline data collection required for permitting. In Stage Two, PanTerra could earn a 20% interest in the New Polaris project by spending CAD\$3.5 million in predevelopment expenditures which would include 10,000 m drilling program and engineering and completion of field data required for environmental permitting. In Stage Three, PanTerra could earn an additional 30% interest in the project for a total interest of 50% by spending CAD\$6 million in predevelopment expenditures which would primarily focus on the completion of a definitive feasibility study and would include further 10,000 m of infill drilling, additional metallurgical test work, and preliminary engineering. PanTerra could increase its interest in the New Polaris project to 51% by purchasing 1% from the Company within six months of completion of the definitive feasibility study at a cost of 1% of the net present value established by the definitive feasibility study using a 10% discount rate.

The Albion process is a technology for recovering gold from refractory sulfide ores owned by Glencore Plc and used commercially under license by PanTerra.

The Company received CAD\$500,000 in fiscal 2015.

In April 2015, 59 kg of gold concentrate were produced by an independent metallurgical lab from 500 kg of New Polaris project's prior drill core, which had been shipped to Glencore's test lab in Australia, for metallurgical testing of the Albion process. In July 2015, the Albion testing had entered into the second and final phase aimed at further optimizing test conditions for improving gold recoveries. The Company had initiated collection of environmental baseline data required for environmental permitting, and had also submitted notice of work for an in-fill drilling program.

In August 2015, PanTerra had informed the Company that it will not be able to commit to further expenditures to commence Stage Two exploration and permitting work on the Company's New Polaris project until PanTerra received the approval from the Dominican Republic government for importing New Polaris gold concentrate into the country for processing. In September 2016, PanTerra provided 30-day notice of its intent to withdraw from the first option of the agreement, which agreement was effectively terminated on October 22, 2016.

The Company continues with its efforts to seek a joint venture partner to advance the New Polaris project through permitting and feasibility.

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

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

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

MEASURED UNDILUTED RESOURCE

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

INDICATED UNDILUTED RESOURCE

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

MEASURED PLUS INDICATED UNDILUTED RESOURCE

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

INFERRED UNDILUTED RESOURCE

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

* ton equals short dry ton

The resource estimate uses ordinary kriging of 192 recent drill holes and 1,432 gold assay intervals constrained within 4 main vein segments as modelled in three dimensions by the Company's geologists. The total New Polaris database consisted of 1,056 diamond drill holes with a total of 31,514 sample intervals. For this study, the classification for each resource block was a function of the semivariogram range. In general, blocks estimated using $\frac{1}{4}$ of the semivariogram range were classed as measured, blocks estimated using $\frac{1}{2}$ the semivariogram range were classed as indicated and all other blocks estimated using the full semivariogram range were classed as inferred. A review of gold grade distribution outlined 6 overlapping lognormal gold populations within the resource database. On this basis, a total of 10 gold assays were capped at 63 g/t.

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In April 2011, the Company completed an updated NI 43-101 preliminary economic assessment report by Moose Mountain for the New Polaris gold project (the "New Polaris Preliminary Economic Report"). The New Polaris Preliminary Economic Report is available at www.sedar.com.

The preliminary economic assessment is based upon building and operating a 600 tonne per day gold mine, averaging 72,000 ounces gold per year. The parameters in the base case economic model includes a gold price of US\$1,200 per oz, CAD\$/US\$ foreign exchange rate of 1.00, cash costs of US\$481 per oz, and a cut-off grade 7 grams per tonne. The New Polaris Preliminary Economic Report for the New Polaris project results in an after-tax net present value of CAD\$129.8 million using a discount rate of 5%, an after-tax internal rate of return of 31.4%, and a pay-back period of 2.5 years. Given its conceptual nature, there is no certainty that the preliminary economic assessment will be realized.

The base case mine model in the New Polaris Preliminary Economic Report is summarized below (stated in Canadian dollars):

Scheduled Resources	1,056,000 tonnes measured and indicated grading 11.7 gpt Au (after dilution) and 1,132,000 tonnes inferred grading 10.8 gpt Au (after dilution) and a 7 gpt cutoff
Production Rate	600 tonnes per day
Grade	11.3 grams per tonne (diluted 13%)
Recoveries	91% gold into concentrate
Average Output	72,000 oz gold per year
Mine life	10 years

The base case financial parameters are (in Canadian dollars):

Gold Price	US\$ 1200 per oz	
Exchange Rate	US\$ 1.00 = CA\$ 1.00	
Capital Cost	\$101.1 million	
Cash Cost	US\$ 481 per oz (excluding offsites)	
	<u>Pre-Tax</u>	<u>After-Tax</u>
Cash Flow (LoM)	\$280.8 million	\$188.1 million
Net Present Value (NPV)		
NPV (5%)	\$197.2 million	\$129.8 million
NPV (8%)	\$160.0 million	\$103.7 million
NPV (10%)	\$139.3 million	\$ 89.0 million
	<u>Pre-Tax</u>	<u>After Tax</u>
Internal Rate of Return	38.1%	31.4%
Payback Period	2.41 years	2.51 years

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

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

New Polaris AFTER TAX CASH FLOW SENSITIVITY ANALYSIS
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Description of Sensitivity	Cash Flow CAD\$ (000)s	NPV @ 5% CAD\$ (000)s	NPV @ 8% CAD\$ (000)s
Gold US\$1,000/oz -17%	\$104,287	\$63,920	\$45,788
Gold US\$1,100/oz -8%	\$146,197	\$96,981	\$74,907
Base Case US\$1,200/oz	\$188,107	\$129,819	\$103,707
Gold US\$1,300/oz +8%	\$230,017	\$162,657	\$132,507
Gold US\$1,400/oz +17%	\$271,927	\$195,347	\$161,090
Grade -10%	\$137,815	\$90,403	\$69,132
Grade -5%	\$162,961	\$110,116	\$86,427
Base Case Grade 11.25 gpt	\$188,107	\$129,819	\$103,707
Grade +5%	\$213,253	\$149,522	\$120,987
Grade +10%	\$238,399	\$169,225	\$138,267
Capital Cost -10%	\$193,775	\$135,816	\$109,850
Capital Cost -5%	\$190,941	\$132,817	\$106,778
Base Case \$101M Capital	\$188,107	\$129,819	\$103,707
Capital Cost +5%	\$185,273	\$126,821	\$100,635
Capital Cost +10%	\$182,440	\$123,822	\$97,564
Operating Cost -10%	\$208,383	\$145,818	\$117,799
Operating Cost -5%	\$198,245	\$137,819	\$110,753
Base Case	\$188,107	\$129,819	\$103,707
Operating Cost +5%	\$177,969	\$121,819	\$96,661
Operating Cost +10%	\$167,831	\$113,820	\$89,614
Exchange rate \$0.90 -10%	\$238,750	\$169,523	\$138,540
Exchange rate \$0.95 -5%	\$212,104	\$148,633	\$120,213
Base Case \$1.00	\$188,107	\$129,819	\$103,707
Exchange rate \$1.05 +5%	\$166,384	\$112,788	\$88,765
Exchange rate \$1.10 +10%	\$146,625	\$97,297	\$75,174

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

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

Windfall Hills property (British Columbia, Canada)

In April 2013, the Company entered into two property purchase agreements to acquire 100% interests in two adjacent gold properties located in British Columbia. The Company entered into a property purchase agreement with Atna Resources Ltd.

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("Atna") whereby the Company acquired a 100% undivided interest in the Uduk Lake properties by the issuance of 1,500,000 common shares at a fair value of CAD\$0.10 per share, honouring a pre-existing 1.5% NSR production royalty that can be purchased for CAD\$1 million, and granting Atna a 3% NSR production royalty. The Company entered into a property purchase agreement whereby the Company acquired a 100% undivided interest in the Dunn properties by the issuance of 500,000 common shares at a fair value of CAD\$0.10 per share and granting the vendor a 2% NSR royalty which can be reduced to 1% NSR royalty for \$500,000.

In June 2014, the Company received government permit for the drilling program which was mobilized in July 2014 and was financed by a flow-through financing of CAD\$400,000 which closed in July 2014. Funds of CAD\$386,000 were expended for flow-through purposes. In 2014, the Company completed 3 holes and 1,149 metres of drilling that intersected an alteration zone anomalous in gold-silver.

In October 2016, the Company completed a geophysical 3D IP-resistivity survey which covered 3.8 sq km, representing about 10% of the property. The survey was at 100 m intervals on 200 m spaced line to a depth of 350 m below surface. The main exploration targets are low sulphidation epithermal, disseminated and stockwork gold-silver deposits with tertiary rhyolite volcanic centers. The IP survey identified four geophysical anomalies which cover an area of coincidental high resistivity and chargeability. Drill targets will be prioritized for drilling in the summer of 2017.

Other Matters

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million of its common shares representing approximately up to 5% of its issued and outstanding common shares at that time. The bid commenced on February 8, 2017 and will terminate on February 7, 2018, or on such earlier date as the bid is complete. The actual number of common shares purchased under the bid and the timing of any such purchases will be at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company will pay the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be returned to treasury and cancelled. As at May 5, 2017, the Company had purchased an aggregate of 380,000 common shares for an aggregate purchase price of CAD\$34,250, resulting in an average price of CAD\$0.09 per share, and the cancellation of such shares will be completed in due course.

On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000. Finder fees were comprised of CAD\$32,500 in cash and 250,000 warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until April 21, 2019.

1.3 Selected Annual Information

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

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(in \$000s except per share amounts)	Years ended December 31,		
	2016	2015	2014
Total revenues	\$ -	\$ -	\$ -
Income (loss) before discontinued operations and extraordinary items:			
(i) Total	\$ 1,965	\$ (927)	\$ (1,831)
(ii) Basic per share	\$ 0.01	\$ (0.01)	\$ (0.01)
(iii) Fully diluted per share	\$ 0.01	\$ (0.01)	\$ (0.01)
Income (loss) from discontinued operations:			
(i) Total	\$ 4,826	\$ (5)	\$ -
(ii) Basic per share	\$ 0.02	\$ -	\$ -
(iii) Fully diluted per share	\$ 0.02	\$ -	\$ -
Net earnings (loss):			
(i) Total	\$ 6,791	\$ (932)	\$ (1,831)
(ii) Basic per share	\$ 0.03	\$ (0.01)	\$ (0.01)
(iii) Fully diluted per share	\$ 0.03	\$ (0.01)	\$ (0.01)
Total assets	\$ 19,708	\$ 11,941	\$ 12,564
Total long-term liabilities	\$ -	\$ 117	\$ -
Dividends per share	\$ -	\$ -	\$ -

1.4 Results of Operations

First Quarter of Fiscal 2017 – Three months ended March 31, 2017 compared with March 31, 2016

The Company incurred a net loss of \$736,000 for the three months ended March 31, 2017 which is higher than the net loss of \$290,000 for same period in fiscal 2016, with commensurately higher operating expenses in the current period. Net losses were impacted by different functional expense items.

The Company has no sources of operating revenues. Operating losses were incurred for ongoing activities of the Company in acquiring and exploring its mineral property interests, seeking an appropriate joint venture partner to advance the New Polaris property, and pursuing mineral projects of merit.

Amortization is for equipment which currently has nominal book value.

Corporate development expenses were higher in the current period than in the prior comparative period. In the first quarter of 2016, negligible efforts were expended on corporate development as the primary focus was the advancement of the El Compas project which was acquired in October 2015 and the due diligence of the project by Endeavour, leading to the eventual sale of the project in May 2016. In the remaining quarters of 2016, project generative efforts were re-initiated to identify projects of merit for acquisition purposes as precious metal prices continued their upward trends which weakened in the latter part of the third quarter but would assist with reduced valuations for acquisition purposes. These activities included the engagement of third party consultants to assist and to provide corporate advisory services to allow greater breadth in seeking projects and financing possibilities for larger scaling of projects given the current significantly improved financial resources of the Company from the sale of the El Compas project. Such efforts resulted in the property option agreement

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with Eureka for the FG gold project which has measured and indicated resources. Ongoing corporate development continued into the first quarter of fiscal 2017 which led to the acquisition of AIM which owns 10 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates, and owns one gold property in Idaho, and has two royalty interests on other properties. A NI 43-101 technical report for resource estimate was completed for the Fondaway Canyon project in April 2017.

Remuneration for employees was higher in the first quarter of 2017 than in the same quarter in 2016. Employee remuneration directly related to mineral exploration projects was allocated to those specific projects rather than to operations, in which in the first quarter of 2016 the Company was active in advancing the El Compas project resulting in a NI 43-101 technical report which provided resource estimates along with a preliminary economic assessment, in seeking financing to develop the mine and to refurbish the mill/plant, due diligence by Endeavour pursuant to the Sale Transaction, project generative activities including the FG Gold project, and the IP survey for the Windfall Hills project. In 2016, the Company was able to support the positive preliminary economic assessment of the El Compas leading to its eventual sale to Endeavour, disposed of Endeavour shares for proceeds of \$8.9 million, closed a private placement for net proceeds of \$1.5 million, and closed an option agreement to earn up to a 100% interest in the FG Gold property which has a NI 43-101 resource estimate. These events in 2016 materially improved the working capital of the Company along with the settlement of all outstanding debts and its portfolio of mineral exploration projects with NI 43-101 technical reports with resource estimates. Such accomplishments in 2016 resulted in the assessment and payment of bonuses to senior officers and directors for strategic guidance which were not determinable in 2016 as resolved by the Company's Compensation Committee in 2017. This contributed to higher remunerations in the first quarter of 2017 than in 2016.

General and administrative expenses were lower in the current quarter than the comparable 2016 quarter. The main factor was lower legal fees in first quarter of 2017 from reduced legal services for corporate activities. Legal services rendered for the AIM acquisition would be recorded as transaction costs. Legal fees were higher in 2016 to assist with the ongoing resolution and communication with PanTerra, and for guidance and review with regulatory disclosure and corporate finance activities affecting the El Compas project. These expenses in the first quarter of 2016 also included Mexico operations.

The Company initiated new shareholder communications and marketing programs in the first quarter of 2016 as the Company advanced the El Compas project. These shareholder commitments had terms of up to 12 months and continued into the subsequent quarters of 2016. The Company had completed a new resource estimate and preliminary economic assessment of the El Compas project, signed a lease agreement for the La Plata processing plant with the Zacatecas government, closed a private placement for CAD\$2 million, and entered into an indicative term sheet with a resource fund for debt financing of up to \$10 million as a gold prepaid facility in 2016. In the third quarter of 2016, the Company retained a full time consultant to provide corporate development, growth strategy and market presence which ceased at the end of November 2016. The Company was also active in its participation in various conferences to increase its marketing efforts and profile as the Company expanded its portfolio of projects with mineral resources and progressed its exploration programs. These shareholder relations initiatives would also supplement project generative activities of the Company. In the first quarter of fiscal 2017, shareholder communications and marketing programs were initiated to specifically create market awareness of the Company's acquisition of AIM along with its 10 gold properties in Nevada of which two properties (Fondaway Canyon and Dixie Comstock) contain historic gold resource estimates and one gold property in Idaho, and has two royalty interests on other properties. A NI 43-101 resource estimate was completed for Fondaway Canyon in May 2017.

Share-based payments were lower in the current period. At the beginning of each of the two comparative quarterly periods, similar number of stock options were unvested. However in the first quarter of 2017, stock options for 2.25 million common shares were performance based and did not vest during the quarter, thereby resulting in lower number of stock options being vested and lower expense for vesting provisions.

Interest income is earned from the Company's premium investment savings account which is interest bearing, and was higher in the first quarter of 2017 fiscal year given its substantially more cash resources from the disposition of Endeavour shares in fiscal 2016. The Company's cash was nominal at the beginning of the first quarter of 2016 for any interest bearing investments.

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Change in the fair value of marketable securities is attributable to the quoted market price changes in the shares of Endeavour and Eureka. Marketable securities are classified as held for trading financial assets with any resulting gains or losses in fair values being recognized in profit or loss. The Company did not dispose of any marketable securities in the first quarter of fiscal 2017. The market price of shares of Endeavour reduced by CAD\$0.52 whereas the market price of Eureka shares increased by a nominal CAD\$0.01, thereby resulting in the recognition of a loss in the change in fair value of marketable securities during the current quarter. The Company did not have any marketable securities in the first quarter of 2016.

Foreign exchange gain or loss reflects the transactional impact in the foreign exchange fluctuations of the US\$ relative to the CAD\$, as the Company's functional currency is the CAD\$ and its reporting or presentation currency is the US\$. The first quarter of 2016 foreign exchange was affected by the translation effects of the Mexican pesos during which time the Company had the El Compas project in Mexico prior to its sale to Endeavour in May 2016.

As at March 31, 2017, the Company has mineral property interests which are comprised of the following:

(\$000s)	British Columbia (Canada)			USA	Mexico	Total	
	New Polaris	Windfall Hills	FG Gold	Fondaway Canyon	El Compas		
Acquisition Costs:							
Balance, December 31, 2015	\$ 3,851	\$ 339	\$ -	\$ -	\$ 1,126	\$ 5,316	
Additions	2	-	19	-	-	21	
Disposition of subsidiary	-	-	-	-	(1,256)	(1,256)	
Foreign currency translation adjustment	5	10	-	-	130	145	
Balance, December 31, 2016	3,858	349	19	-	-	4,226	
Additions, net of recoveries	-	-	-	2,006	-	2,006	
Foreign currency translation adjustment	1	3	-	1	-	5	
Balance, March 31, 2017	\$ 3,859	\$ 352	\$ 19	\$ 2,007	\$ -	\$ 6,237	
Deferred Exploration Expenditures:							
Balance, December 31, 2015	\$ 5,556	\$ 356	\$ -	\$ -	\$ 183	\$ 6,095	
Additions, net of recoveries	12	80	6	-	393	491	
Disposition of subsidiary	-	-	-	-	(576)	(576)	
Foreign currency translation adjustment	249	11	-	-	-	260	
Balance, December 31, 2016	5,817	447	6	-	-	6,270	
Additions, net of recoveries	12	1	6	61	-	80	
Foreign currency translation adjustment	74	4	-	-	-	78	
Balance, March 31, 2017	\$ 5,903	\$ 452	\$ 12	\$ 61	\$ -	\$ 6,428	
Mineral property interests:							
Balance, December 31, 2016	\$ 9,675	\$ 796	\$ 25	\$ -	\$ -	\$ 10,496	
Balance, March 31, 2017	9,762	804	31	2,068	-	12,665	

1.5 Summary of Quarterly Results (Unaudited)

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, March 31, 2017. All dollar amounts are expressed in U.S. dollars unless otherwise indicated.

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(in \$000s except per share amounts)	2017		2016				2015		
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
(Loss) income before discontinued operations and extraordinary items ⁽¹⁾ :									
(i) Total	\$ (736)	\$ (612)	\$ 1,326	\$ 1,541	\$ (290)	\$ (438)	\$ (124)	\$ (157)	
(ii) Basic per share	\$ -	\$ -	\$ 0.01	\$ 0.01	\$ -	\$ -	\$ -	\$ -	
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ 0.01	\$ -	\$ -	\$ -	\$ -	
Income (loss) from discontinued operations and extraordinary items ⁽²⁾ :									
(i) Total	\$ -	\$ 26	\$ 1	\$ 4,799	\$ -	\$ (5)	\$ -	\$ -	
(ii) Basic per share	\$ -	\$ -	\$ -	\$ 0.02	\$ -	\$ -	\$ -	\$ -	
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ 0.02	\$ -	\$ -	\$ -	\$ -	
Net (loss) income:									
(i) Total	\$ (736)	\$ (586)	\$ 1,327	\$ 6,340	\$ (290)	\$ (443)	\$ (124)	\$ (157)	
(ii) Basic per share	\$ -	\$ -	\$ 0.01	\$ 0.03	\$ -	\$ -	\$ -	\$ -	
(iii) Fully diluted per share	\$ -	\$ -	\$ -	\$ 0.02	\$ -	\$ -	\$ -	\$ -	
Total assets	\$ 19,145	\$ 19,708	\$ 20,761	\$ 19,463	\$ 13,879	\$ 11,941	\$ 11,282	\$ 11,545	
Total long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ 136	\$ 117	\$ -	\$ -	
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

(1) The Company recognized gains in marketable securities from the increases in the fair values of shares of Endeavour on the date of disposition of Endeavour shares and from increases in the fair values which increased from CAD\$3.99 per share on the closing date of the Sale Transaction to CAD\$4.75 per share on December 30, 2016. Item 1.4 provides further details.

(2) On May 27, 2016, the Company closed the Sale Agreement with Endeavour pursuant to which the Company sold to Endeavour 100% of its shares of Oro Silver, which indirectly holds a 100% interest in the El Compas project in Zacatecas, Mexico, in consideration for 2,147,239 free-trading common shares of Endeavour, resulting in the recognition of a net income of \$4.8 million from discontinued operations in the Second Quarter of fiscal 2016. Items 1.2 and 1.4 provide further details.

1.6 Liquidity

The Company is in the pre-development stage and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is entirely dependent upon the existence of reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production. The Company knows of no trends, demands, commitments, events or uncertainties that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future except as disclosed in this MD&A and in its regulatory filings. Material increases or decreases in the Company's liquidity are

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substantially determined by the success or failure of the Company's exploration and development programs and overall market conditions for smaller mineral exploration companies. Since its incorporation in 1987, the Company has endeavored to secure mineral property interests that in due course could be brought into production to provide the Company with cash flow which would be used to undertake work programs on other projects. To that end, the Company has expended its funds on mineral property interests that it believes have the potential to achieve cash flow within a reasonable time frame. As a result, the Company has incurred losses during each of its fiscal years since incorporation. This result is typical of smaller exploration companies and will continue unless positive cash flow is achieved.

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

(\$000s)	March 31,	December 31,
	2017	2016
Cash	\$ 5,400	\$ 8,079
Working capital	6,364	9,075

Ongoing operating expenses continue to reduce the Company's cash resources and working capital, as the Company has no sources of operating revenues.

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. In 2017, the Company purchased 380,000 common shares for CAD\$34,250 with an average price of CAD\$0.09 per share, and the cancellation of such shares will be completed in due course. Item 1.2 provides further details.

On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000. Finder fees were comprised of CAD\$32,500 in cash and 250,000 warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until April 21, 2019.

As at March 31, 2017, marketable securities have a fair value of \$880,000 which includes shares of Endeavour, Eureka, Aztec Metals Corp. ("AzMet") and Aztec Minerals Corp. ("AzMin"), both AzMet and AzMin share one common director with the Company.

In the past, the Company has entered into a number of option agreements for mineral properties that involve payments in the form of cash and/or shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.7, further details of contractual obligations are provided as at March 31, 2017. The Company will continue to rely upon equity financing as its principal source of financing its projects.

1.7 Capital Resources

At March 31, 2017, to maintain its interest and/or to fully exercise the options under various property agreements covering its property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

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	Cash Payments (CAD\$000)	Exploration Expenditures (CAD\$000)	Number of Shares
New Polaris:			
Net profit interest reduction or buydown	\$	-	150,000
FG Gold:			
Stage One:			
By December 31:			
2017	50% of BC METC ⁽¹⁾	484	-
2018	50% of BC METC ⁽¹⁾	500	-
2019	50% of BC METC ⁽¹⁾	500	-
2020	50% of BC METC ⁽¹⁾	-	-
On or before October 12:			
2017	-	-	250,000
2018	-	-	250,000
2019	-	-	250,000
Stage Two:			
2021	Greater of ⁽¹⁾ : (i) CAD\$75,000 and (ii) 50% of BC METC	-	-
2022	Greater of ⁽¹⁾ : (i) CAD\$75,000 and (ii) 50% of BC METC	-	-
On or before October 12:			
2020	-	-	750,000
2021	-	1,500	750,000
		\$ 2,984	2,400,000

⁽¹⁾ Maximum aggregate exploration expenditures for BC METC payable to Eureka is CAD\$1.5 million for each of Stage One and Stage Two.

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

In February 2017, the Company entered into an office lease arrangement for a term of five years with a commencement date of August 1, 2017. The basic rent per year is CAD\$46,000 for years 1 to 3 and CAD\$48,000 for years 4 to 5. Effective August 1, 2017, the Company is committed to the following payments for base rent at its corporate head office in Vancouver, BC, as follows:

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(CAD\$000s)	Amount
Year:	
2017	\$ 19
2018	46
2019	46
2020	47
2021	48
2022	28
	\$ 234

The Company will continue to rely upon debt and equity financings as its principal sources of financing its projects and for working capital.

1.8 Off-Balance Sheet Arrangements

At the discretion of the Board, certain stock 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 stock options.

1.9 Transactions with Related Parties

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management is disclosed in the table below.

Except as disclosed elsewhere in the MD&A, the Company had the following general and administrative costs with related parties during the three months ended March 31, 2017 and 2016:

(\$000s)	Three months ended March 31,		Net balance receivable (payable)	
	2017	2016	March 31, 2017	December 31, 2016
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 367	\$ 95	\$ -	\$ -
Directors fees	90	2	-	(1)
Share-based payments	29	46	-	-
	<u>\$ 486</u>	<u>\$ 143</u>	<u>\$ -</u>	<u>\$ (1)</u>
Net office, sundry, rent and salary allocations recovered from (charged by) company(ies) sharing certain common director(s) ⁽²⁾	<u>\$ (8)</u>	<u>\$ (11)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>

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- (1) Includes key management compensation which is included in employee and director remuneration, mineral property interests and corporate development.
- (2) The companies include AzMin and Endeavour.

Amounts which are incurred to related parties are in the normal course of business. The Company shares common office facilities, employee and administrative support, and office sundry amongst companies with certain common director(s), and such allocations to the Company are on a full cost recovery basis. Any balances due to related parties are payable on demand.

In May 2016, the Company and Endeavour closed the Sale Transaction for the El Compas project. Item 1.2 provides further details.

1.10 First Quarter

Items 1.2, 1.4, 1.5, 1.6 and 1.7 provide further details for the first quarter of fiscal 2017.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and judgements and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; amount of flow-through obligations and recognition of deferred income tax liability; the variables used in the determination of the fair value of stock options granted and finder's fees warrants issued or modified; recoverability of receivables; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The Company applies judgment in assessing the functional currency of each entity consolidated in the financial statements.

The Company applies judgment in assessing whether material uncertainties exist that would cast substantial doubt as to whether the Company could continue as a going concern.

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

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At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore; expected renewals of exploration rights; whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned; and results of exploration and evaluation activities on the exploration and evaluation assets. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

In the acquisition of AIM in March 2017, judgement was required to determine if the acquisition represented a business combination or an asset purchase. More specifically, management concluded that AIM did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill generated on the transaction and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements.

1.13 Changes in Accounting Policies including Initial Adoption

The Company did not early adopt any recent pronouncements as disclosed in Note 2(f) of the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017.

1.14 Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

- cash as financial assets at fair value through profit or loss ("FVTPL"),
- marketable securities as held for trading financial assets at FVTPL,
- long term investments as available-for-sale ("AFS") financial assets,
- receivables and promissory notes receivable as loans and receivables, and
- accounts payable and accrued liabilities and notes payable as other financial liabilities, and

Management of Financial Risk

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

The fair value hierarchy categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2

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are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash and marketable securities are measured at fair values using Level 1 inputs. There is no separately quoted market values for the Company's investments in the shares of AzMet. Marketable securities of AzMet are measured using Level 3 of the fair value hierarchy. All gains and losses are included in operations in the period in which they arise.

(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.

Management has reviewed the items comprising the accounts receivable balance which may include amounts receivable from certain related parties, and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

(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. As at March 31, 2017, the Company had a working capital of \$6.4 million (December 31, 2016 – \$9.1 million). The Company has sufficient funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2017.

Accounts payable and accrued liabilities are due in less than 90 days, and the notes payable, if any, are due on demand.

(c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

Certain of the Company's mineral property interests and operations are in Canada. A certain portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the Canadian dollar would affect the Company's cumulative translation adjustment as its condensed consolidated interim financial statements are presented in U.S. dollars.

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

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(\$000s)	Stated in U.S. Dollars	
	Held in	Total
	Canadian Dollars	
Cash	\$ 5,324	\$ 5,324
Marketable securities	880	880
Receivables	28	28
Accounts payable and accrued liabilities	(57)	(57)
Net financial assets (liabilities), March 31, 2017	\$ 6,175	\$ 6,175
Cash	\$ 7,984	\$ 7,984
Marketable securities	955	955
Receivables	24	24
Accounts payable and accrued liabilities	(101)	(101)
Net financial assets (liabilities), December 31, 2016	\$ 8,862	\$ 8,862

Based upon the above net exposure as at March 31, 2017 and assuming all other variables remain constant, a 5% (December 31, 2016 - 15%) depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease (increase) of approximately \$309,000 (December 31, 2016 - \$1.3 million) in the cumulative translation adjustment in the Company's shareholders' equity.

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

(ii) Interest rate risk:

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

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market and commodity prices.

The Company's other price risk includes equity price risk, whereby investment in marketable securities are held for trading financial assets with fluctuations in quoted market prices recorded at FVTPL. There is no separately quoted market value for the Company's investment in the shares of AzMet.

As certain of the Company's marketable securities are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's marketable securities. Based upon the net exposure as at March 31, 2017 and assuming all other variables remain constant, a net increase or decrease of 10% (December 31, 2016 - 100%) in the market prices of the underlying securities would increase or decrease respectively net income (loss) by \$88,000 (December 31, 2016 - \$955,000).

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In February 2017, the Company adopted a normal course issuer bid whereby the Company may acquire up to 10.9 million common shares of the Company, and shall pay the prevailing market price at the time of purchase. The cash consideration paid for any such purchases would be subject to fluctuations in the market price of its common shares.

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at www.sedar.com;
- (b) may be found in the Company's annual information form; and
- (c) is also provided in the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and audited consolidated financial statements for the years ended December 31, 2016 and 2015.

1.15.2 Outstanding Share Data

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

Changes in the Company's share capital for the three months ended March 31, 2017 are as follows:

	Number of Shares	Amount (in \$000s)
Balance at December 31, 2016	217,189,597	\$ 66,210
Issued:		
Exercise of share appreciation rights	272,727	20
Share issuance expense	-	(2)
Common share buy-back under normal course issuer bid	(530,000)	(37)
Balance at March 31, 2017	216,932,324	\$ 66,191

In February 2017, the Company received regulatory approval for a normal course issuer bid to acquire up to 10.9 million common shares of the Company representing approximately up to 5% of its issued and outstanding common shares at that time. The bid is effective on February 8, 2017 and will terminate on February 7, 2018, or on such earlier date as the bid is complete. The actual number of common shares purchased under the bid and the timing of any such purchases will be at the Company's discretion. Purchases under the bid shall not exceed 86,128 common shares per day. The Company will pay the prevailing market price at the time of purchase for all common shares purchased under the bid, and all common shares purchased by the Company will be cancelled. In 2017, the Company purchased 380,000 common shares for CAD\$34,250 with an average price of CAD\$0.09 per share, and the cancellation of such shares will be completed in due course.

In March 2017, stock options for 500,000 common shares were cancelled for the exercise of share appreciation rights for 272,727 common shares.

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On April 21, 2017, the Company closed a private placement for 3.8 million flow through common shares at CAD\$0.13 per share for gross proceeds of CAD\$500,000. Finder fees were comprised of CAD\$32,500 in cash and 250,000 warrants; each warrant is exercisable to acquire one non-flow through common share at an exercise price of CAD\$0.15 per share until April 21, 2019.

At May 5, 2017, there were 220,778,478 common shares issued and outstanding. Pursuant to its normal course issuer bid in 2017, the Company has purchased 380,000 common shares which will be returned to treasury and cancelled in due course.

At March 31, 2017, the Company had outstanding stock options to purchase an aggregate 15,945,000 common shares as follows:

	March 31, 2017	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding balance, beginning of period	16,445,000	\$0.08
Cancelled for share appreciation rights	(500,000)	\$0.05
Outstanding balance, end of period	15,945,000	\$0.08
Exercise price range (CAD\$)	\$0.06 - \$0.145	

In March 2017, stock options for 500,000 common shares were cancelled for the exercise of share appreciation rights for 272,727 common shares.

At May 5, 2017, stock options for 15,945,000 common shares remain outstanding of which 10,737,500 stock options are exercisable.

At March 31, 2017, the Company had outstanding warrants as follows:

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Exercise Prices (CAD\$)	Expiry Dates	Outstanding at December 31, 2016	Issued	Exercised	Expired	Outstanding at March 31, 2017
\$0.10	July 31, 2017 ⁽¹⁾	8,450,000	-	-	-	8,450,000
\$0.15	March 18, 2017	55,000	-	-	(55,000)	-
\$0.15	September 18, 2018 ⁽¹⁾	5,254,055	-	-	-	5,254,055
\$0.15	September 18, 2018 ^{(1),(2)}	661,718	-	-	-	661,718
\$0.15	April 3, 2017	346,250	-	-	-	346,250
\$0.15	October 3, 2018 ⁽¹⁾	4,153,750	-	-	-	4,153,750
\$0.15	October 3, 2018 ^{(1),(3)}	60,725	-	-	-	60,725
\$0.08	September 21, 2018	5,332,776	-	-	-	5,332,776
\$0.08	September 21, 2018 ⁽⁴⁾	536,511	-	-	-	536,511
\$0.12	March 3, 2019	8,852,576	-	-	-	8,852,576
\$0.12	March 14, 2019	2,497,222	-	-	-	2,497,222
\$0.12	March 14, 2019 ⁽⁵⁾	155,556	-	-	-	155,556
		36,356,139	-	-	(55,000)	36,301,139

⁽¹⁾ On August 28, 2015, the Company extended the terms of the expiry periods of the warrants by 18 months.

⁽²⁾ As these warrants are agent's warrants, a fair value of \$43,120 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 120%, risk-free rate 1.17%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$4,622 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.

⁽³⁾ As these warrants are agent's warrants, a fair value of \$3,335 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 121%, risk-free rate 1.27%, expected life 3 years, and expected dividend yield 0%. On August 28, 2015, the agent's warrants were modified by the extension of the expiry term by 18 months resulting in a net fair value adjustment of \$386 as applied to reserve for share-based payments with a corresponding debit to deficit using the Black-Scholes option pricing model with the following revised assumptions: volatility 146%, risk-free rate 0.46%, expected life 3 years, and expected dividend yield 0%.

⁽⁴⁾ As these warrants are agent's warrants, a fair value of \$20,747 was recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 147%, risk-free rate 0.57%, expected life 3 years, and expected dividend yield 0%.

⁽⁵⁾ As these warrants are agent's warrants, a fair value of \$10,320 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments

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calculated using the Black-Scholes option pricing model with the following assumptions: volatility 150%, risk-free rate 0.58%, expected life 3 years, and expected dividend yield 0%.

At May 5, 2017, warrants for 36,204,889 common shares remain outstanding.

1.16 Outlook

The Company will continue to depend upon equity financings to continue exploration work on and to advance its mineral property interests, and to meet its administrative overhead costs for the 2017 fiscal year. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its properties in the foreseeable future.

1.17 Risk Factors

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

Exploration and Development Risks

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

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

Financing Risks

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

The Company does not presently have sufficient financial resources or operating cash-flow to undertake by itself all of its planned exploration and development programs. The development of the Company's mineral property interests may therefore depend on the Company's joint venture partners and on the Company's ability to obtain additional required financing. There is no assurance the Company will be successful in obtaining the required financing, the lack of which could result in the loss or substantial dilution of its interests (as existing or as proposed to be acquired) in its properties as disclosed

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herein. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise debt and equity capital financings, the attainment of profitable operations, external financings, and further share issuance to satisfy working capital and operating needs.

Estimates of Mineral Deposits

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

Although all figures with respect to the size and grade of mineralized deposits, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are historic estimates only and are not compliant with NI 43-101, except for the Company's Fondaway Canyon project which was the subject of a NI 43-101 report dated April 3, 2017 and New Polaris project which was the subject of a NI 43-101 report dated March 14, 2007, and no assurance can be given that any identified mineralized deposit will ever qualify as a commercially viable mineable ore body that can be legally and economically exploited. Estimates regarding mineralized deposits can also be affected by many factors such as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grades and tonnages of ore ultimately mined may differ from that indicated by drilling results and other work. There can be no assurance that gold recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions. Material changes in mineralized tonnages, grades, dilution and stripping ratios or recovery rates may affect the economic viability of projects. The existence of mineralized deposits should not be interpreted as assurances of the future delineation of ore reserves or the profitability of future operations. The refractory nature of gold mineralization at New Polaris may adversely affect the economic recovery of gold from mining operations.

Mineral Prices

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

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

Title Matters

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

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

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Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. New laws or regulations or amendments to current laws, regulations and permits governing operations and activities of mining companies, or more

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stringent implementation of current laws, regulations or permits, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Reclamation

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

Foreign Countries and Regulatory Requirements

Certain of the Company's properties 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 Company and may adversely affect its business. Such changes have, in the past, included nationalization of foreign owned businesses and properties. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income and other taxes and duties, expropriation of property, environmental legislation and mine safety. These uncertainties may make it more difficult for the Company and its joint venture partners to obtain any required production financing for its mineral property interests.

Currency Fluctuation and Foreign Exchange Controls

The Company maintains a portion of its funds in U.S. dollar and previously in Mexican peso denominated accounts. Certain of the Company's property and related contracts may be denominated in U.S. dollars. The Company's operations in countries other than Canada are normally carried out in the currency of that country and make the Company subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. In addition, the Company is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its properties outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Company holds property interests and future impositions of such restrictions could have a materially adverse effect on the Company's future profitability or ability to pay dividends.

Third Party Reliance

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

Volatility of Shares Could Cause Investor Loss

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

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At March 31, 2017, the Company had 216,932,324 common shares, adjusted for the share buy back from the normal course issuer bid, and 15,945,000 outstanding share purchase options and 36,301,139 share purchase warrants outstanding. The

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resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At March 31, 2017, securities that could be dilutive represented approximately 24.1% of the Company's issued shares. Certain of these dilutive securities were exercisable at prices below the March 31, 2017 closing market price of CAD\$0.11 for the Company's shares, which accordingly could result in dilution to existing shareholders.

1.18 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting using the framework and criteria established in *Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013)*. Based on its evaluation, management has concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at March 31, 2017, and provided a reasonable assurance of the reliability of the Company's financial reporting and preparation of the unaudited condensed consolidated interim financial statements. Management of the Company recognizes that any controls and procedures can only provide reasonable assurance, and not absolute assurance, of achieving the desired control objectives, and management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures.

Internal Controls over Financial Reporting

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting ("ICFR") or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

The Company shall engage the services of an external accounting firm to assist in applying complex areas of accounting as needed.

Management concluded that the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 fairly present the Company's financial position and its financial performance for the period then ended.

Changes in Internal Controls over Financial Reporting

Except as disclosed above, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date the CEO and CFO completed their evaluation.