CANARC RESOURCE CORP
Form 20-F/A
April 18, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Mark One)

[ ]

Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934,

OR

[X]

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934,

For the fiscal year ended December 31, 2005

OR

[ ]

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

OR

[ ]

Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report

For the transition period from _______________ to _______________

Commission file number: **0-18860**

CANARC RESOURCE CORP.

(Exact name of Registrant as specified in its charter)

Province of British Columbia, Canada

(Jurisdiction of incorporation or organization)

Suite #800 - 850 West Hastings Street, Vancouver, British Columbia, Canada, V6C 1E1

(Address of principal executive office)

Securities registered or to be registered pursuant to Section 12(b) of the Act: NONE

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant Section 15(d) of the Act:

Common Shares without par value

(Title of Class)

Indicate the number of outstanding shares of each of the Registrant s classes of capital or common stock as of the close of the period covered by the annual report.

58,545,115 Common Shares as at **December 31, 2005**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ]   No [X]

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes [ ]   No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [X]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [X]   Item 18 [ ]

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]   No [X]

EXPLANATORY NOTE

The Company has, in relation to its New Polaris Gold Project, restated certain technical disclosure, summarized certain technical disclosure and added additional qualifications to certain estimates of inferred, indicated and measured resources completed prior to the implementation of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101). Certain technical disclosure, including the addition of a list of the claims that comprise the property, and a location map, has been added. See Material Mineral Projects - *New Polaris Gold Project, British Columbia, Canada* . The Company has also, in relation to its Benzdorp Property in Suriname, restated certain technical disclosure, summarized certain technical disclosure and added additional technical disclosure, including the addition of a location map. See Material Mineral Projects *Benzdorp Property, Suriname*

As included in Note 12 of the consolidated financial statements for the year ended December 31, 2005, the Company restated its consolidated cash flow statement for the year ended December 31, 2005 to reflect the reconciling account of Aztec Metals Corp. (Aztec) used to determine the cash flows of the Company.

In accordance with Canadian GAAP, this effectively reduced cash outflow from operating activities from US$725,000 to US$633,000 and cash inflow from financing activities from US$41,000 to US$38,000, and cash inflow from investing activities from US$458,000 to US$369,000.

For Canadian GAAP, when a subsidiary issues its shares to interests outside the consolidated entity, the effect on any change in the parent s interest as a result of the share issue by the subsidiary is recognized in the determination of consolidated net income (or loss). Under U.S. GAAP, changes in a parent company s proportionate share of subsidiary equity resulting from additional equity raised by the subsidiary should be accounted for as an equity transaction in consolidation particularly when the subsidiary is a development stage enterprise. The Company has restated its previous presentation of the gain in 2005 to be consistent with the SEC s interpretation.

Consequently in the reconciliation of Canadian and U.S. GAAP, Note 12 to the Consolidated Financial Statements as included the 2005 Form 20-F includes the following restatements for the 2005 comparative figures in Note 12:

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loss for 2005 under U.S. GAAP increased from $374,000 to $995,000;

-

loss per share under U.S. GAAP increased from $0.01 to $0.02; and

-

cash used for operating activities under U.S. GAAP increased from $1,502,000 to $1,553,000.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

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CAUTION FORWARD LOOKING STATEMENTS

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

GLOSSARY OF MINING TERMS

The Registrant is required under Canadian law (National Instrument 43-101 Standards Of Disclosure For Mineral Projects (NI 43-101)) to calculate and categorize mineral reserve , proven mineral reserve , probable mineral reserv mineral resource , measured mineral resource , indicated mineral resource and inferred mineral resource under Canadian Institute of Mining Metallurgy and Petroleum (CIM) Standards on Mineral Resources and Reserves - Definitions and Guidelines adopted by the CIM in August 2000. These standards establish definitions and guidelines for the reporting of exploration information, mineral resources and mineral reserves in Canada. These definitions have not been adopted for use in the United States of America by the Securities and Exchange Commission. Under these guidelines, the CIM definitions of proven and probable reserves equate to the definitions of proven and probable reserves as set out in Guide 7 of the Securities Act Industry Guides. In addition, Canadian law requires disclosure of mineral resources that equate to measured, indicated and inferred resources.

The following is a glossary of some of the terms used in the mining industry and referenced herein:

1933 Act - means the United States Securities Act of 1933, as amended.

adit a horizontal tunnel in an underground mine driven from a hillside surface.

Ag silver.

alluvial mining - mining of gold bearing stream gravels using gravity methods to recover the gold, also known as placer mining.

andesite - a volcanic rock of intermediate composition, the extrusive equivalent of diorite.

arsenopyrite an ore mineral of arsenic, iron, and sulphur, often containing gold.

assay a precise and accurate analysis of the metal contents in an ore or rock sample.

Au - gold.

auger drill a handheld machine that produces small, continuous core samples in unconsolidated materials.

autoclave a mineral processing vessel operated at high temperature and pressure in order to oxidize sulfide and carbon compounds, so the contained metals can be leached and concentrated.

Banka drilling - a hand operated drill specifically designed for sampling alluvial deposits. The drill rods (10-12 centimetres in diameter) are forced into the gravel and then the core sample is extracted from the rods.

Commission - United States Securities and Exchange Commission, or S.E.C.

concentrate a concentrate of minerals produced by crushing, grinding and processing methods such as gravity or flotation.

contained gold total measurable gold in grams or ounces estimated to be contained within a mineral deposit. Makes no allowance for economic criteria, mining dilution or recovery losses.

Cu copper.

cut-off grade deemed grade of mineralization, established by reference to economic factors, above which material is considered ore and below which is considered waste.

diamond drill a large machine that produces a continuous core sample of the rock or material being drilled.

diorite a plutonic rock of intermediate composition, the intrusive equivalent of andesite.

dorė – bullion of gold, with minor silver and copper produced by smelting, prior to refining.

epithermal – used to describe hydrothermal mineral deposits, typically in veins, formed at lower temperatures and pressures within 1 km of the earth surface.

Exchange Act means the United States Securities Exchange Act of 1934, as amended.

feasibility study a detailed report assessing the feasibility, economics and engineering of placing a mineral deposit into commercial production.

flotation a mineral recovery process using soapy compounds to float finely ground metallic minerals into a concentrate.

garimpeiros a Brazilian term used in South America referring to small scale, artisanal miners and prospectors.

gold deposit - means a mineral deposit mineralised with gold.

gold equivalent - a method of presenting combined gold and silver concentrations or weights for comparison purposes. Commonly involves expressing silver as its proportionate value in gold based on the relative values of the two metals.

gold resource see mineral resource.

gpt - grams per tonne.

grams per cubic meter - alluvial mineralisation measured by grams of gold contained per cubic meter of material, a measure of gold content by volume not by weight.

greenstone - a field term for any compact dark-green altered or metamorphosed basic igneous rock that owes its colour to green minerals such as chlorite, actinolite or epidote.

indicated resource - means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

inferred resource - means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

laterite - highly weathered residual superficial soils and decomposed rocks, rich in iron and aluminum oxides, that are characteristically developed in tropical climates.

lode mining mining of ore, typically in the form of veins or stockworks.

measured resource means that part of a mineral resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

mesothermal used to describe hydrothermal mineral deposits, typically in veins, formed at higher temperatures and pressures deeper than 1 km of the earth s surface.

mineral reserve means the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic

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Canarc Resource Corp.

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extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

mineral resource a body of mineralized material which has not yet been determined to be ore, and the potential for mining of which has not yet been determined; categorized as possible, probable and proven, according to the degree of certainty with which their grade and tonnage are known; sometimes referred to as a geological resource or mineral inventory .

net profits interest or NPI a royalty based on the net profits generated after recovery of all costs.

net smelter royalty or **NSR** - a royalty based on the gross proceeds received from the sale of minerals less the cost of smelting, refining, freight and other related costs.

nugget effect an effect of high variability of gold assays, due to the gold occurring in discreet coarse grains such that their content in any given sample is highly variable.

ore a naturally occurring rock or material from which economic minerals can be extracted at a profit.

ounce or oz. - a troy ounce or 20 pennyweights or 480 grains or 31.103 grams.

opt troy ounces per ton.

porknockers - a local term used in Guyana and Suriname to refer to small scale artisanal miners and prospectors.

porphyry an igneous rock containing coarser crystals in a finer matrix.

probable reserve - the economically mineable part of an indicated, and in some circumstances a measured resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

professional association, for the purposes of the definition of a Qualified Person below, means a self-regulatory organization of engineers, geoscientists or both engineers and geoscientists that (a) has been given authority or recognition by statute; (b) admits members primarily on the basis of their academic qualifications and experience; (c) requires compliance with the professional standards of competence and ethics established by the organization; and (d) has disciplinary powers, including the power to suspend or expel a member.

prospect an area prospective for economic minerals based on geological, geophysical, geochemical and other criteria

proven reserve means the economically mineable part of a measured resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

pyrite an ore mineral of iron and sulphur.

Qualified Person means an individual who (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project and the technical report; and (c) is a member in good standing of a professional association.

quartz a rock-forming mineral of silica and oxygen, often found in veins also.

raise a vertical or inclined tunnel in an underground mine driven upwards from below.

ramp an inclined tunnel in an underground mine driven downwards from surface.

reverse circulation drill a large machine that produces a continuous chip sample of the rock or material being drilled.

saprolite - a soft, earthy, clay rich and thoroughly decomposed rock with its original textures intact, formed in place by chemical weathering of igneous, sedimentary or metamorphic rocks.

scoping study a conceptual report assessing the scope, economics and engineering of placing a mineral deposit into commercial production.

shaft a vertical or inclined tunnel in an underground mine driven downward from surface.

shear a tabular zone of faulting within which the rocks are crushed and flattened.

stibnite an ore mineral of antimony and sulphur.

stock or pluton a body of intrusive rock that covers less than 40 square miles, has steep dips and is discordant with surrounding rock.

stockwork multiple small veins of mineralisation that have so penetrated a rock mass that the whole rock mass can be considered mineralised.

strike length - the longest horizontal dimensions of a body or zone of mineralisation.

stripping ratio - the ratio of waste material to ore that is estimated for or experienced in mining an ore body.

sulphide an ore mineral compound linking sulphur with one or more metals.

ton - short ton (2,000 pounds).

tonne - metric tonne (2,204.6 pounds).

trenching the surface excavation of a linear trench to expose mineralization for sampling.

vein a tabular body of rock typically of narrow thickness and often mineralized occupying a fault, shear, fissure or fracture crosscutting another pre-existing rock.

winze an internal shaft in an underground mine.

For ease of reference, the following conversion factors are provided:

1 mile	= 1.609 kilometres	1 pound	= 0.4535 kilogram
1 yard	= 0.9144 meter	2,000 pounds/1 short ton	= 0.907 tonne
1 acre	= 0.405 hectare	1 troy ounce	= 31.103 grams

Unless the context otherwise requires, all references to the Registrant or the Company or Canarc refer t Canarc Resource Corp. and/or its subsidiaries. All monetary figures are in terms of United States dollars unless otherwise indicated.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

This Form 20-F is being filed as an annual report under the Securities Exchange Act of 1934 (the Exchange Act), and accordingly, the information called for in Item 1 is not required.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

This Form 20-F is being filed as an annual report under the Exchange Act, and accordingly, the information called for in Item 2 is not required.

ITEM 3. KEY INFORMATION

3.A Selected Financial Data

The following financial information with respect to the last five fiscal years ended December 31, 2005 (stated in United States dollars) has been derived from Canarc s audited consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (CAD GAAP) and reconciled to United States generally accepted accounting principles (U.S. GAAP). A reconciliation of certain material measurement differences in the financial information from that which would be provided if the financial statements were prepared in accordance with U.S. GAAP is provided in Item 8.A and in Note 12 to the audited Consolidated Financial Statements for the year ended December 31, 2005 included in Item 17.

	Selected Financial Information (stated in thousands of U.S. dollars, except per share amounts)	As at and for the years ended December 31 2005	2004	2003	2002	2001
(a)	Total revenues:					
	Canadian GAAP	1,227	680	162	246	41
	U.S. GAAP	1,227	680	162	246	41
(b)	Income (loss) before extraordinary items:					
	Total:					
	Canadian GAAP	315	(4,013)	(876)	(7,477)	(3,660)
	U.S. GAAP	(374)	(3,088)	(1,751)	(374)	(444)
	Basic earnings (loss) per share:					
	Canadian GAAP	0.01	(0.07)	(0.02)	(0.17)	(0.09)
	U.S. GAAP	(0.01)	(0.06)	(0.04)	(0.01)	(0.01)
(c)	Net income (loss):					
	Total:					
	Canadian GAAP	315	(4,013)	(876)	(7,477)	(3,660)
	U.S. GAAP	(374)	(3,088)	(1,751)	(374)	(444)
	Basic earnings (loss) per share:					
	Canadian GAAP	0.01	(0.07)	(0.02)	(0.17)	(0.09)
	U.S. GAAP	(0.01)	(0.06)	(0.04)	(0.01)	(0.01)
	Diluted earnings (loss) per share:					
	Canadian GAAP	0.01	(0.07)	(0.02)	(0.17)	(0.09)
	U.S. GAAP	(0.01)	(0.06)	(0.04)	(0.01)	(0.01)
(d)	Total assets:					
	Canadian GAAP	11,182	10,777	12,882	10,217	17,081
	U.S. GAAP	7,101	7,215	8,395	6,605	6,366
(e)	Total long-term debt [(1)]:					
	Canadian GAAP	-	-	-	-	-
	U.S. GAAP	-	-	-	-	-
(f)	Shareholders' equity (net assets):					
	Canadian GAAP	10,947	10,302	12,423	10,058	16,837
	U.S. GAAP	6,866	6,740	7,936	6,446	6,122
(g)	Dividends per shares:					
	Canadian GAAP	No dividends declared in any of these periods				

	U.S. GAAP	No dividends declared in any of these periods				
(h)	Shares:					
	Diluted number of common shares	65,879,115	66,666,198	64,356,198	55,843,444	50,258,801
	Number of common shares	58,545,115	58,318,448	53,058,448	47,159,444	43,834,801

(1) The Registrant has no preferred shares.

Canarc has had no long-term debt and has paid no cash or share dividends over the last five years.

On June 16, 2006, the Bank of Canada closing rate for the conversion of one United States dollar into Canadian dollars was CAD$1.1226.

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

Month	Year	High (CAD$)	Low (CAD$)
December	2005	1.1646	1.1583
January	2006	1.1621	1.1536
February	2006	1.1521	1.1461
March	2006	1.1606	1.1545
April	2006	1.1476	1.1413
May	2006	1.1132	1.1055

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

Year	High (CAD$)	Low (CAD$)	Average Rate (CAD$)	Close (CAD$)
2001	1.6052	1.4901	1.5484	1.5928
2002	1.6184	1.5028	1.5704	1.5776
2003	1.5777	1.2839	1.4015	1.2965
2004	1.4003	1.1746	1.3015	1.2020
2005	1.2734	1.1427	1.2116	1.1630

3.B Capitalization and Indebtedness

This Form 20-F is being filed as an annual report under the Exchange Act, and accordingly, the information called for in this Item 3.B is not required.

3.C Reasons for the Offer and Use of Proceeds

This Form 20-F is being filed as an annual report under the Exchange Act, and accordingly, the information called for in Item 3.C is not required.

3.D Risk Factors

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

Exploration and Development Risks

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

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Registrant s mineral exploration and development activities will result in any discoveries of bodies of commercial ore. Unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Registrant has relied and may continue to rely upon consultants and others for construction and operating expertise. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grade of ore mined, fluctuating mineral markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the price of gold or other minerals produced, the Registrant may determine that it is impractical to commence or continue commercial production. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Registrant s control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Registrant to apply for an exploitation concession. There can be no guarantee that such a concession will be granted.

Financing Risks

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

The Registrant does not presently have sufficient financial resources or operating cash-flow to undertake by itself all of its planned exploration and development programs. The development of the Registrant s properties may therefore depend on the Registrant s joint venture partners and on the Registrant s ability to obtain additional required financing. There is no assurance the Registrant will be successful in obtaining the required financing, the lack of which could result in the loss or substantial dilution of its interests (as existing or as proposed to be acquired) in its properties as disclosed herein. In addition, the Registrant has no experience in developing mining properties into production and its ability to do so will be dependent upon securing the services of appropriately experienced personnel or entering into agreements with other major mining companies which can provide such expertise.

As noted in its audited consolidated financial statements for the year ended December 31, 2005, the Registrant has incurred significant operating losses and has an accumulated deficit of $39,705,000 at December 31, 2005. Furthermore, the Registrant has working capital of $1,201,000 as at December 31, 2005, which is not sufficient to achieve the Registrant s planned business objectives. The Registrant s ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Registrant to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Registrant s liabilities as they become payable.

The report of our independent registered public accounting firm on the December 31, 2005 consolidated financial statements includes an additional paragraph that states that conditions exist that raise substantial doubt about the Registrant s ability to continue as a going concern. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

Estimates of Mineral Deposits

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

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

Mineral Prices

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

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

Title Matters

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

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

Competition

There is no assurance given by the Registrant that it can compete for mineral properties, future financings and technical expertise.

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

Conflicts of Interest

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

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

Uninsured Risks

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

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

Environmental and Other Regulatory Requirements

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

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

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

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

As a prior holder of an interest in a U.S. mineral property, the Registrant may be subject to the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA). CERCLA, along with analogous statutes in certain states, imposes strict, joint and several liability on owners and operators of facilities which release hazardous substances into the environment. CERCLA imposes similar liability upon generators and transporters of hazardous substances disposed of at an off-site facility from which a release has occurred or is threatened. Under CERCLA s strict joint and several liability provisions, the Registrant could potentially be liable for all remedial costs associated with property that it owned or operated regardless of whether the Registrant s activities are the actual cause of the release of hazardous substances. Such liability could include the cost of removal or remediation of the release and damages for injury to the natural resources. The Registrant s one prior property is located in a historic mining district and may include abandoned mining facilities (including waste piles, tailings, portals and associated underground and surface workings). Releases from such facilities or from any of the Registrant s prior U.S. properties due to past or current activities could form the basis for liability under CERCLA and its analogs. In addition, off-site disposal of hazardous substances, including hazardous mining wastes, may subject the Registrant to CERCLA liability. The Registrant s prior U.S. property is not, to the Registrant s knowledge, currently listed or proposed for listing on the National Priority List and the Registrant is not aware of pending or threatened CERCLA litigation which names the Registrant as a defendant or concerns any of its prior U.S. properties or operations. The Registrant cannot predict the potential for future CERCLA liability with respect to its prior U.S. property, nor can it predict the potential impact or future direction of CERCLA litigation in the area surrounding its prior property.

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

Foreign Countries and Regulatory Requirements

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

Currency Fluctuation and Foreign Exchange Controls

In addition to CAD dollar currency accounts, the Registrant maintains a portion of its funds in U.S. dollar denominated accounts. The majority of the Registrant s property and related contracts are denominated in U.S. dollars. Accordingly, the Registrant has taken some steps to reduce its risk to foreign currency fluctuations. However, the Registrant s operations in countries other than Canada are normally carried out in the currency of

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that country and make the Registrant subject to foreign currency fluctuations and such fluctuations may materially affect the Registrant s financial position and results. In addition future contracts may not be denominated in U.S. dollars and may expose the Registrant to foreign currency fluctuations and such fluctuations may materially affect the Registrant s financial position and results. In addition, the Registrant is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its properties outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Registrant holds property interests and future impositions of such restrictions could have a materially adverse effect on the Registrant s future profitability or ability to pay dividends.

Third Party Reliance

The Registrant 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 Registrant may have no direct contractual relationship with the underlying property holder.

Jurisdiction and Enforcement in U.S. and Canadian Courts

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

Possible PFIC Status May Have Possible Adverse Tax Consequences for United States Investors

Potential investors who are United States taxpayers should be aware that Canarc may be classified for United States tax purposes as a passive foreign investment company (PFIC) for the current fiscal year and may also have been a PFIC in prior years, and may also be a PFIC in subsequent years. This status arises due to the fact that Canarc s excess exploration funds are invested in interest bearing securities creating passive income which, while modest and ancillary to the exploration business, has been Canarc s only substantive source of income. If Canarc is a PFIC for any year during a United States taxpayer s holding period, then such a United States taxpayer, generally, will be required to treat any so-called excess distribution received on its common shares, or any gain realized upon a disposition of common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund (QEF) election or a mark-to-market election with respect to the shares of Canarc. In certain circumstances, the sum of the tax and the interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the taxpayer. A United States taxpayer who makes a

QEF election generally must report on a current basis its share of Canarc s net capital gain and ordinary earnings for any year in which Canarc is a PFIC, whether or not Canarc distributes any amounts to its shareholders. A United States taxpayer who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer s tax basis therein. Item 10.E provides further details.

Volatility of Shares Could Cause Investor Loss

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

Penny Stock Classification Could Affect the Marketability of the Registrant's Common Stock and Shareholders Could Find It Difficult to Sell Their Stock

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

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

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

Possible Dilution to Current Shareholders based on Outstanding Options and Warrants

At June 16, 2006, Canarc had 63,470,476 common shares and 6,489,000 share purchase options and 231,000 warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for Canarc s shares. At June 16, 2006, dilutive securities represented approximately 11% of Canarc s issued shares. Certain of these dilutive securities are exercisable at prices below the June 16, 2006 closing market price of CAD$0.64 for Canarc s shares and, accordingly, will result in dilution to existing shareholders if exercised.

ITEM 4. INFORMATION ON THE COMPANY

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

4.A History and Development of the Company

Incorporation and Reporting Status

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

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

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

Current Business Address

Suite #800, 850 West Hastings Street, Vancouver, British Columbia, Canada, V6C 1E1, tel. no.: (604) 685 9700.

Introduction

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

Polaris property in British Columbia, Canada, the Benzdorp property in Suriname, the Eskay Creek property in British Columbia, Canada and the Bellavista property in Costa Rica, of which the first two properties could be viewed as the material properties of the Registrant.

In its consolidated financial statements prepared in accordance with CAD GAAP, the Registrant has capitalized costs, net of recoveries and write-downs, of $9,658,000 in connection with the acquisition, exploration and development on its currently held properties as at December 31, 2005 and are summarized as follows for the past three fiscal years:

	2005			2004			2003		
(in terms of $000s)	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
British Columbia:									
New Polaris	$ 3,605	$ 1,229	$ 4,834	$ 3,605	$ 749	$ 4,354	$ 3,605	$ 288	$ 3,893
Eskay Creek	-	-	-	188	14	202	188	14	202
Costa Rica:									
Bellavista	-	-	-	89	-	89	89	-	89
Suriname:									
Sara Kreek	100	-	100	100	-	100	1,567	1,717	3,284
Benzdorp	301	4,423	4,724	301	3,983	4,284	181	2,840	3,021
Mexico:									
Sonia II	-	-	-	10	19	29	-	-	-
Clara	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	8	8	-	-	-
	$ 4,006	$ 5,652	$ 9,658	$ 4,293	$ 4,773	$ 9,066	$ 5,630	$ 4,859	$ 10,489

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

For the three month period ended March 31, 2006, Canarc incurred further exploration expenditures of $61,000 for New Polaris and $216,000 for Benzdorp. For 2006, Canarc no longer receives any pre-production payment for the Bellavista property which achieved commercial production in December 2005.

Developments over the Last Three Financial Years

Over the course of the past three years and for the period ended November 30, 2006, the Registrant has been engaged in natural resource exploration and development in Canada, Costa Rica, Mexico, and Suriname. The major events in the development of the Registrant s business over the last three years are set out below. Information and details regarding the Registrant s properties are provided in Item 4.D.

In February 2003, options for 20,000 common shares were granted to a director and have an exercise price of CAD$0.51 per share and an expiry date of February 10, 2008. Additional stock options were granted in June 2003 to directors, employees and consultants for 1,660,000 common shares at an exercise price of CAD$0.52 per share and expiry dates of June 9, 2008 and June 12, 2008. In November 2003, stock options for 50,000 shares were granted, and have expiry date of November 10, 2005 and an exercise price of CAD$1.05.

In March 2003, the Registrant closed a private placement for 1,250,000 units at CAD$0.52 per unit for total proceeds of CAD$650,000. Each unit consisted of one common share and one-half share purchase warrant. One share purchase warrant entitled the holder to purchase one common share at CAD$0.63 for a two-year period.

In November 2003, the Registrant closed two private placements. One private placement was for 250,000 units at CAD$1.05 per unit for gross proceeds of CAD$262,500; each unit was comprised of one flow-through common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD$1.25 until November 13, 2005. These funds were expended in 2003. The second private placement was for 3,080,000 units at CAD$0.90 per unit for gross proceeds of CAD$2,772,000; each unit was comprised of one common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD$1.10 until November 13, 2005.

In December 2003, the Registrant closed a private placement for 100,000 units at CAD$1.05 per unit for gross proceeds of CAD$105,000; each unit is comprised of one flow-through common share and one-half share purchase warrant, with each whole warrant exercisable to acquire one common share at CAD$1.25 until December 30, 2005. These funds were expended in fiscal 2004.

In February 2004, the Registrant granted 600,000 stock options with an exercise price of CAD$1.00 and an expiry date of February 17, 2009. In September 2004, the Registrant granted 800,000 stock options to directors, which have an exercise price of CAD$0.70 and an expiry date of September 7, 2009. In October 2004, the Registrant granted 100,000 stock options to a director, which have an exercise price of CAD$0.70 and an expiry date of October 25, 2009.

In July 2004, Minera Aztec entered into two option agreements to acquire up to a 100% interest in two properties in Mexico, namely the Dona Rica and the Mina La Patilla properties. Exploration expenditures of $69,469 were incurred for these properties which were written off by the end of fiscal 2004.

In October 2004, the Registrant closed a private placement for 750,000 flow-through common shares at CAD$0.65 per share for total proceeds of CAD$487,500. A finder s fee of 60,000 non-flow through common shares was issued. These funds were expended in fiscal 2004.

At the Registrant s annual and extraordinary general meeting held in May 2005, the following items were transacted and approved:

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The increase in the maximum aggregate number of common shares which may be reserved under Canarc s stock option plan (Stock Option Plan) from 5,696,450 shares to 11,696,450 shares. The increase in the amount of shares reserved for issuance under the Stock Option Plan totaled 6,000,000 shares;

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Shareholder Rights Plan Agreement dated April 30, 2005 between Canarc and Computershare Investor Services Inc. Items 5.E and 10.B provide a summary of the Shareholder Rights Plan;

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The Notice of Articles is altered to remove the application of the Pre-Existing Company Provisions as set forth in Table 3 of the Business Corporations Regulations under the Business Corporations Act (British Columbia). Item 10.B provides further details;

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The authorized capital was increased from 100,000,000 common shares without par value to an unlimited number of common shares without par value; and

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The replacement of the Articles with a new set of Articles which comply with the Business Corporations Act (British Columbia). Item 10.B provides further details.

In June 2005, the Registrant granted 2.1 million stock options with an exercise price of CAD$0.35 and an expiry date of June 30, 2010. In December 2005, the Registrant granted 295,000 stock options with an exercise price of CAD$0.40 and an expiry date of December 5, 2010.

No equity financings from private placements occurred in fiscal 2005.

In November 2005, the Registrant s interest in Aztec Metals, the parent company of Minera Aztec, was diluted from 63% to 27% and then further diluted to 19% in March 2006.

In 2006, the Registrant granted the following stock options:

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50,000 options were granted in February 2006 with an exercise price of CAD$0.67 and an expiry date of February 13, 2008;

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20,000 options were granted in April 2006 with an exercise price of CAD$0.82 and an expiry date of April 3, 2007;

-

1,400,000 options were granted in June 2006 with an exercise price of CAD$0.69 and an expiry date of June 29, 2011; and

-

20,000 options were granted in September 2006 with an exercise price of CAD$0.71 and an expiry date of September 11, 2008.

Mr. John McClintock was appointed as president of the Registrant as of January 1, 2006.

In March 2006, the Registrant closed brokered and non-brokered private placements. The brokered private placement was for 3,850,000 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$3,157,000. The non-brokered private placement was for 449,511 flow-through common shares at CAD$0.82 per share for gross proceeds of CAD$368,599.

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

In May 2006, the Registrant transferred its interest in the Sara Kreek property to its partner, Suriname Wylap Development Company N.V. (Wylap Development), in settlement for repayment of monies which were previously advanced for exploration of the property and a net smelter return for a period of six years.

In late October, 2006, the Registrant announced that it has closed on two private placement financings totaling CA$4.05 million, including CA$3.5 million in flow-through financing for the New Polaris gold project and CA$0.5 million in non-flow-through financing for working capital. The Registrant issued 4,300,000 flow-through units at CA$0.82 per unit, each unit comprised of one flow-through common share and one-half of one share purchase warrant, with each whole share purchase warrant exercisable to acquire one non-flow-through common share at an exercise price of CA$1.25 for one year. The Registrant also issued 700,000 non-flow-through units at CA$0.75 per unit, each unit consisting of one common share and one-half of one share purchase warrant, with each whole share purchase warrant exercisable to acquire one common share at an exercise price of CA$0.95 for one year. On the flow-through financing, the Registrant paid cash fees totaling CA$208,196 and issued 247,800 broker warrants, each warrant exercisable to purchase one common share at CA$0.82 for a one year period from the date of closing. For the non-flow-through private placement, The Registrant paid a cash fee of CA$5,850. All of the securities issued pursuant to the two financings are subject to a four-month hold period expiring February 19, 2007.

4.B Business Overview

Nature of operations and principal activities

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

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

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

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

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

Competitive conditions

Canarc has no particular competitive advantage in Canada, Mexico and Costa Rica, but it enjoys an advantage in Suriname because there are only a few other gold mining companies which are active in the country. However this advantageous position is partly offset by the increased political risk in Suriname as compared to the other jurisdictions in which Canarc is active in. Canarc s agreement on the Benzdorp property in Suriname was breached by its partner, the state mining company, Grassalco, in 1997 for failure to incorporate a local joint venture company, to transfer the Benzdorp concession titles to that joint venture company and to issue Canarc its 40% of that joint venture company s shares. However, after lengthy and repeated discussions with the partner, Grassalco, the breach was resolved and the agreement was returned to good standing in 2002, and in 2004, the final transfer of the Benzdorp property exploration concessions from Grassalco to Benzdorp Gold N.V., 40% of which is owned by Canarc, was completed.

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

Government regulations

The Registrant s operations are subject to various governmental regulations in Canada, Costa Rica, Mexico and Suriname, where the Registrant has interests in mineral properties.

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

Trends

In January 2003, the price of gold was at an average of $357 and over the past three years has slowly but steadily climbed 43% to an average of $510 in December 2005, and then to $677 in May 2006 but declined to $599 by mid-June 2006. Not only has this trend made the gold mining business more profitable, it has attracted investors into the gold equities, driving up the share prices of gold companies and providing a market for capital financing to the gold industry.

During the same period from January 2003 to December 2005, the closing monthly market price for the Registrant s shares decreased from CAD$0.65 to CAD$0.58 a nominal decrease of 11%, and reached a high of CAD$1.09 in October 2003. In May 2006, the closing monthly market share price was CAD$0.64.

Management continues to foresee greater opportunities to finance the mineral exploration and development efforts on Canarc s gold properties, and also to evaluate and consider new acquisitions in the gold arena as a result of rising gold prices.

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

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

4.C Organizational Structure

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

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

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

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

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

Carib Industries Ltd. is a company duly incorporated under the laws of the Cayman Islands, B.V.I. on January 17, 1990, originally under the name of Rayrock Zar. A name change was approved by Special Resolution dated May 15, 1992 and registered May 26, 1992. The Registrant owns 78.5% of the issued and outstanding Class C shares.

Aztec Metals Corp. (formerly, Minera Aztec Silver Corporation, Aztec Silver Corporation, IndoAsia Gold Ltd. and Atec (Barbados) Ltd., name changes on November 22, 2005, January 7, 2000, March 27, 1998 and March 12, 1997) (Aztec Metals) is a company duly incorporated under the Laws of Barbados on February 2, 1996 and continued into the province of British Columbia on January 7, 2000. Aztec Metals was previously a 63% owned subsidiary of Canarc, which interest was diluted to 27% in November 2005 and then to 19% in March 2006.

Minera Aztec S.A. de C.V., a company duly incorporated under the Laws of Mexico on May 28, 1998. Because Minera Aztec is a wholly-owned subsidiary of Aztec Metals, the Registrant previously held a 63% interest which was diluted to 27% in November 2005 and then to 19% in March 2006 resulting from the Registrant s dilution in Aztec Metals.

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

Sara Kreek Resource Corporation N.V. is a company duly incorporated under the laws of Suriname on January 9, 1995. The Registrant previously owned 80% of the issued and outstanding shares until May 2006 when the Registrant reached an agreement to transfer its interest in the Sara Kreek property to its partner, Wylap Development, in exchange for repayment of monies previously advanced for exploration of the property.

In addition, the Registrant has rights to acquire interests in certain other corporations which hold, directly or indirectly, mineral rights in Suriname.

4.D Property, Plants and Equipment

Description Of Properties

Property Summary Chart (as of December 31, 2005):

Property Name	**Location**	**Maximum[1] % Interest held (or to be earned)**	**Capitalized Acquisition Expenditures (3)**	**Capitalized Exploration Expenditures (3)**
New Polaris[2]	BC, Canada	100%	$3,605,000	$1,229,000

Benzdorp	Suriname	80%	$301,000	$4,423,000
Eskay Creek	BC, Canada	33 - 1/3%	Nil	Nil
Bellavista	Costa Rica	18.3%	Nil	Nil
Sara Kreek [4]	Suriname	80%	$100,000	Nil

[1] Subject to any royalties or other interests as disclosed below.

[2] Previously known as Polaris-Taku .

[3] After recoveries and write-downs.

[4] In May 2006, the Registrant transferred its interest in the Sara Kreek property to its partner, Suriname Wylap Development Company N.V. (Wylap Development), in settlement for repayment of monies which were previously advanced for exploration of the property and a net smelter return for a period of six years.

NOTE: All references to U.S.$ unless otherwise noted. See below for further details on each property. Refer to Note 12 of the consolidated financial statements as of December 31, 2005 as included herein, for disclosure of differences between US GAAP and CAD GAAP.

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

Material Mineral Projects

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

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

New Polaris Gold Project, British Columbia, Canada

Discovered by prospectors in 1929, the original mine was constructed in 1936 and operated from 1937 to 1942 and again from 1946 to 1951. A total of 232,000 oz. of gold was produced. Flotation concentrates were shipped seasonally for refining to the smelter in Tacoma, Washington. The first barge load in 1951 sank in a storm off the B.C. coast, causing the mine to shut down. Cominco upgraded the mill in 1952 and used it to process the nearby Tulsequah Chief ores from 1953 to 1957. New Polaris was then dormant for 30 years until exploration resumed in 1988. Canarc acquired New Polaris in 1992 and has partially cleaned up the original mill site and infrastructure, which had been previously abandoned. The existing underground workings are accessible, although dewatering is required to access those workings below the 50 foot level. Power to the site is currently supplied by diesel generators.

The summary that follows in this section has been derived from and is based on the assumptions, qualifications and procedures set out in the Technical Report titled Report on the 2003 to 2005 Exploration Program On The New Polaris Mine Site, North Western British Columbia dated October 1, 2006, prepared by John A. McClintock, P.Eng (B.C.), President of the Company (the **New Polaris Technical Report**), the full copy of which is available online at www.sedar.com as filed on November 20, 2006. The following summary is the executive summary from the New Polaris Technical Report. Defined terms and abbreviations used herein and not otherwise defined shall have the meanings ascribed to such terms in the New Polaris Technical Report.

Summary

New Polaris (formerly Polaris-Taku) is an early Tertiary mesothermal gold mineralized body located in northwestern British Columbia about 100 kilometres south of Atlin, BC and 60 kilometres northeast of Juneau, Alaska. The nearest roads in the area terminated five miles due south of Atlin and 10 kilometres southeast of Juneau. Access at the present time is by aircraft. A short airstrip for light aircraft exists on the property. The gold property consists of 61 contiguous Crown-granted mineral claims and one modified grid claim covering 2,100 acres. All claims are 100% owned and held by New Polaris Gold Mines Ltd., a wholly owned subsidiary of Canarc Resource Corp. subject to a 15% net profit interest held by Rembrandt Gold Mines Ltd. Canarc can reduce this net profit interest to a 10% net profit.

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

Several consulting groups have estimated a mineral inventory for the property. Gary Giroux of Montgomery Consultants completed the last in 1995 in which he estimated 450,000 tons grading 0.365 oz/ton Au in a probable resource and 2,509,000 tons grading 0.365 oz/ton Au as a possible resource. Under the current guidelines of 43-101, this resource would be categorized as 450,000 tons grading 0.365 oz/ton Au as an indicated resource and 2,509,000 tons grading 0.365 oz/ton Au as an inferred resource. This resource estimate does not meet the definition requirements of NI 43 101 for a resource.

The Author has not done sufficient work to classify them as current reserves or resources and is not treating them as current. These estimates therefore should not be relied upon.

Canarc carried out initial pha