

CANARC RESOURCE CORP  
Form 20-F  
June 30, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For fiscal year ended December 31, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_ to \_\_\_\_\_**

**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:**

**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 #301 - 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8**

(Address of principal executive offices)

**Philip Yee, Chief Financial Officer, Phone: (604) 685-9700, Fax: (604) 685-9744, e-mail: [philip@canarc.net](mailto:philip@canarc.net),**

**Canarc Resource Corp., Suite #301 - 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, without par value**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

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: **72,704,505 common shares as at December 31, 2008**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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

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  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  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

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17

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

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**CAUTION FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F and the exhibits attached hereto contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements concern the Registrant's anticipated results and developments in the Registrant's operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as expects or does not expect, is expected, anticipates or does not anticipate, plans, estimates or stating that certain actions, events or results may, could, would, might or will be taken, occur or be achieved) statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- .  
risks related to our exploration and development activities;
- .  
risks related to the financing needs of our planned operations;
- .  
risks related to estimates of mineral deposits, resources and reserves;
- .  
risks related to fluctuations in mineral prices;
- .  
risks related to the titles of our properties;
- .  
risks related to competition in the mineral exploration and mining industry;
- .  
risks related to potential conflicts of interest with our officers and directors;

·  
risks related to environmental and regulatory requirements;

·  
risks related to foreign currency fluctuations;

·  
risks related to our possible status as a passive foreign investment company;

·  
risks related to the volatility of our common stock; and

·  
risks related to the possible dilution of our common stock.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled "Risk Factors" and "Information on the Company" of this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

We qualify all the forward-looking statements contained in this annual report by the foregoing cautionary statements.

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

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## GLOSSARY OF MINING TERMS

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.

**doré** – 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.

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**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 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.

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**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

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## CAUTIONARY NOTE TO U.S. INVESTORS

This annual report on Form 20-F has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms mineral reserve, proven mineral reserve and probable mineral reserve are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects ( NI 43-101 ) and the Canadian Institute of Mining, Metallurgy and Petroleum (the CIM ) - *CIM Definition Standards on Mineral Resources and Mineral Reserves*, adopted by the CIM Council, as amended. These definitions differ from the definitions in the United States Securities and Exchange Commission ( SEC ) Industry Guide 7 ( SEC Industry Guide 7 ) under the United States *Securities Act of 1933*, as amended. Under SEC Industry Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms mineral resource, measured mineral resource, indicated mineral resource and inferred mineral resource are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. Inferred mineral 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. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of contained ounces in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute reserves by SEC standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this report and the documents incorporated by reference herein containing descriptions of our mineral deposits may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

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**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**3.A Selected Financial Data**

The following financial information with respect to the last five fiscal years ended December 31, 2008 (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 15 to the audited Consolidated Financial Statements for the year ended December 31, 2008 included in Item 17 of this annual report on Form 20-F.



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Selected Financial Information (stated in thousands of U.S. dollars, except per share amounts)		As at and for the years ended December 31				
		2008	2007	2006	2005	2004
(a) Total revenues:						
Canadian GAAP	2	1,180	1,679	1,227	680	
U.S. GAAP	2	1,180	1,679	1,227	680	
Income (loss) before extraordinary items:						
Total:						
Canadian GAAP	(6,963)	1,515	433	315	(4,013)	
U.S. GAAP	(1,038)	(4,371)	(4,875)	(995)	(3,088)	
Basic earnings (loss) per share:						
Canadian GAAP	(0.10)	0.02	0.01	0.01	(0.07)	
U.S. GAAP	(0.01)	(0.06)	(0.08)	(0.02)	(0.06)	
(c) Net income (loss):						
Total:						
Canadian GAAP	(6,963)	1,515	433	315	(4,013)	
U.S. GAAP	(1,038)	(4,371)	(4,875)	(995)	(3,088)	
Basic earnings (loss) per share:						
Canadian GAAP	(0.10)	0.02	0.01	0.01	(0.07)	
U.S. GAAP	(0.01)	(0.06)	(0.08)	(0.02)	(0.06)	
Diluted earnings (loss) per share:						
Canadian GAAP	(0.10)	0.02	0.01	0.01	(0.07)	
U.S. GAAP	(0.01)	(0.06)	(0.08)	(0.02)	(0.06)	
(d) Total assets:						
Canadian GAAP	12,829	20,115	18,447	11,182	10,777	
U.S. GAAP	4,375	5,624	7,966	7,101	7,215	
(e) Total long-term debt <sup>(1)</sup> :						
Canadian GAAP	-	-	-	-	-	
U.S. GAAP	-	-	-	-	-	
(f) Shareholders' equity (net assets):						
Canadian GAAP	12,523	19,480	18,212	10,947	10,302	
U.S. GAAP	4,069	4,989	7,731	6,866	6,740	
(g) Dividends per shares <sup>(2)</sup> :						
Canadian GAAP						

No cash dividends declared in any of these periods  
 No cash dividends declared in any of these periods

U.S. GAAP

(h) Shares:						
Diluted number of common shares	81,433,505	80,308,505	79,528,276	65,879,115	66,666,198	
Number of common shares	72,704,505	71,734,505	68,470,476	58,545,115	58,318,448	

(1)

The Registrant has no preferred shares.

(2)

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

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

On June 15, 2009, the Bank of Canada closing rate for the conversion of one United States dollar into Canadian dollars was CAD\$1.1324.

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

<b>Month</b>	<b>Year</b>	<b>High (CAD\$)</b>	<b>Low (CAD\$)</b>
December	2008	1.3008	1.1872
January	2009	1.2765	1.1761
February	2009	1.2918	1.2160
March	2009	1.3066	1.2192
April	2009	1.2707	1.1875
May	2009	1.1954	1.0797

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:

<b>Year</b>	<b>High (CAD\$)</b>	<b>Low (CAD\$)</b>	<b>Average Rate (CAD\$)</b>	<b>Close (CAD\$)</b>
2004	1.4003	1.1746	1.3013	1.2020
2005	1.2734	1.1427	1.2116	1.1630
2006	1.1794	1.0948	1.1342	1.1654
2007	1.1878	0.9066	1.0750	0.9913
2008	1.3008	0.9711	1.0660	1.2180

### **3.B Capitalization and Indebtedness**

Not applicable.

### **3.C Reasons for the Offer and Use of Proceeds**

Not applicable.

### **3.D Risk Factors**

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

#### **Risks Related to the Registrant's Business**

*The Registrant's exploration activities may not be commercially successful, which could lead it to abandon its plans to develop its properties and its investments in exploration and there is no assurance given by the Registrant that its exploration and development programs and properties will result in the discovery, development or production of a commercially viable ore body.*

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Registrant's mineral exploration and development activities will result in any discoveries of bodies of commercial ore. Unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Registrant has relied and may continue to rely upon consultants and others for construction and operating expertise. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grade of ore mined, fluctuating mineral markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Depending on the price of gold or other minerals produced, the Registrant may determine that it is impractical to commence or continue commercial production.



Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Registrant's control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Registrant to apply for an exploitation concession. There can be no guarantee that such a concession will be granted.

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

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

As noted in its audited consolidated financial statements for the year ended December 31, 2008, the Registrant has incurred significant operating losses and has an accumulated deficit of \$45,043,000 at December 31, 2008. Furthermore, the Registrant has working capital of \$194,000 as at December 31, 2008, 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, 2008 consolidated financial statements includes an additional paragraph that states that conditions exist that raise substantial doubt about the Registrant's ability to continue as a going concern. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty.

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

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

***Changes in the market price of gold, silver and other metals, which in the past has fluctuated widely, will affect the profitability of the Registrant's planned operations and financial condition and there is no assurance given by the Registrant that mineral prices will not change.***



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

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

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

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

Significant and increasing competition exists for the limited number of gold acquisition opportunities available in North, South and Central America and elsewhere in the world. As a result of this competition, some of which is with large established mining companies which have greater financial and technical resources than the Registrant, the Registrant may be unable to acquire additional attractive gold mining properties on terms it considers acceptable.

Accordingly, there can be no assurance that the Registrant's exploration and acquisition programs will yield any new reserves or result in any commercial mining operation.

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

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

The Registrant's directors and officers may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies and, to the extent that such other companies may participate in ventures in which the Registrant may participate, the directors of the Registrant may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In particular, Bradford Cooke is a Director of Aztec Metals Corp., Caza Gold Corp. and Endeavour Silver Corp., companies in which the Registrant owned or owns shares. The interests of these companies may differ from time to time. In the event that such a conflict of interest arises at a meeting of the Registrant's directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in

larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another company due to the financial position of the company making the assignment. In accordance with the laws of the Province of British Columbia, Canada, the directors of the Registrant are required to act honestly, in good faith and in the best interests of the Registrant. In determining whether or not the Registrant will participate in any particular exploration or mining project at any given time, the directors will primarily consider the upside potential for the project to be accretive to shareholders, the degree of risk to which the Registrant may be exposed and its financial position at that time.

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

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

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

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

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the

mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. New laws or regulations or amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation of current laws, regulations or permits, could have a material adverse impact on the Registrant and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

As a prior holder of an interest in a U.S. mineral property, the Registrant may be subject to the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ( CERCLA ). CERCLA, along with analogous statutes in certain states, imposes strict, joint and several liability on owners and operators of facilities which release hazardous substances into the environment. CERCLA imposes similar liability upon generators and transporters of hazardous substances disposed of at an off-site facility from which a release has occurred or is threatened. Under CERCLA 's strict joint and several liability provisions, the Registrant could potentially be liable for all remedial costs associated with property that it owned or operated regardless of whether the Registrant 's activities are the actual cause of the release of hazardous substances. Such liability could include the cost of removal or remediation of the release and damages for injury to the natural resources. The Registrant 's one prior property was located in a historic mining district and may include abandoned mining facilities (including waste piles, tailings, portals and associated underground and surface workings). Releases from such facilities or from any of the Registrant 's prior U.S. properties due to past or current activities could form the basis for liability under CERCLA and its analogs. In addition, off-site disposal of hazardous substances, including hazardous mining wastes, may subject the Registrant to CERCLA liability. The Registrant 's prior U.S. property is not, to the Registrant 's knowledge, currently listed or proposed for listing on the National Priority List and the Registrant is not aware of pending or threatened CERCLA litigation which names the Registrant as a defendant or concerns any of its prior U.S.

properties or operations. The Registrant cannot predict the potential for future CERCLA liability with respect to its prior U.S. property, nor can it predict the potential impact or future direction of CERCLA litigation in the area surrounding its prior property.

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

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

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

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

Mining involves various types of risks and hazards, including:

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environmental hazards,

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power outages,

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metallurgical and other processing problems,

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unusual or unexpected geological formations,

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structural cave-ins or slides,

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

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

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metals losses, and

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periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. The Registrant may not be able to obtain insurance to cover these risks at economically feasible premiums. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, is not generally available to the Registrant or to other companies within the mining industry. The Registrant may suffer a material adverse effect on its business if it incurs losses related to any significant events that are not covered by its insurance policies.

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

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

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

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*Canarc Resource Corp.*

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

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

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

***The Registrant is reliant on third parties.***

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

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



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

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

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

must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer's tax basis therein. Item 10.E provides further details.

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

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

For our annual report on Form 20-F for the fiscal year ended December 31, 2009, such report must also contain a statement that our auditors have issued an attestation report on the effectiveness of such internal controls.

While we have evaluated our internal control over financial reporting and have concluded that our internal control over financial reporting is effective, our auditors have not conducted the evaluation necessary to provide an attestation report on the effectiveness of our internal control over financial reporting. During the auditor's evaluation and testing process, they may identify one or more material weaknesses in our internal control over financial reporting, and they will be unable to attest that such internal control is effective. If our auditors are unable to attest that our internal control over financial reporting is effective as of December 31, 2009, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on our stock price.

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

## **Risks Related to the Registrant's Common Shares**

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

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

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

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

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

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

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

At June 15, 2009, Canarc had 72,704,505 common shares and 7,535,000 share purchase options and 500,000 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 15, 2009, dilutive securities represented approximately 11.05% of Canarc's issued shares. None of these dilutive securities are exercisable at prices below the June 15, 2009 closing market price of CAD\$0.10 for Canarc's shares and, accordingly, will not result in dilution to existing shareholders if exercised on that date.

**ITEM 4. INFORMATION ON THE COMPANY**

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

with NI 43-101 other than as specifically disclosed herein.

#### **4.A History and Development of the Company**

##### *Incorporation and Reporting Status*

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

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

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

***Current Business Address***

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

***Introduction***

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

- New Polaris property in British Columbia, Canada, and
- Eskay Creek property in British Columbia, Canada,

of which the New Polaris property could be viewed as the material property 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 \$12,071,000 in connection with the acquisition, exploration and development on its currently held property as at December 31, 2008 and are summarized as follows for the past three fiscal years:

	2008			2007			2006		
	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total
(in terms of \$000s)									
British Columbia:									

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New			\$			\$			\$
Polaris	\$ 3,605	\$ 8,466	12,071	\$ 3,605	\$ 8,582	12,187	\$ 3,605	\$ 6,077	9,682
Eskay Creek	-	-	-	-	-	-	-	-	-
Costa Rica:									
Bellavista	-	-	-	-	-	-	-	-	-
Suriname:									
Sara Kreek	-	-	-	-	-	-	-	-	-
Benzdorp	-	-	-	301	5,795	6,096	301	5,241	5,542
Mexico:									
Los Arrastres	-	-	-	125	95	220	-	-	-
Providencia	-	-	-	17	8	25	-	-	-
Santiago	-	-	-	60	34	94	-	-	-
Santiago Fraction	-	-	-	7	-	7	-	-	-
	\$ 3,605	\$ 8,466	\$ 12,071	\$ 4,115	\$ 14,514	\$ 18,629	\$ 3,906	\$ 11,318	\$ 15,224

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

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

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

***Developments over the Last Three Financial Years***

Over the course of the past three years ended December 31, 2008, 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.

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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 October 2006, the Registrant closed two non-brokered private placements. The flow-through private placement was for 4,300,000 units at CAD\$0.82 per unit for gross proceeds of CAD\$3,526,000. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one non-flow through common share at an exercise price of CAD\$1.25 until October 18, 2007. The non-flow through private placement was for 700,000 non-flow through units at CAD\$0.75 per unit for gross proceeds of CAD\$525,000. Each unit was comprised of one non-flow through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at an exercise price of CAD\$0.95 until October 18, 2007.

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;

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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, Aztec Metals 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 Metals from 27% to 19%. Thereafter, the Registrant no longer controls nor exerts significant influence over Aztec Metals.

On April 15, 2006, the Registrant entered into a Settlement and Termination Agreement with Suriname Wylap Development Company N.V. ( Wylap Development ) to transfer its interest in Sara Kreek Resource Corporation N.V. ( Sara Kreek Resource ) to Wylap Development. The Registrant received a cash payment of \$400,000, and shall receive the greater of \$50,000 per year, payable semi-annually, or 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011, in settlement of all claims, loans and advances owed to the Registrant, of which \$50,000 was received from 2006 to 2008.

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

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

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

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

In 2007, the Registrant granted the following stock options:

-

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

-

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

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

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*Canarc Resource Corp.*

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

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

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

On June 25, 2008, the Registrant closed the Plan of Arrangement (the Arrangement ) with Caza whereby approximately 83% of the Registrant's interest in Caza was distributed to the shareholders of the Registrant. Under the Arrangement, the Registrant transferred all its interest in its wholly-owned Mexican subsidiary which holds all the rights to the Mexican gold exploration properties to Caza in return for 14,346,527 shares of Caza, of which the Registrant distributed 11,950,577 Caza shares by way of a dividend in kind to the Registrant's shareholders on the basis of one share of Caza for every six shares of the Registrant held by shareholders as of the dividend record date. As at December 31, 2008, the Registrant held 2,396,050 Caza shares representing approximately 11% interest in Caza as at that date. The property interests which were transferred from the Registrant to Caza include Los Arrastres, Santiago and Santiago Fraction properties.

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

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

The exploration concessions for the Benzdorp property expired in July 2007, and an application was submitted for a three year extension which was rejected in August 2008. An application for new concessions would be considered so one new exploration concession was applied in September 2008. The Registrant had ceased all exploration work on the concessions in August 2007, and had elected to write-off its investment in the Benzdorp property at December 31, 2008.

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

#### **4.B Business Overview**

##### *Nature of operations and principal activities*

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

The Registrant and its management group have previously been actively involved in the evaluation, acquisition and exploration of mineral properties in Canada, U.S.A., and Central and South America. Starting with grass roots exploration prospects, it progressed to more advanced properties. To date, the Registrant has not received significant revenues from its property interests. The Registrant plans to continue exploring and developing its properties and, if appropriate, the Registrant intends to seek partners or buyers to

purchase or to assist in further advancement (by way of joint venture or otherwise) of its properties. The Registrant seeks to identify properties with significant potential and to acquire those properties on the basis of an option agreement relying on the representations and warranties of the vendor as to the state of title, with limited or no title work being performed by the Registrant. Detailed title work is only undertaken once it has been determined that the property is likely to host a significant body of ore, which may not occur. Consequently, there is a significant risk that adverse claims may arise or be asserted with respect to certain of the Registrant's properties. Items 3.D and 4.A provide further details.

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

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

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

### *Competitive conditions*

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

### *Government regulations*

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

The current and anticipated future operations of the Registrant, including further exploration and/or production activities may require additional permits from governmental authorities. Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. 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*

Gold prices continued to show strength as the cumulative annual average increased from \$603 in fiscal 2006 to \$695 in fiscal 2007 and \$872 in fiscal 2008, closing at \$932 on June 15, 2009. Gold prices achieved new highs in each of the past several years. In May 2006, prices reached a high of \$725, and \$841 in November 2007 before reaching a high of \$1,011 in March 2008. 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 2006 to December 2008, the closing monthly market price for the Registrant's shares decreased from CAD\$0.66 to CAD\$0.06 – a decrease of 91%, and reached a high of CAD\$0.95 in April 2006.

In May 2009, the closing monthly market share price was CAD\$0.09. Management continues to foresee opportunities to finance the mineral exploration and development efforts on Canarc's gold properties, and also to evaluate and consider new acquisitions in the gold arena as a result of rising gold prices despite the economic recessionary pressures attributable to the fall-out from the financial markets in the latter half of 2008.

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 of which the active subsidiaries are as follows:

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

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

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

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

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 previously owned 78.5% of the issued and outstanding Class C shares. The Registrant disposed of the subsidiary in 2008. Items 4.A and 4.D provide further details.

Caza Gold Corp. ( Caza ) is a company duly incorporated under the laws of British Columbia on November 15, 2007. The Registrant previously owned 100% of the issued and outstanding shares. On June 25, 2008, the Registrant closed the Arrangement with Caza whereby approximately 83% of the Registrant's interest in Caza was distributed to the shareholders of the Registrant at that time. Item 4.A provides further details. As at December 31, 2008, the Registrant held approximately an 11% interest in Caza.



Minera Canarc de Mexico S.A. de C.V. ( Minera Canarc ), a company duly incorporated under the Laws of Mexico on August 18, 2006. The Registrant previously owned 100% of the issued and outstanding shares. The Registrant's interest in Minera Canarc was transferred to Caza pursuant to the Arrangement which closed on June 25, 2008. Item 4.A provides further details.

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. ( Sara Kreek Resource ) 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 April 2006 when the Registrant reached an agreement to transfer its interest in the Sara Kreek property to its partner, Wylap Development. In exchange, the Registrant received a cash payment of \$400,000, and shall receive the greater of \$50,000 per year, payable semi-annually, or 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011, in settlement of all claims, loans and advances owed to the Registrant.

#### **4.D Property, Plants and Equipment**

##### *Description Of Properties*

Property Summary Chart (as of December 31, 2008):



<b>Property Name</b>	<b>Location</b>	<b>Maximum % Interest Held (or to be earned) <sup>(1)</sup></b>	<b>Capitalized Acquisition Expenditures <sup>(3)</sup></b>	<b>Capitalized Exploration Expenditures <sup>(3)</sup></b>	<b>Total Capitalized Expenditures <sup>(3)</sup></b>
New Polaris <sup>(2)</sup>	BC, Canada	100.00%	\$3,605,000	\$8,466,000	\$12,071,000
Eskay Creek	BC, Canada	33.33%	\$0	\$0	\$0

1

Subject to any royalties or other interests as disclosed below.

2

Previously known as Polaris-Taku .

3

After recoveries and write-downs.

*NOTE: All references to U.S.\$ unless otherwise noted. See below for further details on each property. Refer to Note 15 of the consolidated financial statements as of December 31, 2008 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. See *Cautionary Note to U.S. Investors* at the beginning of this annual report.

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

#### ***New Polaris Gold Project, British Columbia, Canada***

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

*Form 20-F*

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equipment include 10,000 and 25,000 gallon Terra Tanks, and mobile equipment on the property include a D6 Cat, backhoe, grader, electric Alimak machine, pumping equipment, welding machines and several generators. The existing underground workings are accessible, although dewatering is required to access those workings below the 50 foot level. Power to the site is currently supplied by diesel generators.

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

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

Table 1 - LIST OF CLAIMS

Claim Name	Lot No.	Folio #	Claim Name	Lot No.	Folio #
Polaris No.1	6109	4472	Snow	3497	4545
Polaris No.2	6140	5223	Snow #2	3495	5088
Polaris No.3	6141	5223	Snow #3	3494	5495
Polaris No.4	3498	4545	Snow #4	3499	5495
Polaris No.5	6143	5223	Snow #5	6105	4472
Polaris No.6	6144	5223	Snow #8	6107	4472
Polaris No.7	6145	5223	Snow #7	3500	4472
Polaris No.8	6146	5223	Snow #6	6106	4472
Polaris No.9	6147	5223	Snow #9	6108	4472
Polaris No.10	6148	5290	Black Diamond	3491	4472
Polaris No.11	6149	5290	Black Diamond No.3	6030	4944
Polaris No.12 Fr	6150	5290	Blue Bird No.1	5708	4545
Polaris No.13 Fr	6151	5290	Blue Bird No.2	5707	4545
Polaris No.14	6152	5290	Lloyd	6035	5010
Polaris No.15	6153	5290	Lloyd No.2	6036	5010
Silver King No.1	5489	4804	Rand No.1	6039	5010
Silver King No.2	5490	4804	Rand No.2	6040	5010
Silver King No.3	5493	4804	Minto No.2	6033	4944
Silver King No.4	5494	4804	Minto No.3	6034	4944

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Silver King No.5	5491	4804	Jumbo No.5	6031	4944
Silver King No.6	5492	4804	Ready Bullion	6032	4944
Silver King No.7	5495	4804	Roy	6042	5088
Silver King No.8	5717	4545	Frances	6041	5010
Sliver Queen No 1	6026	4545	Eve Fraction	6170	5495
Sliver Queen No 2	6027	4545	Eve No.1 Fraction	6171	5495
Sliver Queen No 3	6028	4944	P.T. Fraction	3493	5495
Sliver Queen No 4	6029	4944	Ant Fraction	3492	5088
Silver Strand	6037	5010	Atlin Fraction	3496	5088
Silver Strand No.2	6038	5010	Powder Fraction	6043	5088
F.M Fraction	6044	5088	Jay Fraction	6045	5088

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*Canarc Resource Corp.*

*Form 20-F*

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Par Fraction      6154      5290

James Moors, P.Geo, Vice President Exploration of the Registrant, is the Qualified Person for the purposes of the foregoing technical disclosure on the New Polaris Gold Project. The information in the following summary on the New Polaris Gold Project has been derived in part from and is partially based on the assumptions, qualifications and procedures set out in the Technical Report titled Resource Potential, New Polaris Project (the New Polaris Technical Report ) dated March 14, 2007 and prepared by R.J. Morris, MSc, PGeo, of Moose Mountain Technical Services and G.H. Giroux, MASc, PEng, of Giroux Consultants Limited, who are independent Qualified Persons as defined by National Instrument 43-101 ( NI 43-101 ) and was prepared in compliance with NI 43-101, to the best of the Registrant s knowledge.

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

### *Summary*

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

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

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

The deposit is composed of three sets of veins (quartz-carbonate stringers in altered rock), the AB veins are northwest striking and southwest dipping, the Y veins are north striking and dipping steeply east and finally the C veins are



east-west striking and dipping to the south to southeast at 65° to vertical. The C veins appear to hook around to the north and south into the other two sets of veins so that their junctions form an arc. The gold is refractory and occurs dominantly in finely disseminated arsenopyrite grains that mineralize the altered wallrock and stockwork veins. The next most abundant mineral is pyrite, followed by minor stibnite and a trace of sphalerite. The zones of mineralization range from 15 to 250 metres in length and 0.3 to 14 metres in width.

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

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

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

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

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

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

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

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

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

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

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

accepted engineering standards.

*Location Map*

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*Canarc Resource Corp.*

*Form 20-F*

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*Preliminary Assessment*

In the third quarter of 2007, the Registrant completed a preliminary assessment of building an 80,000 oz per year gold mine at the New Polaris property. At a US\$650 per oz gold price, the project generates an after-tax net present value (NPV) with an 8% discount rate of CAD\$8.3 million and after-tax internal rate of return (IRR) of 11.1%. Moose Mountain Technical Services ( Moose Mountain ) was commissioned as independent consultants to work with the Registrant's personnel in developing the conceptual mine plan and mining capital and operating costs; Jasman Yee and Associates Inc. for the metallurgical testwork, process design, mill capital and operating costs; and Beacon Hill Consultants (1988) Ltd. for the financial analysis. All three consultants contributed to the preliminary assessment for an 80,000 oz per year, high grade, underground gold mine at New Polaris. Their report entitled New Polaris Project Preliminary Assessment dated October 4, 2007 ( Preliminary Assessment Report ) was prepared in compliance with NI 43-101, to the best of the Registrant's knowledge. The Preliminary Assessment Report is available at [www.sedar.com](http://www.sedar.com). J.H. (Jim) Gray, P.Eng. of Moose Mountain is the Qualified Person for the Preliminary Assessment Report.

In 2008, the Registrant continued with its efforts to refine and assess the process alternatives and economic parameters used in the preliminary assessment. In early January 2009, the Registrant completed a revised preliminary assessment

from recent optimization efforts which improved the project's economics. The combination of new off-site treatment terms, an increased gold price and a decreased Canadian dollar exchange rate have a positive impact on the economics for the New Polaris gold project. At a US\$750 per oz gold price and a US\$/CAD\$ exchange rate of 0.80, the project generates a pre-tax NPV of CAD\$131.2 million and a pre-tax IRR of 28.8%. This compares to a pre-tax NPV of CAD\$60.4 million and a pre-tax IRR of 14.9% at a US\$650 per oz gold price and a US\$/CAD\$ exchange rate of 0.90 when the preliminary assessment study was completed in 2007.

The base case model is summarized below:

Scheduled Resources	806,000 tonnes measured and indicated grading 13.2 gpt Au (after dilution) and 944,000 tonnes inferred grading 11.9 gpt Au (after dilution) and a 9 gpt cutoff
Production Rate	600 tonnes per day

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*Canarc Resource Corp.*

*Form 20-F*

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Grade	12.5 grams per tonne (diluted 20%)
Recoveries	91% gold into concentrate
Output	80,000 oz gold per year
Mine life	8 years

The comparative financial parameters are:

	<b>Revised Financial Parameters</b>	<b>Initial Financial Parameters</b>
	(January 2009)	(October 2007)
Gold Price	US\$750 per oz	US\$650 per oz
Exchange Rate	US\$0.80 = CAD\$1.00	US\$0.90 = CAD\$1.00
Capital Cost	CAD\$90.5 million	CAD\$90.5 million
Cash Cost	US\$329 per oz (excluding off-sites)	US\$327 per oz (excluding offsites)
	<u>Pre-Tax</u>	<u>Pre-Tax</u>
Net Present Value (NPV) (0%)	CA\$131.2 million	CAD\$60.4 million
NPV (5%)	CA\$87.5 million	CAD\$32.6 million
NPV (8%)	CA\$67.8 million	CAD\$20.3 million
NPV (10%)	CA\$56.8 million	CAD\$13.4 million
	<u>Pre-Tax</u>	<u>Pre-Tax</u>
Internal Rate of Return (IRR)	28.8%	14.9%
Payback Period	3.8 years	3.8 years

The preliminary assessment was based on resources, not reserves, and a portion of the modeled resources to be mined are in the inferred resource category. Resources are considered too speculative geologically to have economic considerations applied to them so the project does not yet have proven economic viability. The Preliminary Assessment Report, completed by Moose Mountain Technical Services, was filed on SEDAR in October 2007.

Cash costs include site-related costs prior to the shipping and sale of concentrates. Offsite costs for concentrate transportation and processing were treated as deductions against sales. The NPVs are life of mine net cash flows shown at various discount rates. The IRR assumes 100% equity financing.

The revised economic model has been reviewed by Moose Mountain Technical Services which completed the original preliminary assessment for New Polaris Gold Mine in 2007. The independent Qualified Person for the update is Jim Gray, P. Eng.

***Benzdorp Property, Suriname***

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

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

Canarc elected to write-off its investment in the Benzdorp property at December 31, 2008.

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

### **Other Mineral Projects**

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

#### ***Bellavista Gold Mine, Costa Rica***

The Registrant had a 5.7% to 20.2% net profit interest in the Bellavista property, located near Miramar, Costa Rica. Central Sun Mining Inc. (formerly, Glencairn Gold Corporation) ( Central Sun ) owns a 100% working interest in the property, which was an open pit, heap leach, gold mine and which achieved commercial production in December 2005. In July 2007, Central Sun suspended mining operations due to ground movement and heavy rainfall causing surface erosion and deep seated ground creep in some areas of the mine site. The Registrant had a net profit interest in Bellavista which entitled the Registrant to 5.67% of the net profits during the first payback period, increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter. Thirty-five percent of this net profit interest would have reduced the net profit interest to be received from Central Sun until \$317,741 in advance royalty payments were repaid.

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

#### ***Eskay Creek Property, British Columbia, Canada***



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

***Sara Kreek Property, Suriname***

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

The Registrant received \$50,000 per year from 2006 to 2008.

***Mexican Properties***

***Los Angeles:***

In April 2008, Caza and Minera Canarc, which were both wholly-owned subsidiaries of the Registrant at that time, entered into an option agreement to acquire a 100% interest in the La Escondida/Los Angeles properties by making US\$1 million in cash payments over a four-year period and issuing \$50,000 in shares of Caza over a twelve-month period. The vendors retained a 3% net smelter return ( NSR ). An initial payment of US\$15,000 was made upon the signing of the option agreement. Pursuant to the Plan of



Arrangement which closed in June 2008, Caza and Minera Canarc were no longer subsidiaries of the Registrant. Item 4.A provides further details.

***Los Arrastres:***

In February 2007, the Registrant entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making \$2.5 million in cash payments and spending \$2 million on exploration over a three-year period. The vendor retained a 2% NSR and the Registrant had the right to reduce the NSR to 1% by paying \$1 million at any time. An initial payment of \$50,000 was made upon the signing of the option agreement and a further payment of \$75,000 was made in August 2007. A cash payment of \$25,000 was made in February 2008. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza. Item 4.A provides further details.

***Providencia:***

In March 2007, the Registrant entered into a preliminary option agreement to acquire a 100% interest in the Providencia gold/silver properties by issuing 30,000 common shares to the vendors on signing a formal agreement within 30 days and making \$2 million in cash payments over a 2 ½ year period, including \$30,000 on signing. The vendors will retain a 2 ½ % net smelter return royalty ( NSR ), and the Registrant had the right to reduce the royalty to 1 ½ % at any time by paying \$750,000 and issuing an option to the vendors to purchase 250,000 common shares of the Registrant at the five day closing share price average on the Toronto Stock Exchange prior to the royalty reduction.

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

***Santiago:***

In May 2007, the Registrant entered into an option agreement to acquire a 100% interest in the Santiago gold property by making \$2 million in cash payments over a five-year period and spending \$200,000 on exploration over a two-year

period. The vendor retained a 2% NSR. An initial payment of \$30,000 was made upon the signing of the option agreement and a further payment of \$30,000 was made in November 2007. A cash payment of \$60,000 was made in May 2008. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza. Item 4.A provides further details.

***Santiago Fraction:***

In September 2007, the Registrant entered into an option and joint venture agreement to acquire up to a 75% interest in the Santiago Fraction property by issuing 15,000 common shares, paying \$25,000 in cash after one year, and spending up to \$1 million in exploration over a five-year period. The Registrant issued 15,000 common shares at a deemed value of CAD\$0.45 per share in 2007. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza. Item 4.A provides further details.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

Management's discussion and analysis in this Item 5 are intended to provide the reader with a review of factors that affected the Registrant's performance during the years presented and factors reasonably expected to impact on future operations and results. The following discussion of the financial condition, changes in financial condition and results of operations of the Registrant for the three

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fiscal years ended December 31, 2008, 2007 and 2006 should be read in conjunction with the consolidated financial statements of the Registrant and related notes included herein. The Registrant's financial statements are stated in United States dollars and are prepared in accordance with CAD GAAP. Reference is made to Note 15 of the consolidated financial statements for the year ended December 31, 2008 of the Registrant as included herein for discussion of the material differences between CAD GAAP and U.S. GAAP and their effect on the Registrant's financial statements.

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

(a)

**Unrealized holding gains and losses on marketable securities:**

For CAD GAAP prior to fiscal 2007, marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation, such share investments were carried at the lower of cost and quoted market value at the reporting date. Short-term deposits and other short-term investments were carried at the lower of cost plus accrued interest and quoted market value. For CAD GAAP effective January 1, 2007, the Registrant has classified its marketable securities as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with realized gains or losses recorded in net earnings and unrealized gains or losses recorded in other comprehensive income. Under U.S. GAAP, marketable securities then considered trading securities would be recorded at market value with any unrealized gains being recorded in operations for the year ended December 31, 2006. Marketable securities in fiscal 2007 are classified as available-for-sale securities for U.S. GAAP.

(b)

**Royalty receivable:**

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

(c)

**Exploration expenditures for mineral properties:**

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Registrant is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition.

If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Pursuant to the SEC's Industry Guide 7, an entity can only disclose proven and probable reserves, as defined within the Guide, in its reserve calculations. As a result, the Registrant has interpreted U.S. GAAP to require mineral property exploration costs to be expensed as incurred until commercially mineable deposits are determined to exist within a particular property as cash flows cannot be reasonably estimated prior to such determination and the Registrant cannot pass an impairment test made under SFAS 144 for U.S. GAAP purposes. Accordingly, for all periods presented, the Registrant has expensed all mineral property exploration costs for U.S. GAAP purposes.

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

(d)

**Asset retirement obligations:**

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

(e)

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

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

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**(f)**

**Divestiture of interests in subsidiaries:**

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

**(g)**

**Flow-through equity financing:**

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

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

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

**(h)**

**Unit offerings:**

Under Canadian GAAP, the proceeds received on issuance of units, consisting of common shares and warrants, are not required to be allocated to the individual common share and warrant components when the instruments and its components are all determined to be equity instruments. Under U.S. GAAP, the Registrant is required to allocate the proceeds received on unit offerings to the individual common share and warrant components on a relative fair value

basis when both components are determined to be equity classified. The fair value of the share purchase warrants was determined using the Black-Scholes method.

(i)

**Stock-based compensation:**

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

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

(j)

**Comprehensive income:**

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



(k)

**Consolidated statement of cash flows:**

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

(l)

**Uncertainty in income taxes:**

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

(m)

**Fair value measurement:**

In September 2006, FASB issued SFAS No. 157, Fair Value Measurement to define fair value, establish a framework for determining fair value measurements that are already required or permitted under current accounting standards and to expand disclosures about fair value measurements. The statement only applies to fair value and is effective for fiscal years beginning after November 15, 2007. The adoption of this Interpretation did not result in a material impact on the Registrant's consolidated financial position or results of operations.

In February 2008, FASB issued FSP FAS 157-2, which delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

As of December 31, 2008, the Registrant adopted SFAS No. 157, and the adoption did not have a material impact on its financial condition, results of operations, or cash flows. The Registrant is still evaluating the impact of the items deferred by FSP FAS 157-2.

(n)

**Fair value option for financial assets and financial liabilities:**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities the option to measure financial instruments at fair value (fair value option) thereby achieving an offsetting effect for accounting purposes for certain changes in fair value of certain related assets and liabilities without having to apply hedge accounting. This statement is effective for fiscal years beginning after November 15, 2007. Retrospective application to fiscal years preceding the effective date is prohibited. The adoption of the statement did not result in a material impact on the Registrant's consolidated financial position or results of operations.

(o)

**Impact of recent United States accounting pronouncements:**

(i)

In December 2007, the FASB issued SFAS 160, *Non-controlling interests in consolidated financial statements*. This statement specifies that non-controlling interests are to be treated as a separate component of equity, with increases and decreases in the parent's ownership interest as capital transactions. This standard requires net income and comprehensive income to be displayed for both the controlling and the non-controlling interests. Additional required disclosures and reconciliations include a separate schedule that shows the effects of any transactions with the non-controlling interests on the equity attributable to the controlling interest.

The statement is effective for periods beginning on or after December 15, 2008 and is to be applied prospectively to all non-controlling interests, including any that arose before the effective date. The adoption of this Statement is not expected to have a significant effect on the Registrant's results of operations or financial position.



(ii)

In December 2007, the FASB issued a revised standard on accounting for business combinations SFAS 141(R).

The major changes to accounting for business combinations are summarized as follows:

all business acquisitions would be measured at fair value;

most acquisition-related costs would be recognized as expenses as incurred (they would no longer be part of the purchase consideration);

non-controlling interests would be measured at fair value at the date of acquisition (i.e., 100% of the assets and liabilities would be measured at fair value even when an acquisition is less than 100%);

goodwill, if any, arising on a business combination reflects the excess of the fair value of the acquiree, as a whole, over the net amount of the recognized identifiable assets acquired and liabilities assumed. Goodwill is allocated to the acquirer and the non-controlling interest.

The statement is effective for business combination transactions occurring in periods beginning on or after December 15, 2008. The Registrant will assess the impact of this Statement if and when a future acquisition occurs.

(iii)

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities* ( SFAS 161 ). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivatives instruments, how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. SFAS 161 is effective for fiscal years after November 15, 2008. Early adoption is permitted. The Registrant does not believe the adoption of SFAS 161 will have a material impact on its consolidated operating results, financial position or cash flows.

(iv)

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* . The Registrant does not expect adoption of this Statement to have a material impact on results of operations, cash flows or financial position.

(v)

In May 2009, FASB issued Statement of Financial Accounting Standard ( SFAS ) No. 165, *Subsequent Events* ( SFAS 165 ). This Statement establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This Statement is effective for interim and annual periods ending after June 15, 2009 and as such, the Registrant will adopt this standard in the first quarter of fiscal year 2010. The Registrant is currently assessing the impact of the adoption of SFAS 165, if any, on its financial position, results of operations or cash flows.

(vi)

In April 2008, FASB issued FASB staff position ( FSP ) FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP FAS 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets* . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Registrant is currently evaluating the impact, if any, that FSP FAS 142-3 will have on its financial position, results of operations, or cash flows.

Further details are provided in Note 15 of the audited consolidated financial statements for the year ended December 31, 2008.



*Canarc Resource Corp.*

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## 5.A Operating Results

In accordance with an acceptable accounting policy under CAD GAAP, all costs related to investments in mineral properties are capitalized on a property-by-property basis. Such costs include mineral property acquisition costs and exploration expenditures, net of any recoveries and write-downs.

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

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

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

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

Canarc has no sources of operating revenues.

In 2007, Canarc adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ( CICA ) for the recognition and measurement of financial instruments which were applied prospectively with no restatement of prior period financial statements. These new standards consist of CICA Handbook Section 3855-Financial Instruments-Recognition and Measurement, Section 3865-Hedging and Section 1530-Comprehensive Income. The new accounting standards require financial assets designated as held-for-trading and available-for-sale be measured at fair value on initial adoption, while financial assets designated as held-to-maturity and loans and receivables are measured at amortized cost. Changes in the fair values of marketable securities which Canarc classifies as

available-for-sale financial instruments are recognized in other comprehensive income. Due to the adoption of the new standards, Canarc's marketable securities and accumulated other comprehensive income increased by \$837,000 on initial adoption. Also, on adoption of the new standards, Canarc designated the royalty receivable as loans and receivables. Canarc recognized \$11,000 from the accretion of royalty receivable in fiscal 2008 and \$15,000 in fiscal 2007.

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

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

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

Overall operating expenses for the year ended December 31, 2008 were much lower than for fiscal 2007. Higher operating expenses in 2007 reflected the commensurate heightened operating activities in 2007 as management focused greater efforts on the planning, detailing and implementation of the de-watering program and the preliminary assessment for the New Polaris property and the exploration program for the Benzdorp property, which included hiring additional personnel in 2007. Operating activities subsided in

2008 as Canarc focused on assessing and then refining the economic model in the preliminary assessment for the New Polaris property and continued with its efforts for the extension of its exploration concessions for the Benzdorp property. General administrative expenses were higher in the first quarter of 2008 due to legal fees related to the plan of arrangement with Caza which closed in June 2008 and to regulatory fees for the annual and special general meeting held in April 2008. Similarly, employee remuneration was lower as personnel focused on part time efforts to Canarc's reduced activities. Stock based compensation in 2008 was attributable to the granting of stock options in May 2008 of which 20% vested immediately and 20% vest every six months and to the vesting of stock options which were granted in June 2007 of which 250,000 options vested on June 15, 2008 and 250,000 on June 15, 2009. The vesting provisions reduced the impact of stock based compensation for Canarc in the period but would impact future periods as the options become vested.

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

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

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

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

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

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

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

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

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

	Shares
New Polaris:	
Net profit interest buyout	150,000
	150,000

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

***Fiscal Year 2007*** Year ended December 31, 2007 compared with December 31, 2006

Canarc realized a higher net income of approximately \$1.5 million for the year ended December 31, 2007 in comparison to a net income of \$433,000 for 2006. The net income in 2007 was primarily attributable to the future income tax recovery for the renunciation of exploration expenditures from flow-through equity financings in 2006 and the realized gain from the disposition of marketable securities. The net income in 2006 was attributable to gains realized from the disposition of marketable securities and from the gain from the disposition of Sara Kreek Resource.

A substantial portion of the realized gains from marketable securities for both years was from the disposition of shares of Endeavour Silver Corp. ( Endeavour ), a company with two common directors. In 2007, Canarc disposed of all its shares of Endeavour.

Canarc has no sources of operating revenues.

The future income tax recovery of approximately \$2 million is a provision for the recognition at the date of actual renunciation being March 8, 2007, by a reduction in the amount included in share capital for the flow through shares for the future income taxes related to the deductions foregone by Canarc. In 2006, Canarc raised flow-through equity financing from three private placements for approximately CAD\$7.05 million which were renounced in March 2007.

In 2007, Canarc adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ( CICA ) for the recognition and measurement of financial instruments which were applied prospectively with no restatement of prior period financial statements. These new standards consist of CICA Handbook Section 3855-Financial Instruments-Recognition and Measurement, Section 3865-Hedging and Section 1530-Comprehensive Income. The new accounting standards require financial assets designated as held-for-trading and available-for-sale be measured at fair value on initial adoption, while financial assets designated as held to maturity and loans and receivables are measured at amortized cost. Changes in the fair values of marketable securities which Canarc classifies as available-for-sale financial instruments are recognized in other comprehensive income. Due to the adoption of the new standards, Canarc s marketable securities and accumulated other comprehensive income increased by \$837,000 on initial adoption. On adoption of the new standards, Canarc designated the royalty receivable as loans and receivables, and reported an adjustment of \$38,000 to opening retained earnings. Canarc recognized \$15,000 from the accretion of royalty receivable.

Canarc did not acquire nor dispose of any marketable securities in the first quarter of 2007. In the second quarter of 2007, Canarc realized gains of \$664,000 from the disposition of marketable securities, and then realized further gains of \$460,000 in the third quarter and \$28,000 in the fourth quarter of fiscal 2007. Canarc realized gains of approximately \$1.2 million from disposition of marketable securities in fiscal 2007, again primarily from Canarc s shareholdings of Endeavour. Proceeds from the disposition of marketable securities supplemented the financing needs for operating activities and working capital.

With the exception of the fourth quarter of 2007, overall operating expenses in 2007 continue to be higher than prior periods in 2006, reflecting the commensurate heightened operating activities of Canarc as management focused greater efforts on the planning, detailing and implementation of the de-watering program and the preliminary assessment for the New Polaris property and the exploration program for the Benzdorp property, which included hiring additional personnel. Expenses for corporate development reflect active due diligence and property evaluations for Mexico for acquisitions and to identify properties of merit for possible acquisitions. Expenses for corporate development were higher in 2006 than 2007, in which such efforts in 2006 culminated in the acquisition of Mexican properties in 2007. Given that certain account balances of Canarc are stated in Canadian dollars, the appreciation of the Canadian dollar relative to the U.S. dollar during fiscal 2007 caused the recognition of foreign exchange gains for US\$ stated financial

information. Stock-based compensation results from the granting of stock options was nominally lower in 2007, partly attributable to vesting provisions on certain stock options and due to a lower fair value per option granted. General and administrative expenses and salaries continue to account for a significant portion of operating expenses. Operating activities subsided in the fourth quarter of 2007 as Canarc completed its preliminary assessment for the New Polaris property and continued with its efforts for the extension of its exploration concessions for the Benzdorp property.

As at December 31, 2007, Canarc has mineral properties which are comprised of the following:

(in \$000s)	Acquisition Costs	December 31, 2007 Exploration/ Development	Total
British Columbia:			
New Polaris	\$ 3,605	\$ 8,582	\$ 12,187
Suriname:			
Benzdorp	301	5,795	6,096
Mexico:			
Los Arrastres	125	95	220
Providencia	17	8	25
Santiago	60	34	94
Santiago Fraction	7	-	7
	\$ 4,115	\$ 14,514	\$ 18,629

Expenditures of \$2,505,000 were incurred for New Polaris for the year ended December 31, 2007 as Canarc continued with its de-watering program which was financed in part from the proceeds of the flow-through private placement in October 2006. The de-watering program and preliminary assessment for the property were completed in September 2007. As for the Benzdorp property, expenditures of \$554,000 were incurred during 2007.



Acquisition costs related to Canarc's Mexican properties totalled \$209,000 and exploration expenditures totalled \$137,000, all of which were incurred in 2007.

At December 31, 2007, to maintain its interest and to fully exercise the options under various property agreements covering the properties located in British Columbia (Canada), Mexico and Suriname, Canarc must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

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	Option/Advance Royalty Payments (in \$000s)	Expenditure Commitments (in \$000s)	Shares
Benzdorp:			
On commercial production <sup>(i)</sup>	\$ 450	\$ -	-
New Polaris:			
Net profit interest buyout	-	-	150,000
Los Arrastres			
Option payments and expenditure commitments	2,375	1,905	-
Net profit interest reduction	1,000	-	-
Providencia <sup>(ii)</sup>			
Option payments and expenditure commitments	2,000	-	-
Net profit interest reduction	750	-	250,000
Santiago	1,940	166	-
Santiago Fraction	25	1,000	-
	\$ 8,540	\$ 3,071	400,000

(i)

Payable on or before 30 days after the commencement of commercial production.

(ii)

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

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

### ***Environmental Liabilities***

The Registrant's policy is to maintain all operations at North American standards, notwithstanding that certain of the countries within which it operates have not yet fully developed such standards in respect to environmental concerns.

In accordance with government requirements in Canada, refundable deposits of CAD\$250,000 have been placed with regulatory agencies in respect to the Registrant's major property in British Columbia. There are no known environmental contingencies in respect to these or any of the other Registrant's mineral property interests.

### ***Critical Accounting Policies***

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

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

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In accordance with an acceptable accounting policy under CAD GAAP, all costs related to investments in mineral properties are capitalized on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The costs related to a property from which there is production, together with the costs of mining equipment, will be amortized using the unit-of-production method.

When there is little prospect of further work on a property being carried out by the Registrant or its partners or when a property is abandoned or when the capitalized costs are not considered to be economically recoverable, the related property costs are written down to the amount recoverable. The amounts for mineral properties as shown in the Registrant's consolidated financial statements represent costs incurred to date, less write-downs, and are not intended to reflect present or future values.

## 5.B Liquidity and Capital Resources

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

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

(in \$000s)	December 31,	
	2008	2007
Cash and cash equivalents	\$ 155	\$ 633
Working capital	\$ 194	\$ 590

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

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

In December 2007, Caza, a wholly-owned subsidiary at that time, received proceeds of CAD\$300,000 in demand loans of which CAD\$180,000 were from directors and officers of Canarc. The loans were repayable on demand and bore an interest rate of 9% per annum. In June 2008, Canarc closed a Plan of Arrangement with Caza in which Caza was no longer a wholly-owned subsidiary of Canarc.

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

As at March 31, 2009, Canarc has cash of \$24,000 and a working capital of \$91,000.

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

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

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

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

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

### **5.D Trend Information**

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

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

## **5.E Off-Balance Sheet Arrangements**

There are no known significant or material off-balance sheet arrangements other than those disclosed in this Form 20-F and in the Registrant's audited consolidated financial statements for the year ended December 31, 2008.

### *Shareholder Rights Plan*

On May 31, 2005, the shareholders of the Registrant approved a shareholder rights plan (the Plan), that became effective on April 30, 2005. The Plan is intended to ensure that any entity seeking to acquire control of the Registrant makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Registrant held. Each Right entitles the registered holder thereof, except for certain Acquiring Persons (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Registrant. The Rights expire on April 30, 2015. Item 10.B provides further details.

### *Share Appreciation Rights*

At the discretion of the Board, certain option grants provide the option holder the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the options.

## **5.F Tabular Disclosure of Contractual Obligations**



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As the Registrant performs exploration on its properties, it decides which ones to proceed with and which ones to abandon. Accordingly, the minimum expenditure commitments are reduced as the Registrant narrows its interests. To fully exercise the options under various agreements for the acquisition of interests in properties located in Canada, the Registrant must incur exploration expenditures on the properties and make payments to the optionors as follows as at December 31, 2008:

	Total	Payments Due by Period				Others Amount	Number of Shares
		Less than 1 year	1-3 years	3-5 years	More than 5 years		
New Polaris:							
Net profit interest reduction or buydown	-	-	-	-	-	-	150,000
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	150,000

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

## 5.G Safe Harbor

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

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

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risks related to our exploration and development activities;

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risks related to the ongoing financing of our planned operations;

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risks related estimates of mineral deposits;

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risks related to fluctuations in mineral prices;

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risks related to the title of our properties;

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

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

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risks related to environmental and regulatory requirements;

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risks related to foreign currency fluctuations;

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

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

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risks related to the possible dilution of our common stock,

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

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

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.A Directors and Senior Management

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

The directors and senior management of the Registrant as of June 15, 2009 are:

<i>Name and Province/State and Country of Residence</i>	<i>Principal Occupation and Occupation during the Past 5 Years <sup>(1)</sup></i>	<i>Current Position with the Registrant and Period of Service</i>
<b>COOKE, Bradford</b> British Columbia, Canada	President of Canarc Resource Corp.  (from January 22, 1987 to January 1, 2006)	Chief Executive Officer and Director  (since January 22, 1987);  Chairman  (since January 1, 2006)
<b>BULLOCK, Derek <sup>(2)</sup></b>	Mining Consultant	Director

Ontario, Canada		(since March 12, 1996)
<b>HARRIS, Leonard</b> <sup>(2)</sup>	Retired;	Director
Colorado, U.S.A.	Director of Alamos Gold Inc., Cardero Resource Corp., Solitario Exploration & Royalty Corp., Sulliden Exploration Inc., Endeavour Silver, Corp., IMA Exploration Inc., Golden Arrow Resources Corporation, Indico Resources Limited, Pediment Gold Corp., Castle Gold Corporation, and Aztec Metals Corp.	(since June 5, 2001)
<b>PRICE, William</b> <sup>(2)</sup>	Retired;	Director
California, U.S.A.	Chairman of William L. Price Charitable Foundation;	(since May 31, 2005)
	Formerly Chairman, CEO and Chief Investment Officer of RCM Capital Management LLC (formerly Dresdner RCM Global Investors LLC);	
	Formerly Global Equity Chief Investment Officer of Allianz Global Investors AG	

<i>Name and Province/State and Country of Residence</i>	<i>Principal Occupation and Occupation during the Past 5 Years <sup>(1)</sup></i>	<i>Current Position with the Registrant and Period of Service</i>
<b>BRIED, Bruce</b> British Columbia, Canada	President and Chief Operating Officer of Canarc Resource Corp.  (from February 15, 2007 to May 31, 2008);  Vice-President, Mining, for Endeavour Silver Corp.  (from March 2005 to February 2007);  General Manager for Kinross Gold USA Inc.  (from January 2004 to February 2005);  Consultant  (from January 2002 to January 2004)	Director  (since June 1, 2008)
<b>BILES, Garry</b> British Columbia, Canada	Vice-President, Mining, of Canarc Resource Corp.  (since March 1, 2007 to May 31, 2008);  General Manager of Glencairn Gold Corp.  (from April 2005 to January 2007);  General Manager of Procon Mining & Tunnelling  (from July 2002 to April 2005);  General Manager of Homestake Mining  (from July 1994 to April 2002)	President and Chief Operating Officer  (since June 1, 2008)
<b>MOORS, James</b> British Columbia, Canada	Exploration Manager for Canarc Resource Corp.  (April 2002 to May 2005);	Vice-President, Exploration  (since June 2005)

	Director of Information for BC Yukon of Mines	
	(1999 to 2002)	
<b>LOCKWOOD, Stewart</b>	Barrister & Solicitor, Vector Corporate Finance Lawyers	Secretary
British Columbia, Canada		(since 1994)
<b>YEE, Philip</b>	Finance Manager and/or Controller for Canarc Resource Corp.	Chief Financial Officer and Vice-President (Finance)
British Columbia, Canada	(from May 2003 to June 2005);	(since June 2005)
	Chief Financial Officer, Finance Manager and/or Controller for Endeavour Silver Corp.	
	(from May 2003 to February 2007);	
	Controller for Augusta Group	
	(from 1996 to 2003)	

(1)

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

(2)

Members of the Audit Committee.

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

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

## 6.B Compensation



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**Statement Of Executive Compensation**

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

During the fiscal period ended December 31, 2008, the aggregate compensation incurred by the Registrant to all individuals who were directors and officers, at the time of their remuneration, in all capacities as a group was CAD\$429,073.

The table below discloses information with respect to executive compensation paid by the Registrant to its directors for the fiscal year ended December 31, 2008. The following table sets forth, for the periods indicated, the compensation of the directors and officers.

**SUMMARY OF COMPENSATION****PAID TO DIRECTORS AND OFFICERS**

(in terms of Canadian dollars)

Name and principal position	Year	Salary <sup>(1)</sup> (\$)	Share-based awards (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation <sup>(3)</sup>			All other compensation <sup>(6)</sup> (\$)	Total compensation <sup>(7)</sup> (\$)
					Annual Incentive plans <sup>(3)</sup>	Long-term incentive plans <sup>(4)</sup>	Pension value <sup>(5)</sup> (\$)		
<b>Bradford J. Cooke</b>	2008	\$10,500	Nil	\$55,710	Nil	Nil	Nil	\$18,500	\$84,710
Director, Chairman and CEO									
<b>Derek Bullock</b>	2008	Nil	Nil	\$20,891	Nil	Nil	Nil	\$8,000	\$28,891

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Director <b>Leonard Harris</b>	2008	Nil	Nil	\$20,891	Nil	Nil	Nil	\$8,000	\$28,891
Director <b>William Price</b>	2008	Nil	Nil	\$20,891	Nil	Nil	Nil	\$8,000	\$28,891
Director <b>Bruce Bried</b> <sup>(8)</sup>	2008	\$4,805	Nil	\$11,605	Nil	Nil	Nil	\$13,659	\$30,069
Director  (since June 1, 2008);									
Former President and COO <b>Garry D. Biles</b> <sup>(9)</sup>	2008	\$73,766	Nil	\$18,567	Nil	Nil	Nil	\$7,500	\$99,833
President and COO  (since June 1, 2008)									
<b>Stewart Lockwood</b>	2008	Nil	Nil	\$3,712	Nil	Nil	Nil	\$67,217 <sup>(10)</sup>	\$70,929
Secretary <b>Philip Yee</b>	2008	\$34,614	Nil	\$16,245	Nil	Nil	Nil	\$6,000	\$56,859
Chief Financial Officer									

Notes:

(1)

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

(2)

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

(3)

These amounts include annual non-equity incentive plan compensation, such as bonuses and discretionary amounts for the year ended December 31, 2008.

(4)

N/A.

(5)

N/A.

(6)

These amounts cover all compensation other than amounts already set out in the table for the year ended December 31, 2008 and include directors fees, as applicable, and annual bonuses for prior year's performance. These annual bonuses were in the form of shares of Aztec Metals Corp. which have a deemed value of CAD\$0.30 per share.

(7)

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

(8)

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

(9)

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

(10)

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

The following table sets forth information concerning outstanding stock options under the Registrant's Stock Option Plan as at December 31, 2008 to each director and officer of the Registrant. No SARs were outstanding.

***Options and Stock Appreciation Rights ( SARs )***

The following table discloses incentive stock options which were granted to directors and officers during the fiscal year ended December 31, 2008:

**SUMMARY OF STOCK OPTIONS**

**GRANTED TO DIRECTORS AND OFFICERS**

**From January 1, 2008 to December 31, 2008**

<i>Name and Principal Position</i>	<i>Date of Grant</i>	<i>Title of Underlying Security</i>	<i>Number of Underlying Security</i>	<i>Exercise Price per Share (CAD\$)</i>	<i>Expiry Date</i>
<b>Bradford J. Cooke</b>	May 15, 2008	Common shares	400,000	\$0.29	May 15, 2013

Chief Executive  
Officer, Chairman and  
Director

**Derek Bullock** May 15, 2008 Common shares 125,000 \$0.29 May 15, 2013

Director

**Leonard Harris** May 15, 2008 Common shares 125,000 \$0.29 May 15, 2013

Director

**William Price** May 15, 2008 Common shares 125,000 \$0.29 May 15, 2013

Director

**Bruce Bried** May 15, 2008 Common shares 125,000 \$0.29 May 15, 2013

Director

(since June 1, 2008)

Former President and  
Chief Operating Officer

(from February 15,  
2007 to May 31, 2008)

**Garry Biles** May 15, 2008 Common shares 200,000 \$0.29 May 15, 2013

President and Chief  
Operating Officer

(since June 1, 2008)

Vice-President, Mining

(from March 1, 2007 to  
May 31, 2008)

**Stewart Lockwood** May 15, 2008 Common shares 40,000 \$0.29 May 15, 2013

Secretary

**Philip Yee** May 15, 2008 Common shares 175,000 \$0.29 May 15, 2013

Chief Financial Officer  
and Vice-President  
(Finance)

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Note:

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

At the discretion of the directors, certain option grants provide the holder with the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the options. For the 2008 fiscal year, no share appreciation rights for common shares were exercised by option holders who were directors or officers of the Registrant at the time of exercise.

#### ***Pension Plan***

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

#### ***Report on Executive Compensation***

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

#### ***Compensation of Directors***

Prior to fiscal 2004, the Registrant did not compensate its directors in their capacities as such. Bradford J. Cooke, the Chief Executive Officer and a Director, receives a cash compensation as consideration for his duties as an operating officer of the Registrant as disclosed in the Summary Compensation Table above. Previously, all other directors of the Registrant received no cash compensation from the Registrant other than reimbursement for out-of-pocket expenses incurred on behalf of the Registrant.



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

During the fiscal year ended December 31, 2008, the Registrant granted stock options to directors for up to 900,000 common shares in which such options have an exercise price of CAD\$0.29 and an expiry date of May 15, 2013 and are subject to vesting provision in which 20% of the options vest immediately and 20% vest every six months.

#### *Executive Compensation Program*

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

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

No funds were set aside or accrued by the Registrant or its subsidiaries during the year ended December 31, 2008 to provide pension, retirement or similar benefits for directors or officers of the Registrant pursuant to any existing plan provided or contributed to by the Registrant or its subsidiaries under applicable Canadian laws.

#### *Base Salary*



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

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

### *Bonus*

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

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

### *Stock Options*

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

### *Other Compensation*

Bradford J. Cooke, CEO, Chairman and Director of the Registrant, is a party to an arrangement with Endeavour Silver Corp. ( Endeavour ) whereby Endeavour is reimbursed for time spent by Mr. Cooke on a cost recovery basis. There are no specific terms relating to severance or notice beyond what may be provided by statute or common law. During the financial year ended December 31, 2008, Canarc incurred CAD\$10,500 in salary paid or payable to Endeavour for

services rendered by Mr. Cooke.

*Directors and Officers Liability Insurance*

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

*Performance Graph*

*Shareholder Return Performance Graph*

The graph below compares the yearly percentage change in the cumulative total shareholder return on the Registrant's common shares against the cumulative total shareholder return of the Toronto Stock Exchange 300 Total Return Index for the period commencing December 31, 2003 and ending December 31, 2008.

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Comparison of Total Shareholder Return on Common Shares  
of the Registrant and the Toronto Stock Exchange Indices  
(based on Canadian Funds)

The graph assumes that the initial value of the investment on the stock exchange in the Registrant's common shares and in the indices was \$100 on the initial date.

## **6.C Board Practices**

### ***Statement Of Corporate Governance Practices***

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

### **The Board of Directors**

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

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

**Director**

**Other Reporting Issuers**

**Bradford Cooke**

Endeavour Silver Corp.  
Radius Gold Inc.  
Caza Gold Corp.

**Derek Bullock**

IAMGOLD Corporation

**Leonard Harris**

Sulliden Exploration Inc.  
Solitario Exploration & Royalty Corp.  
Golden Arrow Resources Corporation  
Pediment Gold Corp.  
Endeavour Silver Corp.  
Alamos Gold Inc.

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Castle Gold Corporation  
Cardero Resource Corp.  
IMA Exploration Inc.  
Indico Resources Limited

**William Price**

n/a

**Bruce Bried**

International Montoro Resources Inc.

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

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

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

### **Board Mandate**

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

.  
the strategic planning process of the Registrant;

.  
identification and management of the principal risks associated with the business of the Registrant;

.  
planning for succession of management;

.  
the Registrant's policies regarding communications with its shareholders and others; and

.  
the integrity of the internal controls and management information systems of the Registrant.

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

### **Position Descriptions**

The Board of Directors has not yet developed written position descriptions for the Chairman, the chairman of any Board committees, the CEO, the President or the CFO. The Board is of the view that given the size of the Registrant, the relatively frequent discussions between Board members, the CEO, the President and the CFO and the experience of the individual members of the Board, the



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responsibilities of such individuals are known and understood without position descriptions being reduced to writing. The Board will evaluate this position from time to time, and if written position descriptions appear to be justified, they will be prepared.

### **Orientation and Continuing Education**

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

### **Ethical Business Conduct**

The Registrant has adopted a whistle blower policy, which is set out in its Charter of the Audit Committee which is available for viewing on SEDAR as a schedule to the Registrant's Annual Information Form dated March 31, 2009.

### **Nomination of Directors**

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

### **Compensation**

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

## **Other Board Committees**

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

## **Assessments**

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

## **6.D Employees**

The Registrant's business is administered principally from its head office in Vancouver, British Columbia, Canada. As of June 15, 2009, the Registrant had a staff of eight part time employees based in Vancouver, BC, Canada.

## **6.E Share Ownership**

*Form 20-F*

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As at June 15, 2009, the share ownership and number of stock options of the directors and officers of the Registrant are as follows:

Name and Principal Position	Share Ownership		Number of Stock Options		
	Number of Shares	Percentage <sup>(1)</sup>	Number of Underlying Security <sup>(2)</sup>	Exercise Prices per Share (CAD\$)	Expiry Dates
<b>Bradford J. Cooke</b>	1,564,980	2.15%	200,000	\$0.26	September 30, 2009
Chairman, Chief Executive Officer and Director			750,000	\$0.27	June 23, 2010
			100,000	\$0.70	October 25, 2009
			50,000	\$0.35	June 30, 2010
			175,000	\$0.69	June 29, 2011
			200,000	\$0.54	June 15, 2012
			750,000	\$0.46	September 26, 2012
			400,000	\$0.29	May 15, 2013
<b>Derek Bullock</b>	5	0.00%	100,000	\$0.70	September 7, 2009
Director			125,000	\$0.69	June 29, 2011
			100,000	\$0.54	June 15, 2012
			125,000	\$0.29	May 15, 2013
<b>Leonard Harris</b>	210,000	0.29%	100,000	\$0.70	September 7, 2009
Director			200,000	\$0.35	June 30, 2010
			125,000	\$0.69	June 29, 2011
			100,000	\$0.54	June 15, 2012
			125,000	\$0.29	May 15, 2013
<b>William Price</b>	5,556,000	7.64%	200,000	\$0.35	June 30, 2010
Director			125,000	\$0.69	June 29, 2011

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			100,000	\$0.54	June 15, 2012
			125,000	\$0.29	May 15, 2013
<b>Bruce Bried</b>	150,000	0.21%	75,000	\$0.69	June 29, 2011
Director			125,000	\$0.74	January 26, 2012
(since June 1, 2008);			100,000	\$0.54	June 15, 2012
President and Chief Operating Officer			125,000	\$0.29	May 15, 2013
(from February 15, 2007 to May 31, 2008)					
<b>Garry Biles</b>	Nil	Nil	200,000	\$0.74	January 26, 2012
President and Chief Operating Officer			50,000	\$0.54	June 15, 2012
(since June 1, 2008);			200,000	\$0.29	May 15, 2013
Vice-President, Mining					
(from March 1, 2007 to May 31, 2008)					
<b>Stewart Lockwood</b>	85,174	0.12%	100,000	\$0.35	June 30, 2010
Secretary			50,000	\$0.54	June 15, 2012
			40,000	\$0.29	May 15, 2013
			175,000	\$0.29	May 15, 2013

<b>Philip Yee</b>	Nil	Nil	150,000	\$0.35	June 30, 2010
Chief Financial Officer and Vice-President (Finance)			100,000	\$0.69	June 29, 2011
			100,000	\$0.54	June 15, 2012
			175,000	\$0.29	May 15, 2013

(1)

As at June 15, 2009, the Registrant had 72,704,505 common shares issued and outstanding.

(2)

Common shares.

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

Details of all total outstanding options, warrants and other rights to purchase securities of the Registrant and its subsidiaries as at June 15, 2009 unless otherwise stated, are set forth below:

***Stock Option Summary***

<b>Amount Outstanding</b>	<b>Exercise Prices</b>	<b>Dates Granted</b>	<b>Expiry Dates</b>
	<b>(CAD\$)</b>		
200,000	\$0.26	September 30, 1999	September 30, 2009
750,000	\$0.27	June 23, 2000	June 23, 2010
200,000	\$0.70	September 7, 2004	September 7, 2009

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100,000	\$0.70	October 25, 2004	October 25, 2009
1,140,000	\$0.35	June 30, 2005	June 30, 2010
20,000	\$0.40	December 5, 2005	December 5, 2010
1,200,000	\$0.69	June 29, 2006	June 29, 2011
325,000	\$0.74	January 26, 2007	January 26, 2012
1,085,000	\$0.54	June 15, 2007	June 15, 2012
750,000	\$0.46	September 26, 2007	September 26, 2012
1,765,000	\$0.29	May 15, 2008	May 15, 2013
<b>7,535,000</b>	<b>TOTAL</b>		

*Warrant Summary Chart*

<b>Amount Outstanding</b>	<b>Exercise Price</b> <b>(CAD\$)</b>	<b>Date Issued</b>	<b>Expiry Dates</b>
500,000	\$0.15	December 1, 2008	June 1, 2010
<b>500,000</b>	<b>TOTAL</b>		



### ***Stock Option/Share Incentive Plan***

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

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

Under the Plan, the Board of Directors of the Registrant or its Executive Committee may from time to time grant to directors, officers, consultants and full and part time employees of the Registrant and its associated, affiliated, controlled and subsidiary companies, as the Board or its Executive Committee shall designate, the option to purchase from the Registrant such number of its common shares as the Board or its Executive Committee may designate. The Registrant's Plan allows it to grant options to its employees, directors and consultants to acquire up to 18,374,095 common shares, of which options for 8,079,000 common shares are outstanding as at December 31, 2008, provided that the total number of common shares to be optioned to any one optionee shall not exceed 5% of the issued common shares of the Registrant at the time of grant. The exercise price of each option cannot be lower than the last recorded sale of a board lot on the Toronto Stock Exchange during the trading day immediately preceding the date of granting or, if there was no such sale, the high/low average price for the common shares on the Toronto Stock Exchange based on the last five trading days before the date of the grant. Pursuant to the Plan, options shall be granted pursuant to an option agreement in a form that complies with the rules and policies of the Toronto Stock Exchange, which provide as follows:

(a)

all options granted shall be non-assignable;

(b)

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

(c)

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

At the Registrant's annual general meeting held on May 31, 2005, shareholder approval was provided for the increase of 6,000,000 shares in the maximum aggregate number of common shares which may be reserved for issuance under the Plan from 5,696,450 shares to 11,696,450 shares at that time.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **7.A Major Shareholders**

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

As at June 15, 2009, the only persons or groups known to the Registrant to beneficially own 5% or more of the Registrant's issued and outstanding common shares and the number of common shares owned, directly or indirectly, by officers and directors of the Registrant as a group are as follows:



<b>Title of Class</b>	<b>Identity of Person or Group</b>	<b>Shares Owned <sup>(1)</sup></b>	<b>Percentage of Class <sup>(2)</sup></b>
Common Shares	CDS & Co. Toronto, Ontario	35,301,335 <sup>(3), (4)</sup>	48.55%
Common Shares	CEDE & Co. New York, New York, U.S.A.	28,430,682 <sup>(3), (4)</sup>	39.10%
Common Shares	William Price <sup>(5)</sup> Redwood City, California, U.S.A.	5,556,000 <sup>(6)</sup>	7.64%
Common Shares	Officers and Directors as a group	7,566,159 <sup>(6)</sup>	10.41%

(1)

Common shares.

(2)

As at June 15, 2009, the Registrant had 72,704,505 common shares issued and outstanding.

(3)

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

(4)

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

(5)

As at June 15, 2009, William Price controlled, either directly or indirectly, 5,556,000 common shares of the Registrant, representing 7.64% of the Registrant at that time; William Price directly controls 4,556,000 common shares and indirectly controls 1,000,000 common shares through The William L Price Charitable Foundation. William Price became a director of the Registrant at May 31, 2005, but exerts no direct control over any board member and is unrelated to any board member and is not active in the operations of the Registrant.

(6)

William Price was elected to the Board of Directors at the Registrant's annual general meeting held on May 31, 2005, and as at June 15, 2009, his shareholdings of 5,556,000 common shares are included in the 7,566,159 common shares held by officers and directors as a group.

All shares of the Registrant, including all those held by any major shareholders, are common shares with similar voting rights. As of June 15, 2009 there were 72,704,505 common shares of the Registrant issued and outstanding. Based on the records of the Registrant's registrar and transfer agent, Computershare Investor Services Inc., of 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada, as at such date there were 439 registered holders of the Registrant's common shares resident in the United States (71% of all registered holders) holding 36,093,901 common shares. This number represents approximately 49.64% of the total issued and outstanding common shares of the Registrant at that date.

***Control by Another Corporation, Foreign Government or Other Persons***

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

***Change of Control***

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

*Canarc Resource Corp.*

*Form 20-F*

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## 7.B Related Party Transactions

For the fiscal year ended December 31, 2008, the Registrant had transactions with related parties.

General and administrative costs during 2008 include:

-

CAD\$Nil (2007 - CAD\$Nil and 2006 - CAD\$38,000) of consulting fees charged by a company controlled by a former director of the Registrant;

-

CAD\$52,561 (2007 - CAD\$120,987 and 2006 - CAD\$99,208) of salaries paid to a director;

-

CAD\$36,659 (2007 - CAD\$35,604 and 2006 - CAD\$40,000) to directors in their capacity as directors of the Registrant. As at December 31, 2008, the Registrant accrued CAD\$28,659 (2007 - CAD\$Nil) in directors fees;

-

CAD\$67,217 (2007 - CAD\$106,316 and 2006 - CAD\$159,594) in legal fees to a law firm in which a senior officer of the Registrant is a partner. As at December 31, 2008, the Registrant owed CAD\$32,859 (2007 - CAD\$1,183) to the law firm;

-

CAD\$272,572 (2007 - CAD\$32,005 and 2006 - CAD\$55,580) in office rent and salary allocations recovered from companies sharing certain common directors. As at December 31, 2008, the Registrant was owed CAD\$22,778 (2007 - \$4,407) from such companies; and

-

CAD\$119,976 (2007 - CAD\$35,273 and 2006 - \$Nil) in office rent and salary allocations paid to a company sharing certain common directors. As at December 31, 2008, the Registrant owed CAD\$1,435 (2007 - \$Nil) to the company.

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

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

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

#### ***Compensation to Directors and Senior Officers and Options to Purchase Securities***

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

#### ***Indebtedness of Directors and Senior Officers***

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

#### ***Interest of Insiders in Material Transactions***

Other than as set forth below and in the Form 20-F and in the Registrant's audited financial statements and other than transactions carried out in the ordinary course of business of the Registrant or any of its subsidiaries, none of the directors or senior officers of the Registrant, a proposed management nominee for election as a director of the Registrant, any member beneficially owning shares carrying more than 5% of the voting rights attached to the shares of the Registrant nor an associate or affiliate of any of the foregoing persons had since January 1, 2008 (being the commencement of the Registrant's last audited fiscal period) any material interest, direct or indirect, in any transactions which materially affected or would materially affect the Registrant or any of its subsidiaries.

The Registrant's directors and officers may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies and, to the extent that such other companies may participate in ventures in which the Registrant may participate, the directors of the Registrant may have a conflict of interest in negotiating and concluding terms



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

### **7.C Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **8.A Consolidated Statements and Other Financial Information**

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

(a)

Consolidated Balance Sheets as of December 31, 2008 and 2007;

(b)

Consolidated Statements of Operations and Comprehensive (Loss) Income for each of the years ended December 31, 2008, 2007, and 2006;

(c)

Consolidated Statements of Shareholders' Equity for each of the years ended December 31, 2008, 2007, and 2006;

(d)

Consolidated Statements of Cash Flows for each of the years ended December 31, 2008, 2007, and 2006; and

(e)

Notes to the consolidated financial statements.

The Registrant is not involved and has not been involved in the recent past in any legal or arbitration proceedings which may have, or had in the recent past, significant effects on the Registrant's financial position or profitability, including governmental proceedings pending or known to be contemplated.

### *Dividend Policy*

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

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

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

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

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

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

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

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

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

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

### ***Legal Proceedings***

The Registrant is not involved in any legal or arbitration proceedings which have, or may have had in the recent past, significant effects on the Registrant's financial position or profitability.

## **8.B Significant Changes**

There has been no significant change in the financial condition of the Registrant since December 31, 2008 other than as disclosed in this Form 20-F.

## **ITEM 9. THE OFFER AND LISTING**

### **9.A Offer and Listing Details**

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

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

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

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(Stated in terms of Canadian dollars)

<b>Fiscal Year</b>	<b>High (CAD\$)</b>	<b>Low (CAD\$)</b>
2008	\$0.44	\$0.04
2007	\$0.83	\$0.33
2006	\$0.95	\$0.55
2005	\$0.62	\$0.31
2004	\$1.10	\$0.49

<b>Quarter</b>	<b>High (CAD\$)</b>	<b>Low (CAD\$)</b>
2009		
1st Quarter	\$0.10	\$0.06
2008		
4th Quarter	\$0.11	\$0.04
3rd Quarter	\$0.30	\$0.09
2nd Quarter	\$0.31	\$0.23
1st Quarter	\$0.44	\$0.23
2007		
4th Quarter	\$0.54	\$0.33
3rd Quarter	\$0.61	\$0.40
2nd Quarter	\$0.78	\$0.52
1st Quarter	\$0.83	\$0.62

<b>Month</b>	<b>High (CAD\$)</b>	<b>Low (CAD\$)</b>
2009		
May	\$0.10	\$0.07



April	\$0.09	\$0.07
March	\$0.09	\$0.07
February	\$0.10	\$0.08
January	\$0.10	\$0.06
2008		
December	\$0.06	\$0.04

**9.B Plan of Distribution**

Not applicable.

**9.C Markets**

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

**9.D Selling Shareholders**

Not applicable.

**9.E Dilution**

Not applicable.

**9.F Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**10.A Share Capital**

Not applicable.

**10.B Notice of Articles and Articles of Association**

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

1.

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

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

2.

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

(a)

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

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

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the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

(b)

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

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

(c)

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

The Registrant, if authorized by the directors, may:

(i)

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

(ii)

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

(iii)

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

(iv)

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

(d)

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

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

(e)

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

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

3.

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

4.

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

5.

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

6.

There are no limitations on the rights to own securities.

7.

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

8.

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

9.

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

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10.

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

11.

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

12.

There are no residency requirements for directors under the BCBCA.

13.

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

14.

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

15.

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

16.

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

17.

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



18.

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

19.

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

20.

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

21.

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

22.

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

23.

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

24.

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

25.

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

26.

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

27.

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

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

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

changing the authorized capital;

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

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

28.

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

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29.

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

30.

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

31.

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

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

### **Summary of the Shareholder Rights Plan**

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

#### *General*

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

### *Trading of Rights*

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

### *Separation Time and Acquiring Person*

The rights will separate and trade apart from the common shares and become exercisable at the separation time.

Separation time generally means the close of business on the 10th trading day following the commencement or announcement of the intent of any person to commence a take-over bid, other than a permitted bid or a competing bid, but under certain circumstances can mean the eighth trading day after a person becomes an acquiring person by acquiring 20% or more of the voting shares of any class.

### *Flip-in Event*

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

### *Permitted Bids*

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

(a)

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

(b)

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

(c)

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

(d)

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

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

#### *Permitted Bid Expiry Date*

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

#### *Exchange Option*

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

*Adjustments*

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

*Redemption*

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

*Waiver*

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

*Amendments*

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



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

*Term*

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

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

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

**10.C Material Contracts**

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

For the two years immediately preceding June 15, 2009, there were no material contracts entered into, other than contracts entered into in the ordinary course of business, to which the Registrant or any member of the group was a party, and other than as disclosed in this Form 20-F. For a description of those contracts entered into in the ordinary course of business refer to Items 4.B and 4.D.

## 10.D Exchange Controls

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

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

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

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

The Investment Canada Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture (each an entity) that is not a "Canadian" as defined in the Investment Canada Act (a non-Canadian), unless after review, the Director of Investments appointed by the minister responsible for the Investment Canada Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in the common shares by a non-Canadian other than a WTO Investor (as that term is defined by the Investment Canada Act, and which term includes entities which are nationals of or are controlled by nationals of member states of the World Trade Organization) when the Company was not controlled by a WTO Investor, would be reviewable under the Investment Canada Act if it was an investment to acquire control of the Registrant and the value of the assets of the Registrant, as determined in accordance with the regulations promulgated under the

Investment Canada Act, equals or exceeds \$5 million for direct acquisition and over \$50 million for indirect acquisition, or if an order for review was made by the federal cabinet on the grounds that the investment related to Canada's cultural heritage or national identity, regardless of the value of the assets of the Registrant. An investment in the common shares by a WTO Investor, or by a non-Canadian when the Registrant was controlled by a WTO Investor, would be reviewable under the Investment Canada Act if it was an investment to acquire control of the Registrant and the value of the assets of the Registrant, as determined in accordance with the regulations promulgated under the Investment Canada Act was not less than a specified amount. A non-Canadian would acquire control of the Registrant for the purposes of the Investment Canada Act if the non-Canadian acquired a majority of the common shares. The acquisition of one third or more, but less than a majority of the common shares would be presumed to be an acquisition of control of the Registrant unless it could be established that, on the acquisition, the Registrant was not controlled in fact by the acquirer through the ownership of the common shares.

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

## **10.E Taxation**

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

### **United States Federal Income Tax Consequences**

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

local or foreign tax consequences. (Refer to Certain Canadian Federal Income Tax Considerations for material Canadian federal income tax consequences).

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

#### **U.S. Holders**

As used herein, a U.S. Holder means a holder of common shares of the Registrant who is (i) a citizen or individual resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate whose income is taxable in the United States irrespective of source or (iv) a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to specific provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, individual retirement accounts and

other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, persons or entities that have a functional currency other than the U.S. dollar, shareholders subject to the alternative minimum tax, shareholders who hold common shares as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own common shares as capital assets within the meaning of Section 1221 of the Code. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares.

### **Distribution on Common Shares of the Company**

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

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

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

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

### **Foreign Tax Credit**

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of common shares of the Registrant may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations that apply to the credit among which is the general limitation that the credit cannot exceed the proportionate share of the

U.S. Holder's United States income tax liability that the U.S. Holder's foreign source income bears to his or its worldwide taxable income. In the determination of the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as passive income, high withholding tax interest, financial services income, shipping income, and certain other classifications of income. Dividends distributed by the Registrant will generally constitute passive income or, in the case of certain U.S. Holders, financial services income for these purposes. In addition, U.S. Holders which are corporations that own 10% or more of the voting stock of the Registrant may be entitled to an indirect foreign tax credit under Section 902 with respect to the payment of dividends by the Registrant under certain circumstances and subject to complex rules and limitations. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific, and U.S. Holders of common shares of the Registrant should consult their own tax advisors regarding their particular circumstances.

### **Disposition of Common Shares of the Company**

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

### **Other Considerations**

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

#### *Foreign Investment Company*

If 50% or more of the combined voting power or total value of the Registrant's outstanding shares is held, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships or companies, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), and the Registrant is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that the Registrant may be treated as a "foreign investment company" as defined in Section 1246



of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging common shares to be treated as ordinary income rather than capital gain. The Registrant does not believe that it currently qualifies as a foreign investment company. However, there can be no assurance that the Registrant will not be considered a foreign investment company for the current or any future taxable year.

***Passive Foreign Investment Company***

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

ordinary gains or losses. This alternative will apply to taxable years of U.S. Holders beginning after 1997 and taxable years of foreign corporations ending with or within such taxable years of U.S. Holders.

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

### ***Controlled Foreign Registrant***

If more than 50% of the total combined voting power of all classes of shares entitled to vote or the total value of the shares of the Registrant is owned, actually or constructively, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), each of which own, actually or constructively, 10% or more of the total combined voting power of all classes of shares entitled to vote of the Registrant ( United States Shareholder ), the Registrant could be treated as a controlled foreign corporation ( CFC ) under Subpart F of the Code. This classification would affect many complex results, one of which is the inclusion of certain income of a CFC which is subject to current U.S. tax. The United States generally taxes United States shareholders of a CFC currently on their pro rata shares of the Subpart F income of the CFC. Such United States shareholders are generally treated as having received a current distribution out of the CFC's Subpart F income and are also subject to current U.S. tax on their pro rata shares of the CFC's earnings invested in U.S. property. The foreign tax credit described above may reduce the U.S. tax on these amounts. In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Holder of common shares of the Registrant which is or was a United States Shareholder at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of earnings and profits of the Registrant attributable to the shares sold or exchanged. If a foreign corporation is both a PFIC and a CFC, the foreign corporation generally will not be treated as a PFIC with respect to United States Shareholders of the CFC. This rule generally will be effective for taxable years of United States Shareholders beginning after 1997 and for taxable years of foreign Registrants ending with or within such taxable years of United States Shareholders. Special rules apply to United States Shareholders who are subject to the special taxation rules under Section 1291 discussed above with respect to a PFIC. Because of the complexity of Subpart F, a more detailed review of these rules is outside of the scope of this discussion. The Registrant does not believe that it currently qualifies as a CFC. However, there can be no assurance that the Registrant will not be considered a CFC for the current or any future taxable year.

### **Certain Canadian Federal Income Tax Considerations**

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

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

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

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

## **Dividends on Common Shares and Other Income**

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

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

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

## **Dispositions of Common Shares**

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

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

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

(a)

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

(b)

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

(c)

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

#### **10.F Dividends and Paying Agents**

Not applicable.

**10.G Statement by Experts**

Not applicable.

**10.H Documents on Display**

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

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

**10.I Subsidiary Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Registrant believes that it does not have any material exposure to interest rate risks. The Registrant does not own any derivative instruments, does not engage in any hedging transactions and does not have any outstanding long-term debt. Item 3.D provides information concerning risk factors.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

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

**14.A - D**

None.

**14.E Proceeds**

Not Applicable.

**ITEM 15. CONTROLS AND PROCEDURES**



## **Disclosure Controls and Procedures**

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

## **Management's Report on Internal Control over Financial Reporting**

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

Management conducted an evaluation of the design and operation of the Registrant's internal control over financial reporting as of December 31, 2008 based on the criteria in a framework developed by the Registrant's management pursuant to and in compliance

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with the SEC's *Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934*, Release No. 33-8810. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management has identified the following weakness in its internal controls:

In common with many other smaller companies, the Registrant has insufficient resources to appropriately review increasingly complex areas of accounting within the accounting function such as those in relation to financial instruments and future income tax. The Registrant shall engage the services of an external accounting firm, which is independent of the Registrant's current auditors, to assist in applying complex areas of accounting as needed. In December 2007, the Registrant has hired a consultant to design and implement internal controls over financial reporting. Notwithstanding this weakness, management concluded that the financial statements for the year ended December 31, 2008 fairly present the Company's financial position and the results of its operations for the year then ended.

The Registrant's independent registered public accounting firm is not required to provide an attestation on management's report on internal control over financial reporting until the Registrant's annual report for the fiscal year ended December 31, 2009. Therefore, this report does not include an attestation report of the Registrant's independent registered public accounting firm regarding internal controls over financial reporting pursuant to temporary rules of the Securities and Exchange Commission that permit the Registrant to provide only management's report in this annual report.

#### **Changes in Internal Controls over Financial Reporting**

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

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

## 16.A Audit Committee Financial Expert

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

Derek Bullock

Leonard Harris

William Price

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

### *Relevant Education and Experience*

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

*Leonard Harris* - Mr. Harris is a professional engineer with a metallurgy diploma and 50 years experience in all aspects of mineral processing and mining operations world wide, including the construction of the Yanacocha gold mine in Peru. Since 1995, Mr. Harris has been a consultant and director of several small cap mining companies including Glamis Gold (former director), Solitario Resources, Alamos Gold Inc., Corriente Resources (former director), Cardero Resources, Endeavour Silver Corp. and the Registrant, as well as Aztec Metals Corp. (a private company).

*William Price* - Mr. Price has significant experience and expertise in the financial world, having served as the Chairman, CEO and CIO of RCM Capital Management LLC and as Global Chief Investment Officer of Allianz Global Investors AG. Mr. Price was a research analyst in the 1960's for well recognized firms in the US equity markets, taking on the additional responsibility of portfolio manager with Donaldson, Lufkin, Jenrette in 1970. Starting in 1977, Mr. Price became an early partner in RCM Capital Management



and ultimately led the Company as CEO. RCM Capital Management had more than US\$30 billion under management upon his retirement in 2003.

## 16.B Code of Ethics

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

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

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

-

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

-

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

-

compliance with applicable laws, rules and regulations; and

-

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

**16.C Principal Accountant Fees and Services**

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

(Stated in terms of Canadian dollars)

<u>Type of Services Rendered</u>	<u>2008</u> <u>Fiscal Year</u> (CAD\$)	<u>2007</u> <u>Fiscal Year</u> (CAD\$)
(a) Audit Fees	\$50,000	\$82,000
(b) Audit-Related Fees	Nil	\$9,000
(c) Tax Fees	Nil	Nil
(d) All Other Fees	Nil	Nil

At an Audit Committee meeting held in March 2009, the Audit Committee pre-approved all services to be performed by the auditors including certain non-audit services requested by management for the 2009 fiscal year until the next Audit Committee meeting concerning the financial statements for the year ended December 31, 2009, which services are not prohibited services under the independence requirements of the Securities and Exchange Commission or professional standards in Canada or the United States.

**16.D Exemptions from the Listing Standards for Audit Committees**

Not applicable.

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

None.

**16.F Change in Registrant's Certifying Accountant**

Not applicable.

**16.G Corporate Governance**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

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

<b>Financial Statements</b>	<b>Page # in Sequential Numbering System</b>
1.1	79
Report of Independent Registered Public Accounting Firm dated March 20, 2009, except as to Note 15 which is as of June 15, 2009 and Note 16 which is as of May 7, 2009.	
1.2	80
Report of Independent Registered Public Accounting Firm dated March 14, 2008, except as to Note 15 which is as of July 11, 2008.	
1.3	81
Consolidated balance sheets as at December 31, 2008 and 2007 together with the consolidated statements of operations and comprehensive income, shareholders equity and cash flows for each of the years in the three year period ended December 31, 2008, 2007 and 2006.	

**ITEM 18. FINANCIAL STATEMENTS**

Not Applicable

**ITEM 19. EXHIBITS**

<b>Exhibit #</b>	<b>Exhibits Description</b>	<b>Page # in Sequential Numbering System</b>
1-1	Notice of Articles and Articles (Business Corporations Act of British Columbia)	Previously filed as Exhibit 2.1 in the Form 20-F with the SEC on July 12, 2005

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1-2	Shareholders Right Plan dated April 30, 2005	Previously filed as Exhibit 2.2 in the Form 20-F with the SEC on July 12, 2005
8-1	List of Material Subsidiaries	119
12-1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Bradford J. Cooke)	76
12-2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Philip Yee)	77
13-1.	Certification pursuant to Title 18, United States Code, Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Bradford J. Cooke)	120
13-2	Certification pursuant to Title 18, United States Code, Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Philip Yee)	120
15-1	Resource Potential, New Polaris Project  (dated March 14, 2007)	Previously filed on Form 6-K with the SEC in July 2008
15-2	New Polaris Project, Preliminary Assessment  (dated October 4, 2007)	Previously filed on Form 6-K with the SEC on October 12, 2007
15-3	Report on the 2007 Exploration Program on the Los Arrastres Property  (dated March 15, 2008)	Previously filed on Form 6-K with the SEC in July 2008
15-4	Summary Report on the Benzdorp Project Suriname  (dated March 22, 2008)	Previously filed on Form 6-K with the SEC in July 2008



**SIGNATURE**

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

DATED at Vancouver, British Columbia, Canada, as of June 29, 2009.

**CANARC RESOURCE CORP.**

Per:

*/s/ Bradford J. Cooke*

Bradford J. Cooke, Chief Executive Officer and Director

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**EXHIBIT 12.1**

**CERTIFICATIONS**

I, Bradford J. Cooke, certify that:

1.

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

2.

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

3.

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

4.

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

a.

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

b.

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

c.

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

d.

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

5.

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

a.

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

b.

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



DATED at Vancouver, British Columbia, Canada, as of June 29, 2009.

*/s/ Bradford J. Cooke*

Bradford J. Cooke, Chief Executive Officer and Director

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**EXHIBIT 12.2**

**CERTIFICATIONS**

I, Philip Yee, certify that:

1.

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

2.

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

3.

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

4.

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

a.

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

b.

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

c.

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

d.

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

5.

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

a.

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

b.

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

DATED at Vancouver, British Columbia, Canada, as of June 29, 2009.

/s/ *Philip Yee*

Philip Yee, Chief Financial Officer

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**Consolidated Financial Statements of**

**CANARC RESOURCE CORP.**

**(expressed in thousands of United States dollars)**

**Years ended December 31, 2008, 2007 and 2006**

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## **REPORT OF THE INDEPENDENT AUDITORS**

### **To the Shareholders of Canarc Resource Corp.**

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

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

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

The consolidated financial statements as at December 31, 2007 and for the years ended December 31, 2007 and 2006 were audited by another firm of auditors who expressed an opinion without reservation on those statements in their

report dated March 14, 2008.

*Smythe Ratcliffe LLP (signed)*

Chartered Accountants

Vancouver, Canada

March 20, 2009, except as to Note 15 which is as of June 15, 2009

and Note 16 which is as of May 7, 2009.

**COMMENTS BY AUDITORS FOR UNITED STATES READERS US Reporting Difference**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as described in note 1 to the consolidated financial statements. Our report to the shareholders dated March 20, 2009, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

*Smythe Ratcliffe LLP (signed)*

Chartered Accountants

Vancouver, Canada

March 20, 2009, except as to Note 15 which is as of June 15, 2009

and Note 16 which is as of May 7, 2009.



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**KPMG LLP**

**Chartered Accountants**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Canarc Resource Corp.

We have audited the accompanying consolidated balance sheet of Canarc Resource Corp. as of December 31, 2007 and the consolidated statements of operations and comprehensive (loss) income, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our audit opinion.

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

As discussed in note 2(o) to the consolidated financial statements, the Company changed its method of accounting for certain financial instruments in 2007.

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

**KPMG LLP (signed)**

Chartered Accountants

Vancouver, Canada

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

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

**CANARC RESOURCE CORP.**

## Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	December 31,	
	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 155	\$ 633
Marketable securities (Note 5)	-	16
Receivables and prepaids	295	526
Royalty receivable - current portion (Note 6(c)(i))	50	50
Total Current Assets	500	1,225
<b>NON-CURRENT ASSETS</b>		
Mineral properties (Note 6)	12,071	18,629
Equipment (Note 7)	3	8
Royalty receivable - long-term portion (Note 6(c)(i))	88	127
Long-term investments (Note 8)	167	126
Total Non-Current Assets	12,329	18,890
Total Assets	\$ 12,829	\$ 20,115
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 306	\$ 331
Notes payable (Note 10)	-	304
Total Liabilities	306	635
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9(a))	55,349	55,289
Contributed surplus	2,217	2,014
Accumulated other comprehensive income	-	(28)
Deficit	(45,043)	(37,795)

Total Shareholders' Equity	<b>12,523</b>	19,480
Total Liabilities and Shareholders' Equity	<b>\$ 12,829</b>	\$ 20,115

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 6)

Subsequent event (Note 16)

Refer to the accompanying notes to the consolidated financial statements.

Approved by the Directors:

/s/

*Bradford Cooke*

/s/

*William Price*

Director

Director

**CANARC RESOURCE CORP.**

## Consolidated Statements of Operations and Comprehensive (Loss) Income

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

	<b>Years ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Expenses:</b>			
Amortization	<b>\$ 2</b>	\$ 2	\$ 3
Corporate development	<b>17</b>	65	294
Employee and director remuneration (Note 11)	<b>350</b>	618	429
Foreign exchange loss (gain)	<b>77</b>	(198)	(14)
General and administrative (Note 11)	<b>348</b>	592	337
Shareholder relations	<b>121</b>	198	307
Stock-based compensation (Note 9(b))	<b>203</b>	442	454
<b>Loss before the undernoted</b>	<b>(1,118)</b>	(1,719)	(1,810)
Equity loss from investment in affiliated company	-	-	(6)
(Loss) gain on disposition of marketable securities	<b>(32)</b>	1,152	1,598
Gain on disposition of long-term investment (Note 8)	<b>228</b>	-	-
Gain from disposition of subsidiary (Notes 6(b) and (c)(i))	<b>221</b>	-	600
Investment and other income	<b>2</b>	28	81
Accretion of royalty receivable (Note 6(c)(i))	<b>11</b>	15	-
Write-down of marketable securities	-	-	(30)
Write-off of mineral properties (Note 6(c)(ii))	<b>(6,275)</b>	-	-
<b>(Loss) income before income tax</b>	<b>(6,963)</b>	(524)	433
	-	2,039	-

Future income tax recovery (Note  
9(a)(ii))

<b>Net (loss) income for the year</b>	<b>(6,963)</b>	1,515	433
Other comprehensive (loss) income:			
Unrealized (loss) gain on available-for-sale securities	<b>(3)</b>	289	-
Realized gain on sale of available-for-sale securities	<b>32</b>	(1,152)	-
Foreign exchange on unrealized gain	-	68	-
Foreign exchange on realized gain	<b>(1)</b>	(70)	-
<b>Comprehensive (loss) income for the year</b>	<b>\$ (6,935)</b>	\$ 650	\$ 433
<b>Basic and diluted (loss) earnings per share</b>	<b>\$ (0.10)</b>	\$ 0.02	\$ 0.01
Weighted average number of common shares outstanding	<b>71,793,931</b>	69,907,839	63,462,293

Refer to the accompanying notes to the  
consolidated financial statements.

**CANARC RESOURCE CORP.**

## Consolidated Statements of Shareholders' Equity

(expressed in thousands of United States dollars)

	2008		Years ended December 31, 2007		2006	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common shares:</b>						
Balance, beginning of year	71,734,505	\$ 55,289	68,470,476	\$ 55,629	58,545,115	\$ 49,150
Issued:						
Private placement (Note 9(a))	1,000,000	77	2,200,000	1,039	9,380,361	6,201
Property acquisition (Notes 6(d)(iii) and (v))	-	-	45,000	24	-	-
Exercise of options	-	-	830,000	530	545,000	278
Exercise of share appreciation rights	-	-	189,029	106	-	-
Provision for flow-through shares (Note 9(a)(ii))	-	-	-	(2,039)	-	-
Write-off of mineral properties (Note 6(d)(iii))	(30,000)	(17)	-	-	-	-
Balance, end of year	72,704,505	55,349	71,734,505	55,289	68,470,476	55,629
<b>Contributed surplus:</b>						
Balance, beginning of year		2,014		1,855		1,502
Exercise of options		-		(177)		(101)
Fair value of stock options recognized		203		405		454
Fair value of share appreciation rights		-		(69)		-
		2,217		2,014		1,855



Balance, end of  
year

**Accumulated  
other  
comprehensive  
income:**

Balance, beginning of year	(28)	-	-
Adoption of new accounting policy for available-for-sale securities (Note 2(o))	-	837	-
Unrealized (loss) gain on available-for-sale securities	(3)	289	-
Realized loss (gain) on sale of available-for-sale securities	32	(1,152)	-
Foreign exchange on unrealized gain on available-for-sale securities	-	68	-
Foreign exchange on realized gain on available-for-sale securities	(1)	(70)	-
Balance, end of year	-	(28)	-

**Deficit:**

Balance, beginning of year	(37,795)	(39,272)	(39,705)
Adoption of new accounting policy for royalty receivable (Note 2(o))	-	(38)	-
Disposition of subsidiaries pursuant to plan of arrangement (Note	78	-	-

13)			
Dividends pursuant to plan of arrangement (Note 13)	(363)	-	-
Net (loss) income for the year	(6,963)	1,515	433
Balance, end of year	(45,043)	(37,795)	(39,272)
<b>Total Shareholders' Equity</b>	<b>\$ 12,523</b>	<b>\$ 19,480</b>	<b>\$ 18,212</b>

Refer to the accompanying notes to the consolidated financial statements.

**CANARC RESOURCE CORP.**

## Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	<b>Years ended December 31,</b>		
	<b>2008</b>	2007	2006
<b>Cash provided from (used for):</b>			
<b>Operations:</b>			
Net (loss) income for the year	<b>\$ (6,963)</b>	\$ 1,515	\$ 433
Items not involving cash:			
Amortization	<b>2</b>	2	3
Employee remuneration	<b>58</b>	-	-
Equity loss from investment in affiliated company	-	-	6
Loss (gain) on disposition of marketable securities	<b>32</b>	(1,152)	(1,598)
Gain on disposition of long-term investment	<b>(228)</b>	-	-
Gain on disposition of subsidiary (Notes 6(b) and (c)(i))	<b>(221)</b>	-	(600)
Future income tax recovery	-	(2,039)	-
Accretion of royalty receivable (Note 6(c)(i))	<b>(11)</b>	(15)	-
Stock-based compensation	<b>203</b>	442	454
Unrealized currency translation loss	<b>22</b>	(47)	(9)
Write-down of marketable securities	-	-	30
Write-off of mineral property (Note 6(c)(ii))	<b>6,275</b>	-	-
	<b>(831)</b>	(1,294)	(1,281)
Changes in non-cash working capital items:			
Receivables and prepaids	<b>180</b>	(106)	(57)
Accounts payable and accrued liabilities	<b>51</b>	96	-

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Cash used by operating activities	(600)	(1,304)	(1,338)
<b>Financing:</b>			
Issuance of common shares	77	1,392	6,378
Proceeds from notes payable	-	304	-
Cash from financing activities	77	1,696	6,378
<b>Investing:</b>			
Proceeds from disposal of marketable securities	12	1,690	2,452
Proceeds from royalties and debt settlement (Note 6(c)(i))	50	50	450
Proceeds from disposition of subsidiary (Note 6(b))	204	-	-
Acquisition of marketable securities	-	(13)	(498)
Mineral properties, net of recoveries	(79)	(3,696)	(5,666)
Cash of subsidiaries pursuant to plan of arrangement (Note 13)	(345)	-	-
Equipment	-	(3)	-
Long-term investments (Note 8)	203	(54)	-
Cash from (used by) investing activities	45	(2,026)	(3,262)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(478)</b>	<b>(1,634)</b>	<b>1,778</b>
Cash and cash equivalents, beginning of year	633	2,267	489
<b>Cash and cash equivalents, end of year</b>	<b>\$ 155</b>	<b>\$ 633</b>	<b>\$ 2,267</b>

Refer to the accompanying notes to the consolidated financial statements.

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**CANARC RESOURCE CORP.**

## Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

	<b>Years ended December 31,</b>		
	2008	2007	2006
<b>Non-cash financing and investing activities:</b>			
Dividends issued pursuant to plan of arrangement (Note 13)	\$ 363	\$ -	\$ -
Shares returned to treasury from disposition of mineral property interest (Note 6(d)(iii))	17	-	-
Fair value of stock options allocated to shares issued on exercise of:			
Share appreciation rights	-	69	-
Stock options	-	177	101
Issuance of shares for property acquisitions	-	24	-
Mineral exploration tax credit, receivable on mineral properties	-	315	-
<b>Income taxes paid</b>	-	-	-
<b>Interest paid</b>	-	-	-

Refer to the accompanying notes to the consolidated financial statements.

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

**1.**

**Nature and Continuance of Operations**

Canarc Resource Corp. (the Company), a company incorporated under the laws of British Columbia, is in the mineral exploration business and has not yet determined whether its mineral properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves in its mineral properties, the ability of the Company to arrange appropriate financing to complete the development of its properties, confirmation of the Company's interest in the underlying properties (Notes 6(e) and 6(f)), the receipt of necessary permitting and upon future profitable production or proceeds from the disposition thereof.

The Company has incurred significant operating losses and has an accumulated deficit of \$45,043,000 at December 31, 2008. Furthermore, the Company has working capital of \$194,000 as at December 31, 2008, which is not sufficient to achieve the Company's planned business objectives. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on the continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

**2.**

**Significant Accounting Policies**

(a)



Basis of presentation:

These consolidated financial statements include the accounts of the Company and its integrated subsidiaries, all of which are wholly-owned except for:

-

Aztec Metals Corp. ( Aztec ), in which the Company held a 13% interest as at December 31, 2008 (2007 17%) and such investment is accounted for using the cost method;

-

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

-

Caza Gold Corp. ( Caza ), in which the Company previously held a 100% interest and was consolidated but was divested to a 11% interest as at December 31, 2008 pursuant to a plan of arrangement (Note 13) and such investment was accounted for using the cost method;

-

Minera Canarc de Mexico SA de CV, in which the Company previously held a 100% interest and was consolidated but was transferred to Caza in fiscal 2008 pursuant to a plan of arrangement (Note 13); and

-

its 40% owned investee, Benzdorp Gold N.V., which is proportionately consolidated.

All significant intercompany transactions and balances have been eliminated.

(b)

Cash and cash equivalents:

Cash and cash equivalents include cash and short-term liquid investments having terms to maturity when acquired of three months or less. Short-term investments having terms to maturity when acquired of greater than three months and less than one year are included in marketable securities or other investments as appropriate.

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

2.

**Significant Accounting Policies** (continued)

(c)

Marketable securities:

Marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation. Refer to Note 2(o) for change in accounting policy effective January 1, 2007.

(d)

Mineral properties:

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

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

property interests when amounts received or receivable are in excess of the carrying amount.

The amounts shown for mineral properties represent costs incurred to date, less recoveries and write-downs, and are not intended to reflect present or future values.

(e)

Equipment:

Equipment is recorded at cost and, for equipment subject to amortization, the Company uses the declining balance method at rates varying from 10% to 30% annually. Amortization on equipment used directly on exploration projects is included in mineral properties.

(f)

Long-term investment:

Investment in shares of an affiliated company in which the Company's ownership is greater than 20% but no more than 50% is, where significant influence is present, accounted for by the equity method. Investment in shares in which the Company's ownership is less than 20%, where significant influence does not exist, is accounted for in accordance with the Company's policy for financial instruments as defined in Note 2(o)(i).

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

2.

**Significant Accounting Policies** (continued)

(g)

Stock-based compensation plan:

The Company has a stock option plan which is described in Note 9(b). The Company records all stock-based payments using the fair value method. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged to operations over the vesting period. The offset is credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related amount in contributed surplus is transferred to share capital.

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

(h)

Asset retirement obligations:

Any statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, are recognized if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. The Company assessed its mineral properties, and based upon such assessments, there were no known material asset retirement obligations as at December 31, 2008 or 2007.

(i)

Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing the earnings available to common shareholders by the weighted average number of shares outstanding during the year. For all years presented, earnings available to common shareholders equals the reported earnings. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In the Company's case, diluted loss per share presented is the same as basic loss per share as the effect of outstanding options and warrants in the loss per share calculation would be anti-dilutive.

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

**2.**

**Significant Accounting Policies** (continued)

(j)

Foreign currency translation:

The Company uses the United States dollar as its functional and reporting currency, and accounts denominated in currencies other than the United States dollar have been translated as follows:

Revenue and expense items at the rate of exchange in effect on the transaction date;

Non-monetary assets and liabilities at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect on the balance sheet date; and

Monetary assets and liabilities at the exchange rate at the balance sheet date.

Exchange gains and losses are recorded in the consolidated statement of operations in the year in which they occur.

(k)

Flow-through shares:



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

(l)

Use of estimates:

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Significant areas requiring the use of management estimates relate to collectibility of receivables, balances of accrued liabilities, impairment of mineral properties, determination of reclamation obligations, valuation allowances for future income tax assets, and assumptions used in determining the fair value of non-cash stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(m)

Variable interest entities:

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

(n)

Income taxes:

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

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

2.

**Significant Accounting Policies** (continued)

(o)

Changes in accounting policies:

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ( CICA ) relating to financial instruments. The new standards have been adopted on a prospective basis with no restatement of prior year financial statements.

(i)

CICA Handbook Section 3855 Financial Instruments Recognition and Measurement

The standard addresses the classification, recognition and measurement of financial instruments in the financial statements. This standard requires all financial instruments within its scope, including derivatives, to be included in the Company's balance sheet and measured either at fair value on initial recognition or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are recognized in the statements of operations.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to the adoption date are recognized by adjusting accumulated other comprehensive income. Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are

classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

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

Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current year net earnings;

Available-for-sale financial assets are measured at fair value based on quoted market prices. Investment in equity instruments classified as available-for-sale that does not have a quoted market price in an active market is measured at cost. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet either by disposition or permanent impairment at which time the realized gain or loss is transferred to net earnings;

Held-for-trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the year in which they arise; and

All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the year in which they arise.

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**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

2.

**Significant Accounting Policies** (continued)

(o)

Changes in accounting policies: (continued)

(i)

CICA Handbook Section 3855 Financial Instruments Recognition and Measurement (continued)

In accordance with the new standard, the Company has classified its marketable securities as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with realized gains or losses recorded in net earnings and unrealized gains or losses recorded in other comprehensive income. This change in accounting policy resulted in an increase of \$837,000 in the carrying value of its marketable securities on initial adoption on January 1, 2007.

The Company's royalty receivable from disposition of subsidiary (Note 6(c)(i)) is classified as loans and receivables. It is measured at amortized cost and is amortized to interest income using the effective interest rate method. This change in accounting policy resulted in a decrease of \$38,000 in the carrying value of its royalty receivable from disposition of subsidiary on initial adoption on January 1, 2007.

Its investments in shares of Aztec and Caza are classified as available-for-sale but such shares do not have a quoted market price in an active market and are therefore measured at cost.

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

(ii)

CICA Handbook Section 3865 - Hedging

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company does not have any hedges.

(iii)

CICA Handbook Section 1530 - Comprehensive Income

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

Accordingly, the Company now includes the account accumulated other comprehensive income in the shareholders' equity section of the consolidated balance sheet and other comprehensive income in the consolidated statement of operations.

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2.

**Significant Accounting Policies** (continued)

(o)

Changes in accounting policies: (continued)

(iv)

Capital disclosures:

In February 2007, the CICA issued Handbook Section 1535, *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and procedures for managing capital. The new section is effective for the Company on January 1, 2008. Note 3 provides further details.

(v)

Financial instruments:

In February 2007, the CICA issued two new standards, Section 3862, *Financial Instruments Disclosures*, and Section 3863, *Financial Instruments Presentation*. These sections replace the existing Section 3861, *Financial Instruments Disclosure and Presentation*. Section 3862 provides users with information to evaluate the significance of the financial instruments of the entity's financial position and performance, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interests, dividends, losses and gains, and the circumstances in which financial assets and

financial liabilities are offset. The new sections are effective for the Company on January 1, 2008. Note 4 provides further details.

(vi)

Going concern:

In June 2007, the CICA amended Handbook Section 1400, *General Standards of Financial Statement Presentation*, which requires management to make an assessment of the Company's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The new section is effective for the Company on January 1, 2008. The Company's accounting policies were already in accordance with the requirements of the amended section and there was no effect on the Company's financial statement disclosure, or on its consolidated financial position or its consolidated results of operations.

(p)

New Accounting Pronouncements:

(i)

Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for the Company on January 1, 2009. The Company has no goodwill or intangible assets as of December 31, 2008.

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2.

**Significant Accounting Policies** (continued)

(p)

New Accounting Pronouncements: (continued)

(ii)

International Financial Reporting Standards ( IFRS ):

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3.

**Management of Capital**

The Company is an exploration stage company and this involves a high degree of risk. The Company has not determined whether its properties contain economically recoverable reserves of ore and currently has not earned any revenues from its mineral property interests and, therefore, does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

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

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

Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this financing due to the current difficult conditions. The Company believes that it has sufficient funds and additional receivables to fund its working capital at year end but would continue to rely on equity financings to continue exploration work on its mineral property interests and to meet its administrative overhead costs for the coming year.



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**4.**

**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 commodity price risk, foreign exchange risk and interest rate risk. The types of risk exposure and the way in which such exposure is managed are provided as follows:

The fair values of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the short terms to maturity.

(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 and cash equivalents. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality Canadian financial institutions. Any receivables from government usually bear no risk. The Company does not have financial assets that are invested in asset-backed commercial paper. The royalty receivable is due from an unrelated company, and the Company has not taken any steps to mitigate the credit risk associated with this receivable (Note 6(c)(i)).

(b)

Liquidity risk:

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

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and cash equivalents, if any, and its ability to raise equity financings. The Company believes that these sources may be sufficient to cover the likely short-term cash requirements and commitments, if any.

Accounts payable and accrued liabilities are due within the current operating year.

(c)

Market risk:

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

(i)

Commodity price risk:

The value of the Company's mineral properties is dependent on the price of gold and the outlook for this precious mineral. The Company does not have any hedging or other commodity-based risks respecting its operations.

Market prices for this precious metal historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk.



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**4.**

**Management of Financial Risk** (continued)

(c)

Market risk: (continued)

(ii)

Foreign exchange risk:

The Company's mineral properties and operations are in Canada and Suriname, and would subject it to foreign currency fluctuations including currency transaction risk and currency translation risk. A certain portion of its operating expenses are incurred in Canadian dollars and Surinamese dollars, and fluctuations in U.S. dollars would impact the earnings (losses) of the Company and the values of its assets and shareholders' equity as its financial statements are stated in U.S. dollars. The Canadian dollar fluctuates and floats with the U.S. dollar. The Suriname dollar is tied to a U.S. dollar-dominated currency basket and has only changed nominally from 2.768 to 2.730 since 2004 and has remained unchanged at 2.730 in 2008.

At December 31, 2008, the Company is exposed to currency risk for its U.S. dollar equivalent of financial assets and liabilities denominated in currencies other than U.S. dollars as follows:

Held in  
Canadian

	dollars (stated in U.S. dollars)
Cash	\$ 155
Receivables and prepaids	292
Accounts payable and accrued liabilities	(263)
Net financial assets	\$ 184

Based upon the above net exposure as at December 31, 2008 and assuming all other variables remain constant, a 10% depreciation or appreciation of the U.S. dollar relative to the Canadian dollar could result in a decrease/increase of \$18,400 in the Company's net earnings.

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

(iii)

Interest rate risk:

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

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**5.****Marketable Securities**

	2008	2007
Investment in shares of companies, at cost	\$ -	\$ 44
Unrealized foreign exchange losses	-	(2)
Unrealized loss in market values	-	(26)
	\$ -	\$ 16

In the second quarter of fiscal 2008, the Company disposed of all its remaining shares in marketable securities. The quoted market value of shares of companies was \$16,000 at December 31, 2007.

**6.****Mineral Properties**

2008			2007		
Acquisition Costs	Exploration/ Development	Total	Acquisition Costs	Exploration/ Development	Total

British Columbia:

New Polaris (Note 6(a)(i))	\$ 3,605	\$ 8,466	\$ 12,071	\$ 3,605	\$ 8,582	\$ 12,187
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Suriname:

Benzdorp (Note 6(c)(ii))	-	-	-	301	5,795	6,096
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Mexico:

Los Arrastres (Note 6(d)(ii))	-	-	-	125	95	220
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Providencia (Note 6(d)(iii))	-	-	-	17	8	25
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Santiago (Note 6(d)(iv))	-	-	-	60	34	94
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Santiago Fraction (Note 6(d)(v))	-	-	-	7	-	7
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	\$ 3,605	\$ 8,466	\$ 12,071	\$ 4,115	\$ 14,514	\$ 18,629
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**6.**

**Mineral Properties** (continued)

(a)

British Columbia:

(i)

New Polaris:

The New Polaris property, which is located in the Atlin Mining Division, British Columbia, is 100% owned by the Company subject to a 15% net profit interest which may be reduced to a 10% net profit interest within one year of commercial production by issuing 150,000 common shares to Rembrandt Gold Mines Ltd. Acquisition costs at December 31, 2008 include a reclamation bond for CAD\$250,000.

(ii)

Eskay Creek:

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

(b)

Bellavista, Costa Rica:

The Company held a net profit interest in the Bellavista property, which was located near San Jose, Costa Rica. A property agreement giving Central Sun Mining Inc. (formerly, Glencairn Gold Corporation) ( Central Sun ) the right to earn a 100% working interest in the property called for pre-production payments which ended in fiscal 2005. The Company had a net profit interest in Bellavista in which the Company was entitled to 5.67% of the net profits during the first payback period, as defined, then increasing to 10.40% during the second payback period and then to 20.24% of net profits thereafter, once commercial production commenced. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Central Sun until \$317,741 in advance royalty payments were repaid.

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

(c)

Suriname:

(i)

Sara Kreek:

As at December 31, 2005, the Company held 80% of the shares of Sara Kreek Resource, the company that holds the Sara Kreek concession. On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Suriname Wylap Development N.V. ( Wylap Development ) to transfer its interest in Sara Kreek Resource to Wylap Development. The Company received a cash payment of \$400,000 in 2006 and shall receive the greater of \$50,000 per year, payable semi-annually, or 1.5% royalty on annual gross production from the Sara Kreek property until December 31, 2011, in settlement of all claims, loans and advances owed to the Company.



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**6.**

**Mineral Properties** (continued)

(c)

Suriname: (continued)

(i)

Sara Kreek: (continued)

The royalty receivable has been determined using the effective interest rate method. The expected future cash flows have been discounted using the effective interest rate to determine the present value as at December 31, 2008.

Present value of expected cash flows from royalties as at January 1, 2007	\$ 212
Add: Accretion for the year	15
Less: Royalty received during the year	(50)
Present value of expected cash flows from royalties as at December 31, 2007	177
Add: Accretion for the year	11
Less: Royalty received during the year	(50)
Present value of expected cash flows from royalties as at	138

December 31, 2008	
Less: Current portion of royalty receivable as at December 31, 2008	(50)
Long-term portion of royalty receivable as at December 31, 2008	\$ 88

(ii)

Benzdorp:

In April 1996, the Company entered into an option agreement with Grasshopper Aluminum Company N.V. ( Grassalco ) to earn up to an 80% interest in the Benzdorp property by making cumulative cash payments of \$750,000 and property expenditures totalling \$5 million over a four-year period. In August 2002, the Company and Grassalco amended the option agreement. Cash payments prior to commercial production were reduced to \$300,000 with the balance of \$450,000 to be paid on or before 30 days after the commencement of commercial production, and exploration expenditures of \$5 million were to be incurred by April 2005. In April 2005, a further amendment to the option agreement was made that extended the date by which the property expenditures had to be completed, to December 6, 2005, subject to a payment of \$40,000 which was made by the Company in April 2005. By December 6, 2005, the Company incurred property expenditures in excess of \$5 million.

Pursuant to the amended option agreement, the Company will owe Grassalco an additional \$250,000 payable on or before 30 days after the commencement of commercial production if a feasibility study has not been completed by October 6, 2005. For the years 2006 to 2008, the Company will owe an additional \$250,000 payable on or before 30 days after the commencement of commercial production. However, if a feasibility study has not been completed by October 6, 2008, then the annual additional cash payments of \$250,000 will increase at that time to \$500,000 payable on or before 30 days after the commencement of commercial production. These additional cash payments will be treated as advance payments against Grassalco's shareholder ownership interest and will be deductible from Grassalco's net profit share or net smelter profit from exploiting the deposits. As at December 31, 2008, the Company did not complete a feasibility study.



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**6.**

**Mineral Properties** (continued)

(c)

Suriname: (continued)

(ii)

Benzdorp: (continued)

In June 2007, Benzdorp Gold NV, the joint venture company held by the Company and Grassalco, had applied for an extension to the concessions at Benzdorp prior to their expiry in July 2007. Benzdorp Gold NV was finally advised in August 2008 that an extension would not be granted but an application for new concessions would be considered so Benzdorp Gold NV applied for one new exploration concession in September 2008. The Company had ceased all exploration work on the concessions in August 2007, and had elected to write-off its investment in the Benzdorp property at December 31, 2008.

(d)

Mexico:

(i)

Los Angeles:

In April 2008, the Company entered into an option agreement to acquire a 100% interest in the La Escondida/Los Angeles properties by making US\$1 million in cash payments over a four-year period and issuing \$50,000 in shares of the Company over a twelve-month period. The vendors retained a 3% net smelter return ( NSR ). The Company made an initial payment of US\$15,000 upon the signing of the option agreement. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 13).

(ii)

Los Arrastres:

In February 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Arrastres gold/silver property by making \$2.5 million in cash payments and spending \$2 million on exploration over a three-year period. The vendor retained a 2% NSR and the Company had the right to reduce the NSR to 1% by paying \$1 million at any time. An initial payment of \$50,000 was made upon the signing of the option agreement and a further payment of \$75,000 was made in August 2007. A cash payment of \$25,000 was made in February 2008. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 13).

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**6.**

**Mineral Properties** (continued)

(d)

Mexico: (continued)

(iii)

Providencia and San Felix:

In March 2007, the Company entered into a preliminary option agreement to acquire a 100% interest in the Providencia and San Felix gold/silver properties by issuing 30,000 common shares to the vendors on signing a formal agreement within 30 days and making \$2 million in cash payments over a 2 ½ year period, including \$30,000 on signing. The Company issued 30,000 shares at a deemed value of CAD\$0.63 per share in 2007. The vendors retained a 2 ½ % NSR, and the Company had the right to reduce the royalty to 1 ½ % at any time by paying \$750,000 and issuing an option to the vendors to purchase 250,000 common shares of the Company at the five-day closing share price average on the Toronto Stock Exchange prior to the royalty reduction. In April 2008, the Company terminated its efforts to enter into a formal agreement, and the Company wrote-off related exploration expenditures in the first quarter of 2008, and the 30,000 shares, which were originally issued, were returned to treasury and cancelled.

(iv)

Santiago:

In May 2007, the Company entered into an option agreement to acquire a 100% interest in the Santiago gold property by making \$2 million in cash payments over a five-year period and spending \$200,000 on exploration over a two-year

period. The vendor retained a 2% NSR. An initial payment of \$30,000 was made upon the signing of the option agreement and a further payment of \$30,000 was made in November 2007. A cash payment of \$60,000 was made in May 2008. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 13).

(v)

Santiago Fraction:

In September 2007, the Company entered into an option and joint venture agreement to acquire up to a 75% interest in the Santiago Fraction property by issuing 15,000 common shares, paying \$25,000 in cash after one year, and spending up to \$1 million in exploration over a five-year period. The Company issued 15,000 common shares at a deemed value of CAD\$0.45 per share in 2007. Pursuant to the Plan of Arrangement which closed in June 2008, the property was transferred to Caza (Note 13).

(e)

Expenditure options:

As at December 31, 2008, to maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, the Company must make payments to the optionors as follows:

	Shares
New Polaris (Note 6(a)(i)):	
Net profit interest reduction or buydown	150,000
	150,000

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



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**6.**

**Mineral Properties** (continued)

(f)

Mineral properties contingencies:

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

(g)

Realization:

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

(h)

Environmental:

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

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

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

7.

**Equipment**

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 140	\$ 137	\$ 3	\$ 143	\$ 135	\$ 8

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**8.**

**Long-Term Investments**

In May 2007, the Company exercised its warrants for 500,000 common shares of Aztec at an exercise price of CAD\$0.12. As at December 31, 2008, the Company had an interest of 13% (2007 - 17%) in Aztec.

In 2008, the Company disposed of 815,000 shares of Aztec for proceeds of \$228,000 which reduced the Company's interest in Aztec to 13%.

As at December 31, 2008, the Company held 2,396,050 Caza shares (2007 - 100 Caza shares) representing approximately 11% interest (2007 - 100%) in Caza. The Company closed the Plan of Arrangement (Note 13) with Caza in June 2008.

**9.**

**Share Capital**

(a)

Authorized and issued:

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

Common shares issued for consideration other than cash are recorded at the quoted market value of the shares as of the agreement date, except in the case of common shares issued on exercise of stock options and share appreciation rights under the Company's stock option plan, which include the fair value of related options or rights previously allocated to contributed surplus.

(i)

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

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

(ii)

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

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

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

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**9.**

**Share Capital** (continued)

(a)

Authorized and issued: (continued)

(iii)

In March 2006, the Company closed brokered and non-brokered private placements. The brokered private placement with Dundee Securities Corporation (the Agent) was for 3,850,000 flow-through common shares at CAD\$0.82 per share for gross proceeds of CAD\$3,157,000. Agent's fees of CAD\$189,420 were comprised of CAD\$123,123 in cash and CAD\$66,297 in non-flow-through common shares, totalling 80,850 shares, with a deemed price of CAD\$0.82 per share. The Agent also received a compensation warrant exercisable for 231,000 non-flow-through common shares at an exercise price of CAD\$0.82 and with an expiry date of March 17, 2007 and a fair value of CAD\$43,890 which have been recorded in share capital on a net basis.

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. Finders' fees totalling CAD\$20,316 were paid.

In October 2006, the Company closed two non-brokered private placements. The flow-through private placement was for 4,300,000 units at CAD\$0.82 per unit for gross proceeds of CAD\$3,526,000. Each unit was comprised of one flow-through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one non-flow through common share at an exercise price of CAD\$1.25 until October 18, 2007. Finders' fees comprised of CAD\$208,196 in cash and 247,800 warrants were issued; each warrant was exercisable to acquire one non-flow through common share at CAD\$0.82 until October 18, 2007 and a fair value of CAD\$44,604 which have been recorded in share capital on a net basis.



The non-flow through private placement was for 700,000 non-flow through units at CAD\$0.75 per unit for gross proceeds of CAD\$525,000. Each unit was comprised of one non-flow through common share and one-half of a share purchase warrant; each whole share purchase warrant was exercisable to acquire one common share at an exercise price of CAD\$0.95 until October 18, 2007. A finder's fee of CAD\$5,850 was paid.

(b)

Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, directors and consultants to acquire up to 18,374,095 common shares, of which options for 8,079,000 common shares are outstanding as at December 31, 2008. The exercise price of each option cannot be lower than the last recorded sale of a board lot on the Toronto Stock Exchange during the trading day immediately preceding the date of granting or, if there was no such date, the high/low average price for the common shares on the Toronto Stock Exchange based on the last five trading days before the date of the grant. Options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made at the discretion of the Board at the time the options are granted. At the discretion of the Board, certain option grants provide the holder the right to receive the number of common shares, valued at the quoted market price at the time of exercise of the stock options, that represent the share appreciation since granting the options.

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**9.****Share Capital** (continued)

(b)

Stock option plan: (continued)

The continuity of stock options for the years ended December 31, 2008, 2007 and 2006 is as follows:

	2008		2007		2006	
	Number of Shares	Weighted average exercise price (CAD\$)	Number of Shares	Weighted average exercise price (CAD\$)	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of year	7,074,000	\$0.54	7,929,000	\$0.54	6,984,000	\$0.50
Granted	1,800,000	\$0.29	2,190,000	\$0.54	1,490,000	\$0.69
Exercised	-	-	(830,000)	\$0.44	(545,000)	\$0.37
Converted to stock appreciation rights on exercise	-	-	(410,000)	\$0.37	-	-
Forfeited	(75,000)	\$0.53	(760,000)	\$0.58	-	-

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Expired	(720,000)	\$0.55	(1,045,000)	\$0.71	-	-
Outstanding, end of year	8,079,000	\$0.48	7,074,000	\$0.54	7,929,000	\$0.54
Exercise price range (CAD\$)	\$0.25 - \$1.00		\$0.25 - \$1.00		\$0.17 - \$1.00	

The following table summarizes information about stock options exercisable and outstanding at December 31, 2008:

Price Intervals (CAD\$)	Number Outstanding at Dec 31, 2008	Options Outstanding	Weighted	Weighted	Options Exercisable	Weighted
		Remaining Contractual Life (Number of Years)	Average Exercise Prices (CAD\$)	Average Exercise Prices (CAD\$)	Number Exercisable at Dec 31, 2008	Average Exercise Prices (CAD\$)
\$0.25 - \$0.49	4,679,000	3.3	\$0.33	\$0.33	3,620,000	\$0.34
\$0.50 - \$0.74	2,920,000	2.8	\$0.64	\$0.64	2,670,000	\$0.65
\$1.00	480,000	0.1	\$1.00	\$1.00	480,000	\$1.00
	8,079,000	2.9	\$0.48	\$0.48	6,770,000	\$0.51

At December 31, 2008, 8,079,000 options are outstanding of which 6,770,000 options are exercisable and expire at various dates from February 17, 2009 to May 15, 2014, with a weighted average remaining life of 2.9 years.

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**9.****Share Capital** (continued)

(b)

Stock option plan: (continued)

During the year ended December 31, 2008, the Company recognized stock-based compensation of \$203,000 (2007 - \$405,115 and 2006 - \$454,177) based on the fair value of options granted that were earned by the provision of services during the year, and recognized share appreciation rights of \$Nil (2007 - \$37,181 and 2006 - \$Nil). Stock-based compensation is segregated between directors and employees as follows:

	2008	2007	2006
Directors	\$ 79	\$ 40	\$ 212
Employees	124	365	242
	\$ 203	\$ 405	\$ 454

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

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

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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

	2008	2007	2006
Fair value of options vested during the year	\$0.21	\$0.18	\$0.30
Risk-free interest rate	2.59%	3.31%	3.32%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	57%	54%	66%
Expected option life in years	4	4	4



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**9.****Share Capital** (continued)

(c)

Warrants:

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

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

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



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

At December 31, 2006, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Oustanding at December 31, 2005	Issued	Exercised	Expired	Oustanding at December 31, 2006
\$0.82	March 17, 2007	-	231,000	-	-	231,000
\$1.25	October 18, 2007	-	2,150,000	-	-	2,150,000
\$0.82	October 18, 2007	-	247,800	-	-	247,800
\$0.95	October 18, 2007	-	350,000	-	-	350,000
		-	2,978,800	-	-	2,978,800

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**9.**

**Share Capital** (continued)

(d)

Shares reserved for issuance:

	Number of Shares
Outstanding, December 31, 2008	72,704,505
Property agreements (Note 6(e))	150,000
Stock options (Note 9(b))	8,079,000
Warrants (Note 9(c))	500,000
 Fully diluted, December 31, 2008	 81,433,505

(e)

Shareholder rights plan:

On May 31, 2005, the shareholders of the Company approved a shareholder rights plan (the Plan) that became effective on April 30, 2005. The Plan is intended to ensure that any entity seeking to acquire control of the Company

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

**10.**

### **Notes Payable**

In December 2007, the Company's previous wholly-owned subsidiary, Caza, received proceeds of CAD\$300,000 in demand loans of which CAD\$180,000 were from directors and officers of the Company. The loans were repayable on demand and had an interest rate of 9% per annum. In June 2008, the Company closed a Plan of Arrangement with Caza in which Caza is no longer a wholly-owned subsidiary of the Company (Note 13).

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**11.**

**Related Party Transactions**

General and administrative costs during 2008 include:

-

CAD\$Nil (2007 - CAD\$Nil and 2006 - CAD\$38,000) of consulting fees charged by a company controlled by a former director of the Company;

-

CAD\$52,561 (2007 - CAD\$120,987 and 2006 - CAD\$99,208) of salaries paid to a director;

-

CAD\$36,659 (2007 - CAD\$35,604 and 2006 - CAD\$40,000) to directors in their capacity as directors of the Company. As at December 31, 2008, the Company accrued CAD\$28,659 (2007 - CAD\$Nil) in directors fees;

-

CAD\$67,217 (2007 - CAD\$106,316 and 2006 - CAD\$159,594) in legal fees to a law firm in which a senior officer of the Company is a partner. As at December 31, 2008, the Company owed CAD\$32,859 (2007 - CAD\$1,183) to the law firm;

-

CAD\$272,572 (2007 - CAD\$32,005 and 2006 - CAD\$55,580) in office rent and salary allocations recovered from companies sharing certain common directors. As at December 31, 2008, the Company was owed CAD\$22,778 (2007 - \$4,407) from such companies; and

-

CAD\$119,976 (2007 - CAD\$35,273 and 2006 - \$Nil) in office rent and salary allocations paid to a company sharing certain common directors. As at December 31, 2008, the Company owed CAD\$1,435 (2007 - \$Nil) to the company.

Details of transactions with Aztec and Caza are provided in Note 8, and notes payables for Caza are provided in Note 10 and the Plan of Arrangement in Note 13.

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

## **12.**

### **Segment Disclosures**

The Company has one operating segment, being mineral exploration, and substantially all assets of the Company are located in Canada except for certain mineral properties as disclosed in Note 6.

## **13.**

### **Plan of Arrangement**

On June 25, 2008, the Company proceeded to close the Plan of Arrangement (the Arrangement) with Caza whereby approximately 83% of the Company's interest in Caza was distributed to the shareholders of the Company. Under the Arrangement, the Company transferred all its interest in its wholly-owned Mexican subsidiary which holds all the rights to the Mexican gold exploration properties (Note 6(d)) to Caza in return for 14,346,527 shares of Caza, of which the Company distributed 11,950,577 Caza shares by way of a dividend in kind to the Company's shareholders on the basis of one share of Caza for every six shares of the Company held by shareholders as of the dividend record date. As at December 31, 2008, the Company holds 2,396,050 Caza shares representing approximately 11% interest in Caza. The property interests which were transferred from the Company to Caza include La Angeles, Los Arrastres, Santiago and Santiago Fraction properties.

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

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**13.****Plan of Arrangement** (continued)

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

**14.****Income Taxes**

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2008	2007	2006
Canadian statutory tax rates	31.50%	34.12%	36.12%
Expected recovery	\$ (2,194)	\$ (179)	\$ (292)
Permanent differences	64	(58)	26
Benefit of tax attributes and other items	225	845	406

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Write-off of mineral properties	1,977	-	-
Change in valuation allowance	(72)	(2,647)	(140)
Income tax recovery	\$ -	\$ (2,039)	\$ -

The significant components of the Company's future income tax assets as at December 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets:		
Resource properties	\$ (653)	\$ (599)
Equipment	259	305
Share issue costs	55	113
Non-capital losses	1,128	1,051
Capital losses	21	29
Total future income tax assets	810	899
Valuation allowance	(810)	(899)
Future income tax assets, net	\$ -	\$ -

At December 31, 2008, the Company has non-capital losses for Canadian tax purposes of approximately \$4.3 million which expire on various dates to 2028, and Canadian capital losses of approximately \$157,000 which are without expiry.

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**15.**

**Differences between Canadian and United States Generally Accepted Accounting Principles**

Accounting practices under Canadian and United States generally accepted accounting principles ( GAAP ), as they affect the Company, are substantially the same, except for the following.

(a)

Unrealized holding gains and losses on marketable securities:

For Canadian GAAP prior to fiscal 2007, marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation, such share investments were carried at the lower of cost and quoted market value at the reporting date. Short-term deposits and other short-term investments were carried at the lower of cost plus accrued interest and quoted market value. For Canadian GAAP effective January 1, 2007, the Company has classified its marketable securities as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with realized gains recorded in net earnings (2007 - \$1,152,000) and unrealized gains (2007 - \$289,000) recorded in other comprehensive income. Under U.S. GAAP, marketable securities then considered trading securities would be recorded at market value with any unrealized gains or losses (2006 - \$357,800 gain) being recorded in operations for the year ending December 31, 2006. Marketable securities in fiscal 2007 are classified as available-for-sale securities for U.S. GAAP.

(b)

Royalty receivable:

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

(c)

Exploration expenditures for mineral properties:

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

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

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**15.**

**Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

(d)

Asset retirement obligations:

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

(e)

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

Under U.S. GAAP, loss before undernoted would be calculated inclusive of write-off of equipment and write-down of mineral properties (2008 - \$1,598,000; 2007 - \$1,719,000; 2006 - \$1,810,000).

(f)

Divestiture of interests in subsidiaries:

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

Accordingly, the deemed gain on disposition of Aztec Metals, which is an enterprise in the development stage, for Canadian GAAP purposes due to Aztec Metals issuing shares to third parties is recorded as an equity transaction for U.S. GAAP purposes.

(g)

Flow-through equity financings:

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

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

For U.S. GAAP, the amount received by the Company on the issuance of flow-through shares in excess of the fair value of common shares is required to be credited to liabilities and included in operations when the Company renounces the qualified expenditures. As at December 31, 2007, total flow-through share fair value premiums were \$111,000 which relate to the renunciation of CAD\$7 million in qualified expenditures in 2007.



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**15.****Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

(h)

Unit offerings:

Under Canadian GAAP, the proceeds received on issuance of units, consisting of common shares and warrants, are not required to be allocated to the individual common share and warrant components when the instruments and its components are all determined to be equity instruments. Under U.S. GAAP, the Company is required to allocate the proceeds received on unit offerings to the individual common share and warrant components on a relative fair value basis when both components are determined to be equity instruments. The fair value of the share purchase warrants was determined using the Black-Scholes method based on the following factors:

	2008	2007	2006
Risk-free interest rate	1.54%	3.28%	2.88%
Expected dividend yield	0%	0%	0%
Expected stock price volatility	87%	35%	64%
Expected life of warrants in years	1.5	1	1

The weighted average fair value of warrants issued during the year ended December 31, 2008 was \$0.02 per warrant (2007 - \$0.04 and 2006 - \$0.09).

Under U.S. GAAP, share capital would be reduced and contributed surplus would be increased by an additional \$12,000 at December 31, 2008 (2007 - \$43,000 and 2006 - \$232,000) to reflect the relative fair values of the shares and warrants.

(i)

Stock-based compensation:

In December 2004, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (Revised 2006), "*Share-Based Payment*" ("SFAS 123R"), which is a revision of SFAS 123 "*Accounting for Stock-Based Compensation*". SFAS 123R supercedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*". SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. In calculating compensation to be recognized, SFAS 123R requires the Company to estimate future forfeitures. Prior to adoption of SFAS 123R, the Company's accounting for stock-based compensation for U.S. GAAP purposes was consistent with that used for Canadian GAAP. For Canadian GAAP purposes, the Company uses the fair value method to account for all stock option grants but accounts for forfeitures as they occur. Based on the Company's estimated future forfeiture rates of stock options, the expense recognized for U.S. GAAP purposes under SFAS 123R is \$25,000 less (2007 - \$90,000 and 2006 - \$Nil) than the amount recorded for Canadian GAAP purposes with corresponding reductions in the balance of contributed surplus.

Under U.S. GAAP, employee and director remuneration would be reported as 2008 - \$528,000 (2007 - \$970,000 and 2006 - \$883,000) as it would include the stock-based compensation expense reported separately for Canadian GAAP.

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**15.**

**Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

(j)

Comprehensive income:

United States accounting standards for reporting comprehensive income are set forth in SFAS No. 130, *Reporting Comprehensive income*. Comprehensive income represents the change in equity during a reporting period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income include items such as unrealized gain or loss and certain foreign currency translation gains and losses. For the year ended December 31, 2006, comprehensive loss equals the loss for the year. Under Canadian GAAP, comprehensive income is applicable on January 1, 2007.

(k)

Consolidated statement of cash flows:

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

(l)

Uncertainty in income taxes:

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

(m)

Fair value measurement:

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurement* to define fair value, establish a framework for determining fair value measurements that are already required or permitted under current accounting standards and to expand disclosures about fair value measurements. The statement only applies to fair value and is effective for fiscal years beginning after November 15, 2007. The adoption of this Interpretation did not result in a material impact on the Company's consolidated financial position or results of operations.

In February 2008, FASB issued FSP FAS 157-2, which delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

As of December 31, 2008, the Company adopted SFAS No. 157, and the adoption did not have a material impact on its financial condition, results of operations, or cash flows. The Company is still evaluating the impact of the items deferred by FSP FAS 157-2.

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**15.**

**Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

(n)

Fair value option for financial assets and liabilities:

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities the option to measure financial instruments at fair value (fair value option) thereby achieving an offsetting effect for accounting purposes for certain changes in fair value of certain related assets and liabilities without having to apply hedge accounting. This statement is effective for fiscal years beginning after November 15, 2007. Retrospective application to fiscal years preceding the effective date is prohibited. The adoption of the statement did not result in a material impact on the Company's consolidated financial position or results of operations.

(o)

Impact of recent United States accounting pronouncements:

(i)

In December 2007, the FASB issued SFAS 160, *Non-controlling interests in consolidated financial statements*. This statement specifies that non-controlling interests are to be treated as a separate component of equity, with increases and decreases in the parent's ownership interest as capital transactions. This standard requires net income and comprehensive income to be displayed for both the controlling and the non-controlling interests. Additional required disclosures and reconciliations include a separate schedule that shows the effects of any transactions with the

non-controlling interests on the equity attributable to the controlling interest.

The statement is effective for periods beginning on or after December 15, 2008 and is to be applied prospectively to all non-controlling interests, including any that arose before the effective date. The adoption of this Statement is not expected to have a significant effect on the Company's results of operations or financial position.

(ii)

In December 2007, the FASB issued a revised standard on accounting for business combinations SFAS 141(R).

The major changes to accounting for business combinations are summarized as follows:

all business acquisitions would be measured at fair value;

most acquisition-related costs would be recognized as expenses as incurred (they would no longer be part of the purchase consideration);

non-controlling interests would be measured at fair value at the date of acquisition (i.e., 100% of the assets and liabilities would be measured at fair value even when an acquisition is less than 100%);

goodwill, if any, arising on a business combination reflects the excess of the fair value of the acquiree, as a whole, over the net amount of the recognized identifiable assets acquired and liabilities assumed. Goodwill is allocated to the acquirer and the non-controlling interest.

The statement is effective for business combination transactions occurring in periods beginning on or after December 15, 2008. The Company will assess the impact of this Statement if and when a future acquisition occurs.



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**15.**

**Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

(o)

Impact of recent United States accounting pronouncements: (continued)

(iii)

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities* ( SFAS 161 ). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivatives instruments, how derivative instruments and related hedged items affect an entity's operating results, financial position, and cash flows. SFAS 161 is effective for fiscal years after November 15, 2008. Early adoption is permitted. The Company does not believe the adoption of SFAS 161 will have a material impact on its consolidated operating results, financial position or cash flows.

(iv)

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* . The Company does not expect adoption of this Statement to have a material impact on results of operations, cash flows or financial position.

(v)

In May 2009, FASB issued Statement of Financial Accounting Standard ( SFAS ) No. 165, *Subsequent Events* ( SFAS 165 ). This Statement establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This Statement is effective for interim and annual periods ending after June 15, 2009 and as such, the Company will adopt this standard in the first quarter of fiscal year 2010. The Company is currently assessing the impact of the adoption of SFAS 165, if any, on its financial position, results of operations or cash flows.

(vi)

In April 2008, FASB issued FASB staff position ( FSP ) FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP FAS 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets* . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the impact, if any, that FSP FAS 142-3 will have on its financial position, results of operations, or cash flows.

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

**15.****Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

(p)

The effect of the differences between Canadian GAAP and U.S. GAAP on the balance sheets and statements of operations and cash flows is summarized as follows:

	December 31,	
	2008	2007
Total Assets under Canadian GAAP	\$ 12,829	\$ 20,115
Adjustments to reconcile to U.S. GAAP:		
Mineral property exploration costs (Note 15(c))	(8,466)	(14,514)
Royalty receivable (Note 15(b))	12	23
Total Assets under U.S. GAAP	\$ 4,375	\$ 5,624

	December 31,	
	2008	2007

Share capital under Canadian GAAP	\$ 55,349	\$ 55,289
Adjustments to reconcile to U.S. GAAP:		
Provision for flow-through shares (Note 15(g))	2,182	2,182
Fair value of share purchase warrants (Note 15(h))	(287)	(275)
Adjustment for flow through shares (Note 15(g))	(111)	(111)
Share capital under U.S. GAAP	\$ 57,133	\$ 57,085

	December 31,	
	2008	2007
Contributed surplus under Canadian GAAP	\$ 2,217	\$ 2,014
Adjustments to reconcile to U.S. GAAP:		
Forfeiture of stock options (Note 15(i))	(115)	(90)
Gain on dilution of long term investment (Note 15(f))	621	621
Fair value of share purchase warrants (Note 15(h))	287	275
Contributed surplus under U.S. GAAP	\$ 3,010	\$ 2,820

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

**15.****Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

	December 31,	
	2008	2007
Deficit under Canadian GAAP	\$ (45,043)	\$ (37,795)
Adjustments to reconcile to U.S. GAAP:		
Mineral property exploration costs (Note 15(c))	(8,466)	(14,514)
Royalty receivable (Note 15(b))	12	23
Future income tax recovery (Note 15(g))	(2,182)	(2,182)
Forfeiture of stock options (Note 15(i))	115	90
Gain on dilution from long term investment (Note 15(f))	(621)	(621)
Adjustment for flow through shares (Note 15(g))	111	111
Deficit under U.S. GAAP	\$ (56,074)	\$ (54,888)

Years ended December 31,  
2008      2007      2006

(Loss) income for the year under Canadian GAAP	\$ (6,963)	\$ 1,515	\$ 433
Adjustments to reconcile to U.S. GAAP:			
Adjustment for marketable securities (Note 15(a))	-	(837)	358
Mineral property exploration costs recovered (incurred) in the year (Note 15(c))	116	(3,196)	(5,666)
Deferred exploration costs included in write-down of mineral properties (Note 15(c))	5,795	-	-
Forfeiture of stock options (Note 15(i))	25	90	-
Future income tax recovery (Note 15(g))	-	(2,039)	-
Accretion of royalty receivable (Note 15(b))	(11)	(15)	-
Adjustment for flow through shares (Note 15(g))	-	111	-
Loss for the year under U.S. GAAP	\$ (1,038)	\$ (4,371)	\$ (4,875)
Basic and diluted loss per share under U.S. GAAP	\$ (0.01)	\$ (0.06)	\$ (0.08)
Weighted average number of shares outstanding	71,793,931	69,907,839	63,462,293

**CANARC RESOURCE CORP.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2007 and 2006

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

**15.****Differences between Canadian and United States Generally Accepted Accounting Principles**

(continued)

	Years ended December 31,		
	2008	2007	2006
Cash used by operating activities under Canadian GAAP	\$ (600)	\$ (1,304)	\$ (1,338)
Adjustment to reconcile to U.S. GAAP:			
Mineral property exploration costs (Note 15(c))	(79)	(3,196)	(5,666)
Cash used by operating activities under U.S. GAAP	\$ (679)	\$ (4,500)	\$ (7,004)

	Years ended December 31,		
	2008	2007	2006
Cash from (used by) investing activities under Canadian GAAP	\$ 45	\$ (2,026)	\$ (3,262)

Adjustments to reconcile to U.S. GAAP:



Mineral property exploration costs (Note 15(c))	79	3,196	5,666
Cash from investing activities under U.S. GAAP	\$ 124	\$ 1,170	\$ 2,404

	Years ended December 31,		
	2008	2007	2006
Cash from financing activities under Canadian GAAP	\$ 77	\$ 1,696	\$ 6,378
Adjustments to reconcile to U.S. GAAP:			
Adjustment for restricted cash (Note 15(g))	-	-	(1,958)
Cash from financing activities under U.S. GAAP	\$ 77	\$ 1,696	\$ 4,420

**16.****Subsequent Event**

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

**EXHIBIT 8-1**

**LIST OF MATERIAL SUBSIDIARIES**

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

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

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

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

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

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

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*Canarc Resource Corp.*

*Form 20-F*

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**EXHIBIT 13.1**

**Certification of Chief Executive Officer pursuant to  
Title 18, United States Code, Section 1350, as adopted pursuant to  
Section 906 of The Sarbanes-Oxley Act of 2002**

I, Bradford Cooke, Chairman and Chief Executive Officer of Canarc Resource Corp. ("Canarc"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

1.

The Annual Report on Form 20-F of Canarc Resource Corp. for the year ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canarc.

Vancouver, Canada

*/s/ Bradford Cooke*

Bradford Cooke

June 29, 2009

Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Canarc and will be retained by Canarc and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 13.2**

**Certification of Chief Financial Officer pursuant to  
Title 18, United States Code, Section 1350, as adopted pursuant to  
Section 906 of The Sarbanes-Oxley Act of 2002**

I, Philip Yee, Chief Financial Officer of Canarc Resource Corp. ("Canarc"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

1.

The Annual Report on Form 20-F of Canarc Resource Corp. for the year ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Canarc.

Vancouver, Canada	by: /s/ <i>Philip Yee</i> Philip Yee
June 29, 2009	Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Canarc and will be retained by Canarc and furnished to the Securities and Exchange Commission or its staff upon request.

*Form 20-F*