

**Consolidated Financial Statements of**

**CANARC RESOURCE CORP.**

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

**Six Months ended June 30, 2003 and 2002**

# CANARC RESOURCE CORP.

## Consolidated Balance Sheets

(expressed in thousands of United States dollars)

(Unaudited – Prepared by Management)

	June 30, 2003	December 31, 2002
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 132	\$ 215
Marketable securities (Note 3)	578	384
Due from related parties (Note 7)	9	27
Receivables	32	26
	751	652
Resource properties (Note 4)	9,636	9,348
Equipment (Note 5)	215	217
	\$ 10,602	\$ 10,217
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 29	\$ 31
Non-controlling interest in subsidiary	128	128
	157	159
Shareholders' equity:		
Share capital (Note 6)		
Authorized:		
100,000,000 common shares		
Issued:		
49,037,274 common shares	45,722	45,125
Stock-based compensation (Note 6(b))	68	64
Deficit	(35,345)	(35,131)
	10,445	10,058
	\$ 10,602	\$ 10,217

Nature of operations (Note 1)

Commitments and contingencies (Note 4)

See accompanying notes to consolidated financial statements

Approved by the Directors:

/s/ "Bradford J. Cooke"

Director

/s/ "Stephen Peck"

Director

# CANARC RESOURCE CORP.

## Consolidated Statements of Operations and Deficit

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

(Unaudited – Prepared by Management)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
REVENUE				
Investment and other income	\$ (5)	\$ 196	\$ 111	\$ 206
COSTS AND EXPENSES				
General and administrative	98	54	165	102
Property investigation	-	5	5	12
Amortization	1	2	3	3
Corporate development	(2)	1	-	1
Travel	(5)	3	-	3
Shareholder relations	14	1	69	1
Write-down of marketable securities	-	-	11	-
Write-down of resource properties	-	5,516	-	5,516
	106	5,582	253	5,638
LOSS BEFORE THE UNDERNOTED	111	5,386	142	5,432
Stock-based compensation	58	60	72	65
Non-controlling interest	-	(19)	-	(20)
LOSS FOR THE PERIOD	169	5,427	214	5,477
DEFICIT, BEGINNING OF PERIOD	35,176	27,704	35,131	27,654
DEFICIT, END OF PERIOD	\$ 35,345	\$ 33,131	\$ 35,345	\$ 33,131
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	49,045,399	44,169,966	48,257,100	44,036,459
LOSS PER SHARE	\$ 0.00	\$ 0.12	\$ 0.00	\$ 0.12

See accompanying notes to consolidated financial statements.

# CANARC RESOURCE CORP.

Consolidated Statements of Cash Flows

(expressed in thousands of United States dollars)

(Unaudited – Prepared by Management)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>CASH PROVIDED FROM (USED FOR):</b>				
<b>OPERATING ACTIVITIES:</b>				
Loss for the period	\$ (169)	\$ (5,427)	\$ (214)	\$ (5,477)
Items not involving cash:				
Write-down of resource properties	-	5,516	-	5,516
Write-down of marketable securities	-	-	11	-
Gain on sale of marketable securities	11	(195)	(101)	(203)
Non-controlling interest	-	(19)	-	(20)
Amortization	1	2	3	3
Stock-based compensation	58	60	72	65
Changes in non-cash operating working capital:				
Due from related parties	4	5	18	-
Receivables	30	(10)	(6)	67
Accounts payable and accrued liabilities	2	(37)	(2)	(40)
	(63)	(105)	(219)	(89)
<b>FINANCING ACTIVITIES</b>				
Shares issued for cash	25	217	529	217
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(1)	(5)	(1)	(6)
Proceeds from sale of capital assets	-	1	-	1
Purchase of marketable securities	(557)	(222)	(848)	(232)
Proceeds from sale of marketable securities	458	341	744	398
Resource properties, net of recoveries	(171)	(56)	(288)	(61)
	(271)	59	(393)	100
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(309)	171	(83)	228
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	441	127	215	70
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 132	\$ 298	\$ 132	\$ 298

See accompanying notes to consolidated financial statements.

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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

Six months ended June 30, 2003

(Unaudited – Prepared by Management)

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## 1. Nature of operations:

The Company is in the mineral exploration business and has not yet determined whether its resource properties contain reserves that are economically recoverable. The recoverability of amounts capitalized for resource properties is dependent upon the existence of economically recoverable reserves in its resource 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 (Note 4(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 \$35,345,000 at June 30, 2003. Furthermore, the Company has working capital of \$594,000 as at June 30, 2003, 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 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 subsidiaries, all of which are wholly-owned except for Sara Kreek Resource Corporation N.V., in which the Company holds an 80% interest, and Minera Aztec Silver Corporation, in which the Company holds a 63% interest. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada with respect to the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in the annual consolidated financial statements and the notes thereto for the year ended December 31, 2002. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements including the notes thereto for the year ended December 31, 2002.

### (b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include recoverability of resource properties, amortization periods for equipment and valuation allowances for future income tax assets. Actual results could differ from those estimates.

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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

Six months ended June 30, 2003

(Unaudited – Prepared by Management)

## 3. Marketable securities:

	June 30, 2003
Investment in shares of companies, at cost	\$ 469
Cumulative write-downs	(251)
	218
Short-term investments	360
	\$ 578

The quoted market value of shares of companies is approximately \$166,070 at June 30, 2003 and the fair value of short-term investments approximated their carrying amount. Included in investment in shares of companies are shares of Skinny Technologies Inc. (“Skinny”), a company with certain common directors at the time of receipt of the shares (Note 7). At June 30, 2003, these shares had a cost of \$147,000, a carrying value of \$4,533 and a quoted market value of approximately \$4,533.

Also included in investment in shares of companies are shares of Endeavour Gold Corp., a company which has a director and an officer in common with the Company. At June 30, 2003, these shares had a cost of \$249,000, a carrying value of \$47,935 and a quoted market value of approximately \$131,000.

## 4. Resource properties:

	June 30, 2003		
	Acquisition costs	Exploration/ development	Total
British Columbia:			
New Polaris (note 4(a)(i)):	\$ 3,605	\$ 63	\$ 3,668
Eskay Creek (note 4(a)(ii)):	188	14	202
Costa Rica:			
Bellavista (note 4(b)):	90	-	90
Suriname:			
Sara Kreek (note 4(c)(i))	1,567	1,717	3,284
Benzdorp (note 4(c)(ii))	181	2,197	2,378
Mexico:			
Clara (note 4(d))	-	14	14
	\$ 5,631	\$ 4,005	\$ 9,636

### (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. During fiscal 2001, the Company wrote-down the property by \$3,187,104 to reflect management’s estimate of the property’s recoverable value. Due to the continued depressed gold markets, early in fiscal 2002, the Company wrote-down the property by an additional \$5,486,286.

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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## 4. Resource properties (continued):

### (a) British Columbia (continued):

#### (ii) Eskay Creek:

The Company owns a one-third carried interest in the Eskay Creek property, Skeena Mining Division, British Columbia, pursuant to a joint venture with Barrick Gold Corp. (formerly Homestake Canada Inc.). The property is subject to a 2% net smelter return in favour of a related company.

### (b) Bellavista, Costa Rica:

The Company owns an 18.3% carried interest in this property, which is located near San Jose, Costa Rica. A property agreement giving Wheaton River Minerals Ltd. (“Wheaton”) the right to earn a 100% working interest in the property calls for pre-production payments to be made to the Company in the amount of \$117,750 annually up to and including the year commercial production commences. During 2001, in addition to the cash pre-production payment for 2001, Wheaton made the pre-production payments due for the years ending December 31, 2002 and 2003 by paying cash of \$58,875 and issuing 529,000 common shares of Wheaton.

### (c) Suriname:

#### (i) Sara Kreek:

The Company holds 80% of the shares of Sara Kreek Resource Corporation N.V., the company that holds the Sara Kreek concession. The Company may be required to issue an additional 200,000 shares to the vendor upon completing a feasibility study and commencing commercial production of the underground deposits. During fiscal 2002, the Company wrote down the property by \$1,717,000 to reflect management’s estimate of the property’s recoverable value.

#### (ii) Benzdorp:

In April 1996, the Company entered into an option agreement 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 amended its option agreement. Cash payments prior to commercial production were reduced to \$150,000 and exploration expenditures were reduced to \$3,000,000 to be incurred prior to April 2006. The Company has earned a 40% interest in the Benzdorp property, and expects to exercise its right to increase its interest once the property owner is able to incorporate a company in Suriname to transfer the Benzdorp concessions into, on behalf of the Company and the property owner. In June 2003, the Benzdorp property exploration concessions were transferred from Grassalco, the state mining company, to the Company’s subsidiary, Benzdorp Gold NV.

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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

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(Unaudited – Prepared by Management)

## 4. Resource properties (continued):

(d) Mexico:

Clara:

In March 2001, pursuant to a Letter of Intent with Teck Cominco Limited, the Company's 63% owned subsidiary, Minera Aztec Silver Corporation ("Aztec") was granted an option to acquire a 100% interest in two mineral claims located in Mexico in consideration of incurring exploration expenditures on the property in the aggregate of \$500,000 and issuing an aggregate of 500,000 shares of Aztec over a four year period. If Aztec is not listed on a stock exchange within two years, then Aztec will have the option to pay a series of cash payments totalling \$185,000 over a four year period. The optionor will retain a 2% net smelter return royalty of which 50% may be purchased by the Company for \$1,000,000. Completion of this Letter of Intent is subject to a due diligence review and the signing of a formal agreement.

(e) Expenditure options:

To maintain the Company's interest and to fully exercise the options under various property agreements covering the properties located in British Columbia, Suriname and Mexico, the Company must incur exploration expenditures on the properties and make payments in the form of cash and/or shares to the optionors as follows:

		<b>Option/Advance Royalty Payments</b>	<b>Expenditure Commitment</b>	<b>Shares</b>
Benzdorp (Note 4(c)(ii))				
	2003 <sup>(i)</sup>	\$ 60	\$ -	-
	2004	75	-	-
	2005	-	1,000	-
	2006	-	2,000	-
Sara Kreek (Note 4(c)(i))				
On commercial production		-	-	200,000
New Polaris (Note 4(a)(i))				
Net profit interest buyout		-	-	150,000
Clara (Note 4(d))	2003	-	50	50,000 <sup>(ii)</sup>
	2004	-	100	50,000 <sup>(ii)</sup>
	2005	-	150	100,000 <sup>(ii)</sup>
	2006	-	200	300,000 <sup>(ii)</sup>
		\$ 135	\$ 3,500	850,000

<sup>(i)</sup> The timing of these option/advance royalty payments is dependent upon the owner transferring the exploration rights to the Benzdorp property to the corporate entity contemplated under the agreement. Should this transfer not occur in 2003, these payments and the expenditure commitment, will each be extended by one year.

<sup>(ii)</sup> Shares of the Company's subsidiary, Minera Aztec Silver Corporation, to be issued.

These amounts may be reduced in the future as the Company determines which properties to continue to explore and which to abandon. These amounts do not include future cash payments payable to the Company and related exploration expenditures on properties optioned to third parties.



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## 4. Resource properties (continued):

### (f) Resource properties contingencies:

The Company has diligently investigated rights of ownership of all of the resource properties/concessions to a level which is acceptable by prevailing industry standards with respect to the current stage of development of each property/concession in which it has an interest 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.

## 5. Equipment:

	June 30, 2003		
	Cost	Accumulated amortization	Net book value
Mining equipment	\$ 157	\$ -	\$ 157
Vehicles	15	-	15
Office furniture and equipment	159	116	43
	\$ 331	\$ 116	\$ 215

## 6. Share capital:

### (a) Issued:

	Number of shares	Amount
Balance at December 31, 2002	47,159,444	\$ 45,125
For cash:		
Private placement, net of issue costs	1,250,000	441
Exercise of warrants	575,000	80
Exercise of options	60,000	8
On exercise of share appreciation rights	213,407	68
Balance at June 30, 2003	49,257,851	\$ 45,722

Common shares issued for consideration other than cash are recorded at the quoted market value of the shares as of the agreement date.

### (b) Stock option plan:

The Company has a stock option plan that allows it to grant options to its employees, officers and directors to acquire up to 7,126,450 common shares. The exercise price of each option equals 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. There were no share appreciation rights outstanding at June 30, 2003.

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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

Six months ended June 30, 2003

(Unaudited – Prepared by Management)

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## 6. Share capital (continued):

### (b) Stock option plan (continued):

The continuity of stock options for the period ended June 30, 2003 is as follows:

	Number of shares
Outstanding, December 31, 2002	3,629,000
Granted	1,680,000
Exercised	(60,000)
Expired/cancelled	(350,000)
Outstanding, June 30, 2003	4,899,000
Exercise price range (Cdn)	\$0.17-\$0.92

At June 30, 2003, all of the options outstanding are exercisable and expire at various dates from March 27, 2005 to June 23, 2010.

During the period ended June 30, 2003 the Company granted stock options to a non-employee to acquire up to an aggregate of 20,000 common shares at an exercise price of Cdn\$0.51 per share. In addition to the quoted market value of the shares issued on exercise of share appreciation rights, the fair value of stock options granted to the non-employee, in the amount of \$4,320, has been recorded as stock-based compensation expense in the period.

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 used to calculate compensation expense for the period ended June 30, 2003 is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	4.06%
Expected dividend yield	-
Expected stock price volatility	86%
Expected option life in years	4

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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

Six months ended June 30, 2003

(Unaudited – Prepared by Management)

## 6. Share capital (continued):

### (c) Warrants:

At June 30, 2003, the Company had outstanding warrants to purchase an aggregate 4,755,000 common shares as follows:

Exercise Price (Cdn\$)	Expiry Date	Outstanding at December 31, 2002	Issued	Exercised	Expired	Outstanding at June 30, 2003
\$ 0.18/	May 17, 2003/					
\$ 0.20	May 17, 2004	3,000,000	-	-	-	3,000,000
\$ 0.21	April 8, 2004	1,080,000	-	(575,000)	-	505,000
\$ 0.50	September 10, 2004	625,000	-	-	-	625,000
\$ 0.63	February 4, 2005	-	625,000	-	-	625,000
		4,705,000	625,000	(575,000)	-	4,755,000

Each warrant entitles the holder to purchase one common share of the Company.

### (d) Shares reserved for issuance:

	Number of shares
Outstanding, June 30, 2003	49,257,851
Property agreements (note 4(e))	350,000
Stock options (note 6(b))	4,899,000
Warrants (note 6(c))	4,755,000
Fully diluted, June 30, 2003	59,261,851

On October 25, 1995, the shareholders of the Company approved a shareholders rights plan (the "Plan"). The Plan became effective on November 14, 1995.

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 maximise 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 to purchase from treasury one common share at Cdn\$25, 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 in November 2003.

# CANARC RESOURCE CORP.

Notes to Consolidated Financial Statements

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

Six months ended June 30, 2003

(Unaudited – Prepared by Management)

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## **7. Related party transactions:**

At June 30, 2003, amounts due from related parties comprise balances owing from companies with certain common directors. The amounts were for reimbursement of costs in the normal course of business.

General and administrative costs during 2003 include Cdn\$60,000 of consulting fees charged by a company controlled by a director of the Company

## **8. 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 resource properties as disclosed in Note 4 and \$74,000 of mining equipment and vehicles which are located in Suriname.



## **Management Discussion and Analysis For the Six Months Ended June 30, 2003**

### ***Financial Analysis***

This Management Discussion and Analysis ("MD&A") for the Second Quarterly Report of 2003 should be read in conjunction with the unaudited interim consolidated financial statements for the six month period ended June 30, 2003. The MD&A is an assessment of the financial affairs and condition of the Company for the most recent quarterly reporting period. All figures are stated in terms of US dollars.

Since its incorporation, the Company has endeavored to secure valuable mineral properties that in due course could be explored, developed and brought into production to provide the Company with positive cash flows. To that end, the Company has expended its funds exploring and developing mineral properties each year since incorporation, which have been financed principally from equity capital. As a result, the Company has incurred losses during each of its fiscal years since incorporation. Losses are typical of development-stage exploration and mining companies and are expected to continue until positive cash flows are achieved.

The Company knows of no trends, demands, commitments, events or uncertainties outside of the normal course of business that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller resource companies. The Company is not aware of any seasonality in the business that have a material effect upon its financial condition, results of operations or cash flows other than those normally encountered by public reporting smaller resource companies. The Company is not aware of any changes in the results of its operations that are other than those normally encountered in its ongoing business.

### ***Liquidity and Capital Resources***

The Company had a cash balance of \$132,000 and a working capital of \$594,000 as at June 30, 2003, in contrast to December 31, 2002 balances of \$215,000 and \$493,000, respectively, thereby reflecting a 39% decrease in cash and a 20% increase in overall liquidity. Current assets increased by 15% to \$751,000 and current liabilities decreased by 6% to \$29,000 as at June 30, 2003 relative to the December 31, 2002 year end. In 2003, the Company closed a private placement for 1,250,000 units which contributed net proceeds of \$441,000. Also the exercise of 575,000 warrants provided further proceeds of \$80,000 to the Company's treasury. The Company's principal sources of funds for 2003 are from a shares-for-cash payment from our partner on the Bellavista project in Costa Rica and from equity financing sources.

### ***Results of Operations***

The Company incurred a net loss of \$214,000 for the six months ended June 30, 2003, representing a 96% decrease in the \$5,477,000 net loss for the same period in 2002. For 2003, the Company incurred increased expenses in almost all categories, but there were no write-downs of resource properties, unlike 2002 in which such write-downs amounted to \$5,516,000. The increased operating expenditures in 2003 reflect the commensurate increase in corporate activity in moving the Benzdorp and New Polaris projects forward. During the June 30, 2003 quarter, expenditures were incurred for the Benzdorp property in Suriname as the Company pursued a trenching and sampling program during this period.