

**Consolidated Financial Statements of**

**CANARC RESOURCE CORP.**

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

**Six Months Ended June 30, 2006 and 2005**

**(Unaudited – Prepared by Management)**

# SHAREHOLDER UPDATE

## Second Quarter Review of Fiscal 2006

**Bradford Cooke, Chairman and CEO of Canarc Resource Corp.**, provides the following review of the Second Quarter 2006 and the outlook for the Third Quarter 2006.

### Second Quarter Review

During Q2 2006, Canarc commenced a 65 hole, 20,000 m (65,000 ft) Phase 3 in-fill drilling program at its New Polaris gold property located 60 km south of Atlin in northwest British Columbia. The objective is to bring 600,000 to 650,000 ounces contained within 1.2 to 1.6 million tons grading 0.4 to 0.5 oz per ton (1.1 to 1.5 million tonnes grading 13.7 to 17.2 grams per tonnes gold) of the historical 1.3 million ounce resource to a NI 43-101 compliant measured, indicated and inferred gold resource.

Two diamond drill rigs are active on the site and to date a total of 27 holes totalling 9,254.5 m (30,364 ft) have been completed. Highlights of the drill program include: 22.4 gpt gold over 4.80 m (0.65 opt gold over 15.7 ft) in hole 1615E-8, 15.5 gpt gold over 7.20 m (0.45 opt gold over 23.6 ft) in hole 1646E-6, 23.0 gpt gold over 3.8 m (0.67 opt over 12.5 ft) in hole 1676E-7, and 15.3 gpt gold over 5.5 m (0.45 opt over 18.0 ft) in hole 1676E-4.

Especially encouraging is the intersection of significant gold grades and thickness in the lower most line of drill holes including 240SW-8, 1676E-7 and 1615E-8. These holes confirm the C vein is wide open to depth. For drill hole locations and results refer to the C Veins Longitudinal Section on Canarc's website [www.canarc.net](http://www.canarc.net).

Results from the drilling program will be released approximately every two weeks until September. After completing a new resource estimate, Canarc plans to refine the conceptual mine plan, complete an initial economic evaluation and enter into the provincial mine development permitting process in the fourth quarter of 2006. The New Polaris project should then move to a full feasibility study and final permitting in 2007.

Canarc reached an agreement in the second quarter to transfer its interest in the Sara Kreek property, Suriname, to its partner in the project, Suriname Wylap Resource Company NV, in exchange for repayment of monies previously advanced for exploration of the property. Canarc received an immediate cash payment of US\$400,000 and will receive the greater of US\$50,000 per year or 1.5% royalty on annual gold production from the property over the next 6 years. Proceeds from the disposal of Sara Kreek are being used for exploration of the Benzdorp property, Canarc's main Suriname asset.

During the second quarter, a low level, high-resolution airborne magnetic and radiometric survey was completed over the favourable western greenstone area of the Benzdorp property. A grid-auger sampling program designed to identify gold anomalous areas is ongoing.

A number of new gold acquisition opportunities were reviewed in Mexico and Peru some of which are of sufficient interest to justify continued due diligence and discussions with the owners.

### Third Quarter Outlook

Canarc will continue its three pronged growth strategy focusing on New Polaris, Benzdorp and a material new gold acquisition in 2006 to enhance shareholder value in the Third Quarter.

Canarc will complete its Phase 3 in-fill drilling program at New Polaris that will result in a new resource estimate ready in Q 4. Preliminary mine planning and environmental studies will also begin in this quarter.

Auger sampling on the Benzdorp project will be completed by late August. Together with the magnetic survey, the auger results will be used to define additional drill targets to add to those already identified on the van Heemstra, Eureka and Pinchivin grids.

Efforts to identify and acquire a major gold project will continue in the next quarter. The focus of the search will remain in the Americas.

Finally, management will continue working on the sale of Canarc's other non-core asset, the Bellavista mine royalty. An independent evaluation of the Bellavista royalty is expected in Q3.

As of June 30, 2006, Canarc held cash and marketable securities totalling CA \$5.5 million, of which CA \$3 million is reserved for New Polaris. The Company is well financed to fund the current work program at New Polaris, Benzdorp and for the evaluation of acquisition opportunities out of working capital.

*On Behalf of the Board of Directors*

**CANARC RESOURCE CORP.**

*/s/ Bradford J. Cooke*

**Bradford J. Cooke**  
*Chairman and C.E.O.*

July 18, 2006

**CAUTIONARY DISCLAIMER – FORWARD LOOKING STATEMENTS**

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

**Notice to Readers of the Interim Unaudited Consolidated Financial Statements**  
**For the Six Months Ended June 30, 2006**

The interim unaudited consolidated financial statements of Canarc Resource Corp. (the “Company”) for the six months ended June 30, 2006 (“Financial Statements”) have been prepared by management and have not been reviewed by the Company’s auditors. The Financial Statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2005 which are available at the SEDAR website at [www.sedar.com](http://www.sedar.com). The Financial Statements are stated in terms of United States dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles.

# CANARC RESOURCE CORP.

## Consolidated Balance Sheets

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	June 30, 2006	December 31, 2005
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,610	\$ 489
Marketable securities (Note 3)	791	899
Receivables and prepaids	80	48
	<b>4,481</b>	1,436
<b>NONCURRENT ASSETS</b>		
Mineral properties (Note 4)	11,165	9,658
Equipment (Note 5)	9	10
Due from former subsidiary (Note 4(c))	275	-
Investment in affiliated company (Note 6)	71	78
	<b>11,520</b>	9,746
	<b>\$ 16,001</b>	\$ 11,182
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 797	\$ 235
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7(a))	52,347	49,150
Contributed surplus (Note 7(b))	1,851	1,502
Deficit	(38,994)	(39,705)
	<b>15,204</b>	10,947
	<b>\$ 16,001</b>	\$ 11,182

Nature of operations (Note 1)

Commitments and contingencies (Note 4)

Refer to the accompanying notes to the consolidated financial statements.

Approved by the Directors:

/s/ *Bradford Cooke*

Director

/s/ *Chris Theodoropoulos*

Director

**CANARC RESOURCE CORP.**

## Consolidated Statements of Operations and Deficit

(Unaudited – Prepared by Management)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Expenses:</b>				
Amortization	\$ 1	\$ 1	\$ 2	\$ 2
Corporate development	60	12	105	15
Employee and director remuneration (Note 8)	115	38	216	76
Foreign exchange	(124)	16	(74)	24
General and administrative	107	90	172	130
Shareholder relations	49	19	147	57
Stock-based compensation (Note 7(c))	444	379	450	380
<b>Loss before the undernoted</b>	<b>(652)</b>	<b>(555)</b>	<b>(1,018)</b>	<b>(684)</b>
Equity loss from investment in affiliated company	-	-	(7)	-
Gain from disposition of marketable securities	35	72	1,101	141
Write-down of marketable securities	(5)	(2)	(5)	(2)
Gain from disposition of subsidiary (Note 4(c))	600	-	600	-
Future income tax recovery	-	1	-	141
Investment and other income	37	1	40	-
Recovery of mineral properties	-	-	-	23
Non-controlling interest	-	-	-	3
<b>Income (loss) for the period</b>	<b>15</b>	<b>(483)</b>	<b>711</b>	<b>(378)</b>
Deficit, beginning of the period	(39,009)	(39,915)	(39,705)	(40,020)
<b>Deficit, end of the period</b>	<b>\$ (38,994)</b>	<b>\$ (40,398)</b>	<b>\$ (38,994)</b>	<b>\$ (40,398)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ -</b>	<b>\$ (0.01)</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>
Weighted average number of shares outstanding	63,458,760	58,525,115	61,425,689	58,506,587

Refer to the accompanying notes to the consolidated financial statements

**CANARC RESOURCE CORP.**

Consolidated Statements of Cash Flows

(Unaudited – Prepared by Management)

(expressed in thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Cash provided from (used for):</b>				
<b>Operations:</b>				
Income (loss) for the period	\$ 15	\$ (483)	\$ 711	\$ (378)
Items not involving cash:				
Amortization	1	1	2	2
Equity loss from investment in affiliated company	-	-	7	-
Gain on disposition of marketable securities	(35)	(72)	(1,101)	(141)
Gain on disposition of subsidiary	(600)	-	(600)	-
Income tax recovery	-	1	-	(141)
Non-controlling interest	-	-	-	(3)
Recovery of mineral property expenditures	-	-	-	(32)
Stock-based compensation	444	379	450	380
Unrealized currency translation gain	(34)	-	(34)	-
Write-down of marketable securities	5	2	5	2
Write-off of mineral properties	-	-	-	9
	(204)	(172)	(560)	(302)
Changes in non-cash working capital items:				
Receivables and prepaids	(44)	9	(32)	59
Due to/from related parties	-	-	-	(118)
Accounts payable and accrued liabilities	685	3	561	(234)
	437	(160)	(31)	(595)
<b>Financing:</b>				
Issuance of common shares	94	(1)	3,096	32
<b>Investing:</b>				
Proceeds from disposal of marketable securities	46	134	1,604	231
Acquisition of marketable securities	(249)	(52)	(366)	(146)
Mineral properties, net of recoveries	(905)	(138)	(1,182)	(101)
	(1,108)	(56)	56	(16)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(577)</b>	<b>(217)</b>	<b>3,121</b>	<b>(579)</b>
Cash and cash equivalents, beginning of the period	4,187	353	489	715
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,610</b>	<b>\$ 136</b>	<b>\$ 3,610</b>	<b>\$ 136</b>

Supplemental disclosure with respect to cash flows (Note 9)

Refer to the accompanying notes to the consolidated financial statements

# CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

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## 1. Nature 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 4(d) and 4(e)), 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 approximately \$39 million at June 30, 2006. Furthermore, the Company has working capital of approximately \$3.68 million as at June 30, 2006, 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, its subsidiaries, all of which are wholly-owned except for:

- Sara Kreek Resource Corporation N.V., in which the Company held an 80% interest as at December 31, 2005 and which was disposed in April 2006;
- Aztec Metals Corp. (“Aztec”), in which the Company held a 63% interest as at December 31, 2004 and diluted its interest to 27% as at December 31, 2005 when its investment was accounted using the equity method (Note 6) and further diluted its interest to 19% as at March 31, 2006 when its investment was accounted using the cost method;
- Carib Industries Ltd., in which the Company holds a 78.5% interest; and
- its 40% owned investee, Benzdrorp 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.



## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

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### 2. Significant Accounting Policies (continued)

#### (c) Marketable securities:

Marketable securities include investments in shares of companies and other investments capable of reasonably prompt liquidation. Share investments are carried at the lower of cost and quoted market value at the reporting date. Short-term deposits and other short-term investments are carried at the lower of cost plus accrued interest and quoted market value.

#### (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.

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 that equipment subject to amortization, the Company uses the declining balance method at rates varying from 20% to 30% annually. Amortization on equipment used directly on exploration projects is included in mineral properties.

#### (f) Investment in affiliated company:

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 of an affiliated company in which the Company's ownership is less than 20% is accounted for by the cost method.

#### (g) Stock-based compensation plan:

The Company has a share option plan which is described in Note 7(c). The Company records all stock-based payments using the fair value method. 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 contributed surplus is transferred to share capital.

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

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### 2. Significant Accounting Policies (continued)

#### (h) Asset retirement obligations:

The Company has adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3110 “*Asset Retirement Obligations*” (“HB 3110”). This standard recognizes statutory, contractual or other legal obligations related to the retirement of tangible long-lived assets when such obligations are incurred, 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.

Prior to the adoption of HB 3110, the Company had accounted for reclamation and closure costs by accruing an amount associated with the retirement of tangible long-lived assets as a charge to operations over the life of the asset. The Company adopted HB 3110 retroactively, resulting in no changes to amounts previously presented.

#### (i) Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the period. For all periods presented, earnings (loss) available to common shareholders equals the reported earnings (loss). The Company uses the treasury stock method for calculating diluted earnings 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 period. In the Company’s case, diluted earnings (loss) per share presented is the same as basic earnings (loss) per share as the effect of outstanding options and warrants in the earnings (loss) per share calculation would be anti-dilutive.

#### (j) Foreign currency translation:

The Company uses the United States dollar as its 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 statement of operations in the period in which they occur.

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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### 2. Significant Accounting Policies (continued)

#### (k) Flow-through shares (EIC 146):

The Company adopted the guidelines which related to the accounting for flow-through shares as issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants (“CICA”) under EIC 146 *Flow-Through Shares*. EIC 146 requires the recognition of a provision 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. EIC 146 is applicable on a prospective basis for flow-through share transactions after March 2004. The Company adopted EIC 146 on a prospective basis.

#### (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 period. Significant areas requiring the use of management estimates relate to 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. Actual results could differ from those estimates.

#### (m) Fair value of financial instruments:

The fair values of the Company’s cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. The fair value of marketable securities is disclosed in Note 3.

#### (n) Variable interest entities:

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants Accounting Guideline 15, “*Consolidation of Variable Interest Entities*” (“AcG15”) on a prospective basis. AcG15 prescribes the application of consolidation principles for 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 adoption of this new standard had no effect on the consolidated financial statements as the Company does not have any VIE’s.

#### (o) Comparative figures:

Certain of the prior periods’ comparative figures have been reclassified to conform to the presentation adopted in the current period.

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

### 3. Marketable Securities

	June 30, 2006	
Investment in shares of companies, at cost	\$	805
Cumulative write-downs		(14)
	\$	791

The quoted market value of shares of companies is approximately \$1.87 million at June 30, 2006.

Investment in shares of companies includes shares of Endeavour Silver Corp. (“Endeavour”), a company which has two directors in common with the Company. At June 30, 2006, these shares had a cost and a carrying value of \$823,793 and a quoted market value of approximately \$1.78 million.

### 4. Mineral Properties

	June 30, 2006		
	Acquisition Costs	Exploration/ Development	Total
British Columbia:			
New Polaris (Note 4(a)(i))	\$ 3,605	\$ 2,395	\$ 6,000
Suriname:			
Benzdorp (Note 4(c)(ii))	301	4,864	5,165
	\$ 3,906	\$ 7,259	\$ 11,165

(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 June 30, 2006 include a reclamation bond for CAD\$249,000.

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

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### 4. Mineral 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 Corporation (“Barrick”). The property is subject to a 2% net smelter return in favour of a related company. The Company elected to write-off the associated property costs in 2005.

#### (b) Bellavista, Costa Rica:

The Company holds a net profit interest in the Bellavista property, which is located near San Jose, Costa Rica. A property agreement giving Glencairn Gold Corporation (“Glencairn”) 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. The pre-production payments for the years ended December 31, 2003 and 2002 were made by the previous property holder, Wheaton River Minerals Inc. (“Wheaton”), for cash of \$58,875 and the issuance of 529,000 common shares of Wheaton. Glencairn paid the Company \$120,546 in fiscal 2005. In December 2005, Glencairn declared commercial production in its Bellavista mine.

The Company has a net profit interest in Bellavista in which the Company is 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 commences. Thirty-five percent of this net profit interest will reduce the net profit interest to be received from Glencairn until \$317,741 in advance royalty payments are repaid.

#### (c) Suriname:

##### (i) Sara Kreek:

As at December 31, 2005, the Company held 80% of the shares of Sara Kreek Resource Corporation N.V. (“Sara Kreek Resource”), the company that holds the Sara Kreek concession. The Company was to issue an additional 200,000 shares to the vendor, Suriname Wylap Development N.V., (“Wylap Development”) upon completing a feasibility study and commencing commercial production of the underground deposits. In fiscal 2004, the property was written down by \$3,184,000 to a nominal \$100,000 in accordance with Canadian generally accepted accounting principles. A loan to Wylap Development that was included in acquisition costs, with a principal balance of \$400,000 plus accrued interest remained outstanding as at December 31, 2005.

On April 15, 2006, the Company entered into a Settlement and Termination Agreement with Wylap Development to transfer its interest in Sara Kreek Resource to Wylap Development. The Company received a cash payment of \$400,000 and will 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.

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

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### 4. Mineral Properties (continued)

#### (c) Suriname: (continued)

##### (ii) Benzdorp:

In April 1996, the Company entered into an option agreement with Grasshopper Aluminum Company N.V. (“Grassalco”) to earn up to an 80% interest in the Benzdorp property by making cumulative cash payments of \$750,000 and property expenditures totalling \$5 million over a four-year period. In August 2002, the Company and Grassalco amended the option agreement. Cash payments prior to commercial production were reduced to \$300,000 with the balance of \$450,000 to be paid on or before 30 days after the commencement of commercial production, and exploration expenditures of \$5 million were to be incurred by April 2005. In April 2005 a further amendment to the option agreement was made which 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, which included a management fee of 10%, subject to verification by Grassalco.

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 June 30, 2006, the Company has not completed a feasibility study.

The Company has earned a 40% interest in the Benzdorp property, and expects to exercise its right to increase its interest by making additional option payments (Note 4(d)). During fiscal 2004, Grassalco transferred the Benzdorp concessions to an incorporated company in which the Company owns 40% and Grassalco owns 60%.

The exploration concessions for the Benzdorp property are due to expire in May 2007. An extension is available at the discretion of the Suriname Minister of Mines and such extensions have been granted in the past.

## CANARC RESOURCE CORP.

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(Unaudited – Prepared by Management)

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

### 4. Mineral Properties (continued)

#### (d) Expenditure options:

To maintain the Company's interest and to fully exercise the options under various property agreements covering its properties, 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:

	Option/Advance Royalty Payments	Expenditure Commitments	Shares
Benzdorp (Note 4(c)(ii)):			
On commercial production <sup>(i)</sup>	\$ 450	\$ -	-
New Polaris (Note 4(a)(i)):			
Net profit interest reduction or buydown	-	-	150,000
	\$ 450	\$ -	150,000

<sup>(i)</sup> Paid on or before 30 days after the commencement of commercial production.

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

#### (e) 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.

### 5. Equipment

	June 30, 2006		
	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 140	\$ (131)	\$ 9

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

### 6. Investment in Affiliated Company

In 2005, the Company's interest in Aztec was diluted from 63% to 27% due to a private placement which Aztec closed in November 2005, and in which the Company did not participate, and at which time the Company recognized a dilution gain of \$621,390. Prior to the dilution in November 2005, the Company consolidated its financial statements with Aztec whereas subsequent to the dilution the Company's investment in Aztec was accounted for using the equity method as at December 31, 2005.

In March 2006, Aztec closed another private placement which further diluted the Company's interest in Aztec from 27% to 19%. Subsequent to this dilution, the Company's investment in Aztec is accounted using the cost method.

### 7. Share Capital

#### (a) Authorized and issued:

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

The Company's issued share capital is as follows:

	Number of Shares	Amount
Balance at December 31, 2005	58,545,115	\$ 49,150
Issued:		
Private placements (Note 7(a)(i))	4,380,361	2,920
Exercise of options (Note 7(c))	545,000	277
Balance at June 30, 2006	63,470,476	\$ 52,347

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 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, at 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.

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.



## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

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

### 7. Share Capital (continued)

#### (b) Contributed surplus:

Balance at December 31, 2005	\$	1,502
Changes during the period:		
Exercise of options		(101)
Fair value of stock options recognized		450
Balance at June 30, 2006	\$	1,851

#### (c) 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 7,909,000 common shares were outstanding as at June 30, 2006. 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.

The continuity of stock options for the six months ended June 30, 2006 is as follows:

	June 30, 2006	
	Number of Shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	6,984,000	\$0.50
Granted	1,470,000	\$0.69
Exercised	(545,000)	\$0.37
Converted to stock appreciation rights on exercise	-	-
Expired	-	-
Outstanding, end of period	7,909,000	\$0.54
Exercise price range (CAD\$)	\$0.17 - \$1.00	

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

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

### 7. Share Capital (continued)

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

The following table summarizes information about stock options outstanding at June 30, 2006:

Price Intervals (CAD\$)	Options Outstanding and Exercisable		
	Number Outstanding and Exercisable at June 30, 2006	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices (CAD\$)
\$0.01 - \$0.24	80,000	0.6	\$0.17
\$0.25 - \$0.49	3,074,000	3.8	\$0.33
\$0.50 - \$0.74	4,009,500	3.0	\$0.64
\$0.75 - \$0.99	205,500	1.1	\$0.87
\$1.00 - \$1.24	540,000	2.7	\$1.00
	7,909,000	3.2	\$0.54

At June 30, 2006, 7,909,000 options are exercisable and expire at various dates from January 16, 2007 to June 29, 2011, with a weighted average remaining life of 3.2 years. During the six month period ended June 30, 2006, the Company recognized stock-based compensation of \$450,247 based on the fair value of options granted that were earned by the provision of services during 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 granted and the assumptions used to calculate compensation expense are estimated using the Black-Scholes Option Pricing Model as follows:

	June 30, 2006
Fair value of options granted during the period	\$0.31
Risk-free interest rate	3.32%
Expected dividend yield	0%
Expected stock price volatility	66%
Expected option life in years	4.0

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

(Unaudited – Prepared by Management)

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

### 7. Share Capital (continued)

#### (d) Warrants:

At June 30, 2006, the Company had outstanding warrants as follows:

Exercise Prices (CAD\$)	Expiry Dates	Oustanding at December 31, 2005	Issued	Exercised	Expired	Oustanding at June 30, 2006
\$0.82	March 17, 2007	-	231,000	-	-	231,000
		-	231,000	-	-	231,000

#### (e) Shares reserved for issuance:

	Number of Shares
Outstanding, June 30, 2006	63,470,476
Property agreements (Note 4(d))	150,000
Stock options (Note 7(c))	7,909,000
Warrants (Note 7(d))	231,000
Fully diluted, June 30, 2006	71,760,476

#### (f) Shareholder rights plan:

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

## CANARC RESOURCE CORP.

Notes to the Consolidated Financial Statements

Six months ended June 30, 2006

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### 8. Related Party Transactions

Salaries of CAD\$45,113 were paid to a director, consulting fees of CAD\$38,000 to a company controlled by a director, and a total of CAD\$20,000 were paid to all directors in their capacity as Directors of the Company.

### 9. 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 4.

### 10. Supplemental Disclosure with respect to Cash Flows

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	June 30, 2006
Non-cash financing and investing activities:	
Fair value of stock options allocated to shares issued on exercise of:	
Stock options	\$ 101
Supplemental cash flow information:	
Income taxes paid	\$ -
Interest paid	-

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Bradford Cooke  
Chris Theodoropoulos  
Derek Bullock  
Leonard Harris  
William Price

**OFFICERS**

Bradford Cooke ~ Chairman and Chief Executive Officer  
John McClintock ~ President and Chief Operating Officer  
Philip Yee ~ Chief Financial Officer  
Stewart Lockwood ~ Secretary

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**SHARES LISTED**

Trading Symbols  
TSX: CCM  
OTC-BB: CRCUF