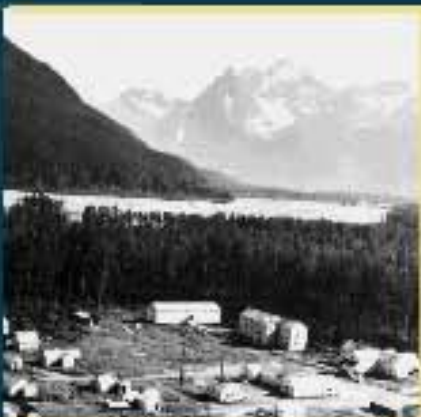


# CANARC RESOURCE CORP.



Annual Report 2008

# CORPORATE PROFILE

Canarc Resource Corp. (CCM: TSX , CRCUF: OTC-BB, CAN: DB-Frankfurt ) is a growth-oriented gold exploration and mining company focused on the acquisition, exploration, development and production of strategic gold deposits in North America.

By developing its principal asset, the high-grade New Polaris gold mine project in western Canada, towards feasibility and production and by acquiring and exploring attractive gold mine projects in Canada and the US, Canarc aims to deliver resource growth and enhance shareholder value.



“A Gold Resource Company Focused on Growth”



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# HIGHLIGHTS 2008

- Appointed new senior management and director, Mr. Garry Biles, P.Eng. becomes President and Chief Operating Officer and Mr. Bruce Bried, P.Eng. joins Canarc's Board of Directors.
- Completed a Plan of Arrangement to spin-out Canarc's Mexican gold projects to its wholly-owned subsidiary, Caza Gold Corp. and helped raise initial financing for Caza
  - Closed a CA\$100,000 non-brokered private placement equity financing in December, for use as working capital and for evaluating prospective gold mine property acquisitions.
  - Updated the preliminary economic assessment of New Polaris at US\$750 gold and 0.80 FEX resulting in improved economics of the project including a pre-tax Net Present Value ("NPV") of CA\$131.2 million and a pre-tax internal rate of return ("IRR") of 28.8% .



# LETTER TO SHAREHOLDERS

## **Dear Fellow Shareholders,**

The year 2008 was dominated by the global financial crisis that negatively impacted all commodity and stock markets, and particularly junior mining shares such as Canarc. However, gold and to a lesser extent silver regain their precious nature in times of financial crisis so gold was by far the best performing investment sector, up 5.8% in 2008. The precious metals hit bottom in November and have already enjoyed a nice bounce in 2009.

Resource stocks appear to have hit bottom in December due to tax loss selling and have enjoyed an initial 50-100% bounce back in 2009. Canarc's share price opened 2008 at CA\$0.38 per share, bottomed in December at CA\$0.04, but has bounced back to the CA\$0.08 range since the start of the year. Notwithstanding the difficult market conditions, Canarc management continued to seek opportunities for growth, not only by advancing our gold projects as much as possible given the lack of funds, but also by evaluating several new acquisitions during the year.

Canarc President, Garry Biles, oversaw the updating and optimization of the preliminary assessment on New Polaris which was originally completed in 2007. As a result of this reassessment, the economics on the New Polaris gold mine project were substantially improved. The combination of better off-site treatment terms, a higher gold price and a lower Canadian dollar exchange rate all have a positive impact on the economics for the New Polaris gold mine project. At a \$US750 per oz gold price and a \$US/\$CA exchange rate of 0.80, the project generates a pre-tax Net Present Value ("NPV") of CA\$131.2 million and a pre-tax Internal Rate of Return ("IRR") of 28.8%. This compares to the initial assessment which showed a pre-tax NPV of CA\$60.4 million and a pre-tax IRR of 14.9% at a US\$650 per oz gold price and a \$US/\$CA exchange rate of 0.90 when the preliminary study was first completed.

Regarding the Benzdorp gold project in Suriname, our joint venture company with Grassalco, Benzdorp Gold NV, applied to extend the exploration concessions in 2007. Benzdorp Gold NV was finally advised in August 2008 that an extension would not be granted but a new application for exploration concessions would be considered. The company applied for one new exploration concession in September 2008 but had not received a response by year-end so it elected to write-off its investment in the Benzdorp property as of December 31, 2008.

Canarc completed the spin-out of its Mexican gold projects to subsidiary company, Caza Gold Corp., and the distribution of Caza Gold shares pro rata to Canarc shareholders. This allowed Caza to finance the exploration of its projects and look for more advanced gold projects in Mexico. Canarc retained approximately 2.4 million shares, or about 16.7% of Caza Gold Corp. as an investment.

Canarc continues to hold approximately 11% of the shares of Aztec Metals Corp. Aztec postponed its public listing in 2008 due to market conditions but it plans to seek a public listing in 2009.

## **Outlook For 2009**

The outlook for gold and gold stocks for 2009 is quite positive as evidenced by the recent run in the gold price above US\$900. Some forecasters are calling for US\$1000-1500 gold or higher this year. Management is also bullish that gold will seek new highs this year due to the accelerating debasement of the US dollar and the attendant inflation that should arise from such monetary policies.

Canarc plans a two-pronged approach this year to create value for shareholders.

Firstly, Canarc's team will continue to consider strategic alternatives such as a joint venture or other means to advance the New Polaris high grade gold mine project to pre-production mine development and a full feasibility study.

Secondly, we will continue to pursue new opportunities for growth by evaluating attractive gold projects in the USA and Canada for acquisition where management's exploration and mining experience can add value. Management is of the belief that this market environment is very attractive for making strategic gold property acquisitions at this time while asset values are depressed.

We appreciate the support of our many shareholders, and we can all look forward to a more rewarding year of growth for the Company.

***Bradford J. Cooke***  
***Chairman and CEO***

# NEW POLARIS PROJECT B.C., Canada



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Canarc owns a 100% interest (subject to a net profits royalty) in the New Polaris gold mine project, one of the largest, undeveloped, high grade gold deposits in western Canada. This 1196 hectare (2956 acre), past producing, gold mine property is located about 60 km (40 miles) northeast of Juneau, Alaska and 100 km (60 miles) south of Atlin, B.C. on the west bank of the Tulsequah River.

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## Location and Access

New Polaris is located at approximately sea-level near the border with Alaska in north-western B.C. Year round access is available by charter air services from Juneau, Alaska or Atlin, BC, and barge access is also possible along the Taku River.

## History

Prospectors discovered gold at the mine-site in 1929. The Polaris Taku mine, as it was then known, was built in 1936 and commissioned a year later. It operated for 5 years until 1942 and then again after the WWII from 1946 to 1951.

A total of 232,000 oz. gold was produced from 760,000 tons of ore grading 0.35 oz./ton (12 gpt). Gold concentrates were shipped to the smelter in Tacoma, Washington for refining.

The mine closed in 1951 and the town and mill facilities were leased to Cominco Lt.d. who operated the adjacent Tulsequah Chief copper-zinc-silver-gold mine from 1952-1957.

New Polaris then lay dormant for 31 years until exploration resumed in 1988. Canarc acquired New Polaris in 1992 and has since drilled 291 holes, totaling 245,000 feet of core (75,000 meters), to outline major new extensions to the mineralized zones below and beyond the mine workings.



# High Gold Grades, Robust Economic Potential

## NI 43-101 Resource Estimate

In Q1, 2007, the Company received an updated, independent NI 43-101 report that estimated measured and indicated undiluted resources ranging from 570,000 to 457,000 oz of gold contained in 1,670,000 to 1,009,000 tonnes (1,840,861 to 1,112,233 tons) of mineralized vein material grading 10.6 to 14.1 grams per tonne (0.31 to 0.41 oz per ton) using a range of cutoff grades from 2 to 8 gpt (0.06 to 0.23 opt). Greater than 95% of the measured and indicated resources are located within the C vein system where infill drilling programs were conducted over the past three years.

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

This updated NI 43-101 Compliant resource estimate was a key first step in advancing the New Polaris gold project towards the feasibility stage.

**“During Q3, 2008, Canarc management continued to work on refining and assessing the process alternatives and economic models for the New Polaris gold mine project in northwestern B.C. A term sheet was received from a process facility offering to purchase the proposed gold concentrates from New Polaris, confirming that the project can produce a saleable gold concentrate.”**

## NI- 43-101 Optimized Economic Assessment

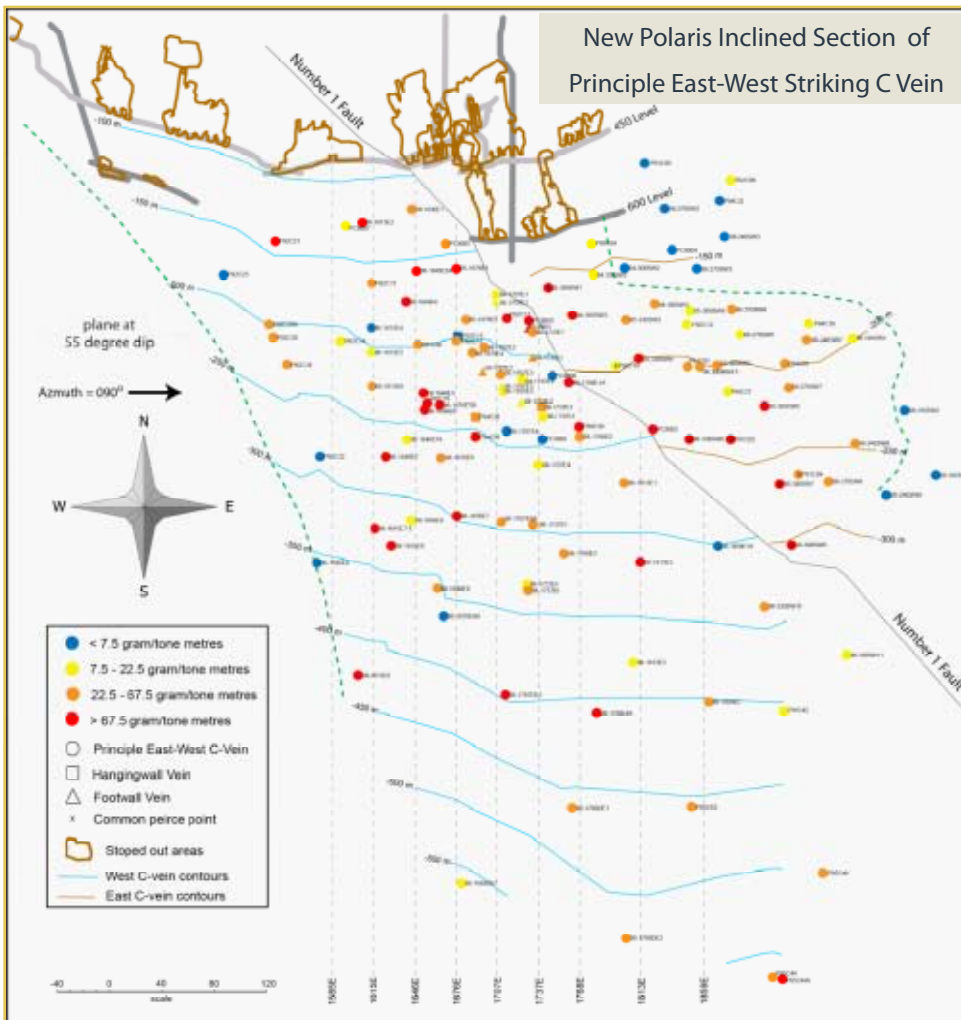
The preliminary economic assessment originally completed in 2007 that showed modestly positive economics was reviewed and updated by Canarc management. The reassessment showed that the economics of the New Polaris gold project had substantially improved based on better off-site treatment terms, a higher gold price and a lower Canadian dollar. At a \$US750 per oz gold price and a \$US /\$CA exchange rate of 0.80, the project generates a pre-tax Net Present Value ("NPV") of CA\$131.2 million and a pre-tax Internal Rate of Return ("IRR") of 28.8%.

Canarc's feasibility work program would include driving a decline from surface down to the 1050 mine level (1000 feet below surface), developing one or more drifts and raises within the C vein, trial mining to extract a bulk sample, shipping and processing of a representative portion of the bulk sample for final metallurgical testing, finalizing the process flow sheet and completing a feasibility study at an estimated cost of CA\$18.7 million, subject to financing.

The base case model includes conventional barging of concentrates off-site during the summer season.

### New Polaris - Base Case Production Model:

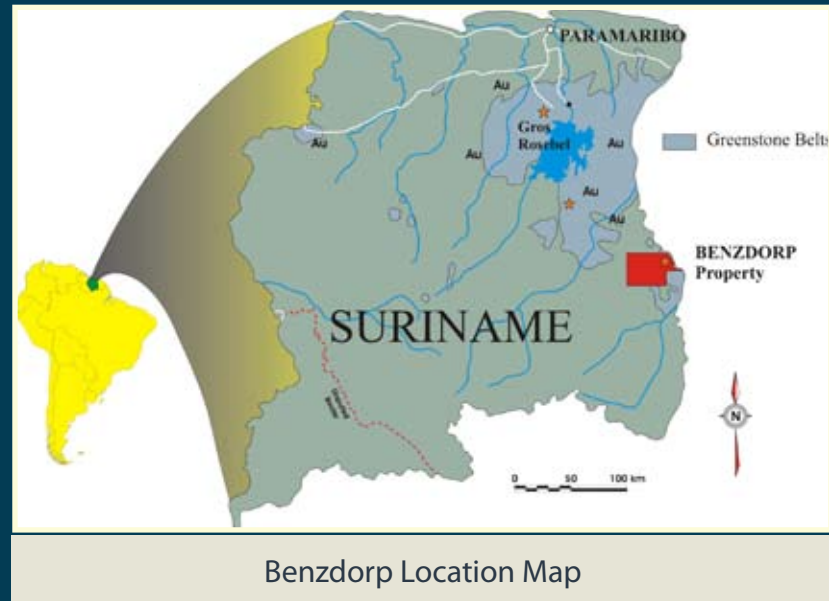
<b>Scheduled Resources</b>	806,000 tonnes measured and indicated grading 13.2 gpt Au (after dilution) and 944,000 tonnes inferred grading 11.9 gpt Au (after dilution) and a 9 gpt cutoff
<b>Production Rate</b>	600 tonnes per day
<b>Grade</b>	12.5 grams per tonne (diluted 20%)
<b>Output</b>	80,000 oz gold per year
<b>Mine Life</b>	8 years
<b>Revised Financial Parametres Are:</b>	
<b>Gold Price</b>	US\$ 750 per oz
<b>Exchange Rate</b>	US\$ 0.80 = CA\$ 1.00
<b>Capital Cost</b>	CA\$ 90.5 million
<b>Cash Cost</b>	US\$ 329 per oz (exluding off-sites)
<b>Pre-Tax</b>	
<b>Net Present Value (NPV) (0%)</b>	CA\$ 131.2 million
<b>NPV (5%)</b>	CA\$ 87.5 million
<b>NPV (8%)</b>	CA\$ 67.8 million
<b>NPV (10%)</b>	CA\$ 56.8 million
<b>Pre-Tax</b>	
<b>Internal Rate of Return</b>	28.8%
<b>Payback Period</b>	3.8 years



Over 250 Drill Holes Have Tested Extensions of Previously Mined Deposit

## Benzdorp property

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 not received any response to its application by the end of 2008 so management elected to write-off its investment in the Benzdorp property at December 31, 2008.



## Caza Gold Corp

In June, 2008 Canarc spun-out its Mexican gold project to its wholly-owned subsidiary Caza Gold Corp., and distributed by way of a dividend approximately 83% of the Caza shares pro rata to Canarc shareholders under a Plan of Arrangement. The purpose of the spin-out was for Canarc shareholders to realize the full potential of Canarc's Mexican gold projects by advancing them through the financing of Caza Gold rather than financing Canarc. Caza Gold successfully closed a \$1,155,000 equity financing in the 3rd Quarter 2008.

The Company is currently working on two projects, both located in the state of Chihuahua, Mexico. The Santiago gold properties are located in the famous Batopilas district and surrounds eight parallel, gold-bearing, quartz-sulfide veins. These properties have been owned by the same family for over 100 years and have never been explored by modern methods.

The Santiago gold project (962 hectares) is located 12 km east of the town of Batopilas, an historic silver district famous for its very high grades, in the southwestern part of Chihuahua State, Mexico. The city of Chihuahua 230 km to the northeast has an international airport and the city of Parral 200 km east is a regional distribution centre. The properties are accessed by a good gravel road and local infrastructure is excellent for labour, power and water

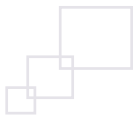
The properties cover two prominent iron oxide-silica-clay alteration zones, one of which (North Zone) surrounds multiple parallel, gold-bearing, quartz-sulfide veins. These properties have been owned by the same family for over 100 years and have never been explored by modern methods.

In March 2006, the SGM (Mexican Geological Survey) carried out a rock sampling program of the North Zone at Santiago and reported a 200 m long by 100 m wide by 70 m deep mineralized zone with potential to host 3.78 million tonnes grading 1.0 gpt gold and 20 gpt silver (not a resource). The North Zone alteration has been traced for over 400 m in length and the better potential might be the high grade veins contained within it rather than the bulk tonnage, low grade potential.

Caza geologists visited three of the eight known veins in the North Zone and channel sampling returned consistently high grade gold assays including 30.3 gpt gold over 2.3 m (0.88 opt over 7.5 ft) in the Veta Blanca, 7.0 gpt gold over 5.0 m (0.2 opt over 16.4 ft) in the Veta Tajos and 17.7 gpt gold over 2.5 m (0.52 opt over 8.2 ft) in the Veta Verde.

Caza recently completed a program of geological mapping and rock sampling on the Santiago properties and successfully delineated targets for drilling.





The “Los Angeles” gold project (104 hectares) is located 6 km north of the town of Ocampo in the historic Ocampo gold district of Chihuahua State. The properties are accessed by a good gravel road, local infrastructure is excellent for labour, power and water.

Los Angeles is strategically located between the 3.5 million oz (gold equivalent) Pinos Altos gold mine now under development by Agnico-Eagle to the north, and the 6.2 million oz (gold equivalent) producing Ocampo gold mine owned by Gammon Gold near Ocampo to the south.

Low sulphidation quartz veining within a broad argillic alteration zone has been traced over a 600m long by 150m wide area and returned grab sample results of up to 5.6 gpt Au. A second parallel NW trending structure is marked by a small shaft, Tiro Negro, which allegedly produced very high grade gold-silver mineralization.

Caza recently completed a soil reconnaissance grid that confirmed the entire 600m length of the quartz vein zone is anomalous in gold. A second phase of detailed mapping, sampling and trenching is planned prior to diamond drilling.

The Los Angeles mineral property located in the Ocampo gold district of Chihuahua State, is strategically located between the 3.5 million oz (gold equivalent) Pinos Altos gold mine now under development by Agnico-Eagle to the north, and the 6.2 million oz (gold equivalent) producing Ocampo gold mine owned by Gammon Gold to the south.



Caza Projects Location Map

## Aztec Metals Corp.

Canarc continues to hold approximately 11% of the shares of Aztec Metals Corp., Aztec currently holds two attractive exploration properties in northern Mexico totalling 445,000 hectares, including three that are “drill-ready”. The company intends to seek an Exchange listing in 2009 in order to finance further property exploration and acquisitions.

Aztec’s business model entails “elephant-hunting” for poly-metallic mineral discoveries with precious metal credits through the acquisition and exploration of “district-scale” properties in Mexico. Two recent examples of such discoveries within 80 km of Aztec’s properties include the massive new Penasquito mine of Goldcorp (26.8 million oz gold and 1.79 billion oz silver combined reserves/resources) and the exciting new Camino Rojo discovery of Canplats Resources.

The Company owns two early-stage mineral properties in Mexico, Matehuala and Charcas West in San Luis Potosi state. The Matehuala properties (107,000 hectares) constitute Aztec’s most advanced exploration project in Mexico. They are attractively located only 50 km east of the recent Camino Rojo gold-silver-lead-zinc discovery of Canplats Resources in Zacatecas within the same favourable geological belt. These properties cover several small historic mines located at the junction of two major structural trends that have potential to host large, silver-gold-zinc-lead, breccia pipe orebodies (Penasquito or Camino Rojo-type) and carbonate replacement deposits (Naica or Santa Eulalia-type).

Aztec has completed surface geological mapping, rock chip sampling and geophysical IP and MAG surveys to identify several top priority targets for drilling.

An NI 43-101 report has been prepared on the Matehuala project and audited financial statements were recently completed so that the Company is ready to go public when the resource markets rebound.

The Charcas West property (338,000 hectares) adjoins Camino Rojo to the south and also covers similar favourable geology. Initial field surveys are now underway.

# MANAGEMENT & DIRECTORS

Canarc's management and directors have successful track records for discovering ore deposits and developing them into production. Their high level of technical expertise comes from having decades of experience in the mining industry, and shareholders include Barrick Gold.

Bradford Cooke, M.Sc., P.Geo., President, CEO and Director, is a professional geologist with 33 years experience in the mining industry, focusing on the financing, acquisition, exploration and development of mining projects world-wide.

Garry Biles, P. Eng., President, is a professional engineer with 36 years experience, most recently as the General Manager of the Bellavista gold mine for Glencairn Gold.

Philip Yee, M.B.A., C.P.A., C.G.A., Chief Financial Officer, is a certified general accountant with an MBA degree and 20 years experience in corporate management, regulatory reporting, accounting, auditing and taxation.

James Moors, B.Sc., P.Geo., VP Exploration, is a professional geologist with 20 years experience in the minerals industry, specializing in exploration for and discovery of precious metal deposits in North America.

Gregg Wilson, M.SCI., Manager, Investor Relations, is a corporate communications professional with over 13 years experience in the natural resource sector as well as an extensive background in business administration and management.

Stewart Lockwood, L.L.B., M.B.A., Secretary and Legal Counsel, is a securities lawyer with an MBA degree and 24 years experience in corporate and securities law, business management and stock exchange listings.

Derek Bullock, P.Eng., Director, is a mining engineer who brings over 42 years of mine operating, engineering, and consulting experience and resource company management to the Board of Directors .

Leonard Harris, Metallurgical Engineer, Director, is a professional engineer with a metallurgy diploma and over 52 years experience in all aspects of mineral processing and mining operations, including the construction of the Yanacocha gold mine in Peru.

William Price, Director, brings to Canarc a wealth of experience and expertise in the financial world, formerly Chairman, CEO and CIO of RCM Capital Management LLC and Global Chief Investment Officer of Allianz Global Investors AG. where he was responsible for over US\$ 500 billion under management.

Bruce Bried, P.Eng., Director, is a professional engineer with over 33 years experience in mine engineering, operations, and reclamation, especially for underground, high grade vein gold and silver mines in North America.



From left to right: Canarc's Management Team Gregg Wilson (Investor Relations), Garry Biles ( President), Brad Cooke (CEO), Philip Yee (CFO), James Moors ( VP Exploration)

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. Resource and production goals and forecasts may be based on data insufficient to support them. James Moors, P.Geo. and/or Bradford Cooke, P.Geo. are the Qualified Persons for the Company as required by NI 43-101. The Company expressly disclaims any obligation to update any forward-looking statements. We seek Safe Harbour.

# CORPORATE INFORMATION

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## DIRECTORS

Bradford Cooke  
Derek Bullock  
Leonard Harris  
William Price  
Bruce Bried

## OFFICERS

Bradford Cooke ~ Chairman and Chief Executive Officer  
Garry Biles ~ President and Chief Operating Officer  
James Moors ~ Vice-President, Exploration  
Philip Yee ~ Chief Financial Officer  
Stewart Lockwood ~ Secretary

## REGISTRAR AND TRANSFER AGENT

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## SHARES LISTED

Trading Symbols  
TSX: CCM  
OTC-BB: CRCUF  
DB-Frankfurt: CAN

## ANNUAL & SPECIAL GENERAL MEETING

June 30, 2009, 10 : 00 AM  
Head Office, Boardroom  
Vancouver, BC, Canada