

**Consolidated Financial Statements of**

**CANARC RESOURCE CORP.**

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

**Nine Months Ended September 30, 2002 and 2001**

# G. Ross McDonald\*

Chartered Accountant

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\*Denotes incorporated professional

Suite 1402, 543 Granville Street  
Vancouver, B.C. V6C 1X8  
Tel: (604) 685-8646  
Fax: (604) 684-6334

## NOTICE TO READER

I have compiled the consolidated balance sheet of Canarc Resources Corp. as at September 30, 2002 and consolidated statements of operations and deficit and cash flows for the period then ended from information provided by the Company. I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

*"G. Ross McDonald" (signed)*

G. Ross McDonald  
Chartered Accountant

Vancouver, British Columbia  
November 22, 2002

**CANARC RESOURCE CORP.**

**CONSOLIDATED BALANCE SHEETS**

(expressed in thousands of United States dollars)

(Unaudited – See Notice to Reader)

	September 30, 2002	December 31, 2001
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 283	\$ 70
Marketable securities (Note 3)	544	300
Due from related parties (Note 7)	11	11
Receivables	24	93
	862	474
RESOURCE PROPERTIES (Note 4)	10,967	16,408
CAPITAL ASSETS (Note 5)	203	199
	\$ 12,032	\$ 17,081
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 53	\$ 108
NON-CONTROLLING INTEREST IN SUBSIDIARY	116	136
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)		
Authorized:		
100,000,000 common shares		
Issued:		
45,613,321 common shares	44,768	44,491
SHARE SUBSCRIPTIONS	303	-
DEFERRED STOCK-BASED COMPENSATION	64	-
DEFICIT	(33,272)	(27,654)
	11,863	16,837
	\$ 12,032	\$ 17,081

Going concern (Note 1)

Commitments and contingencies (Note 4)

See accompanying notes to consolidated financial statements.

APPROVED BY THE DIRECTORS

“Bradford J. Cooke”

Director

“Stephen Peck”

Director

**CANARC RESOURCE CORP.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

(expressed in thousands of United States dollars)

(Unaudited – See Notice to Reader)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>REVENUE</b>				
Investment and other income	\$ 32	\$ 33	\$ 238	\$ 37
<b>COSTS AND EXPENSES</b>				
General and administrative	82	46	184	155
Stock-based compensation	59	-	124	-
Property investigation	5	17	17	65
Shareholder relations	14	-	15	-
Travel	4	-	7	1
Amortization	2	2	5	5
Corporate development	-	-	1	1
Write-down of resource properties	7	-	5,523	39
	173	65	5,876	266
<b>LOSS BEFORE THE UNDERNOTED</b>				
Non-controlling interest	141	32	5,638	229
	-	(3)	(20)	(26)
<b>LOSS FOR THE PERIOD</b>				
	141	29	5,618	203
<b>DEFICIT, BEGINNING OF PERIOD</b>				
	33,131	24,168	27,654	23,994
<b>DEFICIT, END OF PERIOD</b>				
	\$ 33,272	\$ 24,197	\$ 33,272	\$ 24,197
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
	45,841,147	43,834,801	44,644,632	42,142,493
<b>LOSS PER SHARE</b>				
	\$ 0.01	\$ 0.00	\$ 0.13	\$ 0.01

**CANARC RESOURCE CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(expressed in thousands of United States dollars)  
(Unaudited – See Notice to Reader)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>CASH PROVIDED FROM (USED FOR):</b>				
<b>OPERATING ACTIVITIES:</b>				
Loss for the period	\$ (141)	\$ (29)	\$ (5,618)	\$ (203)
Items not involving cash:				
Write-down of resource properties	7	-	5,523	39
Gain on sale of marketable securities	(28)	(27)	(231)	(28)
Non-controlling interest	-	(3)	(20)	(26)
Amortization	2	2	5	5
Stock-based compensation	59		124	
Changes in non-cash operating working capital:				
Due from related parties	-	3	-	(16)
Receivables	2	(3)	69	13
Accounts payable and accrued liabilities	(2)	9	(42)	(90)
	(101)	(48)	(190)	(306)
<b>FINANCING ACTIVITIES</b>				
Shares issued for cash	-	-	217	293
Share subscriptions	303	-	303	-
	303	-	520	293
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(4)	-	(10)	-
Proceeds from sale of capital assets	-	2	1	4
Purchase of marketable securities	(361)	-	(593)	-
Proceeds from sale of marketable securities	169	7	567	35
Resource properties, net of recoveries	(21)	(12)	(82)	32
	(217)	(3)	(117)	71
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(15)	(51)	213	58
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	298	207	70	98
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 283	\$ 156	\$ 283	\$ 156

Supplemental disclosure with respect to cash flows (Note 9)

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

**(Unaudited – See Notice to Reader)**

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**1. GOING CONCERN**

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 \$33,272,000 at September 30, 2002. Furthermore, the Company has working capital of \$809,000 as at September 30, 2002, 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 at September 30, 2002. All significant intercompany transactions and balances have been eliminated.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. 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, 2001.

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

**(Unaudited – See Notice to Reader)**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Stock-based compensation**

On January 1, 2002, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants, Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" for accounting for stock-based compensation expense. Under this standard, stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by issuance of equity instruments, are accounted for using the fair-value based method valued using the Black-Scholes Option Pricing Model.

The Company has elected to follow the intrinsic value method of accounting for stock options granted to directors and employees whereby no compensation expense is recognized when stock options are granted if the exercise price of the stock options are granted at market value. Any consideration paid by directors and employees on exercise of stock options or purchase of shares is credited to share capital. However, additional disclosure of the effects of accounting for stock-based compensation to directors and employees as compensation expense, using the fair-value based method valued using the Black-Scholes Option Pricing Model, is disclosed as pro-forma information.

**3. MARKETABLE SECURITIES**

	<b>September 30, 2002</b>
Investment in shares of companies, at cost	\$ 373
Cumulative write-downs	(180)
	193
Short-term bonds	351
	\$ 544

The quoted market value of marketable securities is approximately \$566,200 at September 30, 2002.

Included in investment in shares of companies is 689,791 shares of Skinny Technologies Inc. (formerly Consolidated Magna Ventures Ltd.), ("Skinny"), a company which until April 2, 2002, had certain directors in common. During 2002, the Company transferred 100,000 shares of Skinny to a related party in settlement of Cdn \$20,000 due to a related party.

Also included in investment in shares of companies is 215,375 shares of Endeavour Gold Corp., a company which has a director and an officer in common.

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

**(Unaudited – See Notice to Reader)**

**4. RESOURCE PROPERTIES**

	<b>September 30, 2002</b>		
	<b>Acquisition costs</b>	<b>Exploration/development</b>	<b>Total</b>
British Columbia:			
New Polaris (Note 4(a)(i)):	\$ 3,605	\$ -	\$ 3,605
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	3,434	5,001
Benzdorp (Note 4(c)(ii))	151	1,904	2,055
Mexico:			
Clara (Note 4(d)(i))	-	14	14
	<b>\$ 5,601</b>	<b>\$ 5,366</b>	<b>\$ 10,967</b>

**(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 2002, the Company wrote-down the property by \$5,474,782 to reflect management's estimate of the property's recoverable value.

**(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.



**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

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**4. RESOURCE PROPERTIES (continued)**

**(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.

**(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 on the Benzdorp property. 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 2005. The Company has earned a 40% interest in the property and plans to exercise its right to increase its interest as soon as 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.

**(d) Mexico**

**(i) 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.

**(ii) Lobo:**

The Company held a 100% interest in the Lobo Properties, Mexico, which had been written-off as at December 31, 2000 upon the cessation of exploration activity. In 2002, the Company paid \$49,000 for additional costs related to the properties.

**(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:

CANARC RESOURCE CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2002

(expressed in thousands of United States dollars)

(Unaudited – See Notice to Reader)

4. RESOURCE PROPERTIES (continued)

		Option/Advance Royalty Payments	Expenditure Commitment	Shares
Benzdorp (Note 4(c)(ii))				
	2002 <sup>(i)</sup>	\$ 75	\$ -	-
	2003	75	-	-
	2004	-	1,000	-
	2005	-	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)(i))				
	2002	-	50	50,000 <sup>(ii)</sup>
	2003	-	100	50,000 <sup>(ii)</sup>
	2004	-	150	100,000 <sup>(ii)</sup>
	2005	-	200	300,000 <sup>(ii)</sup>
		\$ 150	\$ 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 2002, 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.

**(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.

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Nine Months Ended September 30, 2002

(expressed in thousands of United States dollars)

(Unaudited – See Notice to Reader)

**5. CAPITAL ASSETS**

	<b>September 30, 2002</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Mining equipment	\$ 142	\$ -	\$ 142
Vehicles	15	-	15
Office furniture and equipment	156	110	46
	<u>\$ 313</u>	<u>\$ 110</u>	<u>\$ 203</u>

**6. SHARE CAPITAL**

**(a) Issued**

	<b>Number of Shares</b>	<b>Amount</b>
Balance at December 31, 2001	43,834,801	\$ 44,491
Private placement	1,150,000	133
Exercise of warrants	375,000	84
Exercise of share appreciation rights	253,520	60
	<u>45,613,321</u>	<u>\$ 44,768</u>

**(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 7,956,450 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. 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. 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.

The continuity of stock options for the period ended September 30, 2002 is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price (Cdn)</b>
Outstanding, December 31, 2001	2,549,000	\$ 0.45
Granted	1,900,000	0.21
Exercised	-	-
Expired/cancelled	(370,000) *	0.17
	<u>4,079,000</u>	<u>\$ 0.36</u>
Outstanding, September 30, 2002		
Exercise price range (Cdn)		<u>\$ 0.17 - \$0.92</u>

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

**(Unaudited – See Notice to Reader)**

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\* cancelled pursuant to the exercise of share appreciation rights

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

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**6. SHARE CAPITAL (CONTINUED)**

At September 30, 2002, the options outstanding are all exercisable and expire at various dates from March 27, 2005 to June 23, 2010 with a weighted average remaining life of approximately 6 years.

Pursuant to the new CICA policy of accounting for stock-based compensation, compensation expense on stock options granted to directors and employees using the fair-value based method is disclosed as pro-forma information.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	4.21%
Expected dividend yield	-
Expected stock price volatility	91.58%
Expected option life in years	4.00

The pro forma effect on net loss and loss per share for the period ended September 30, 2002 of the actual results had the Company accounted for the stock options granted to directors and employees using the fair value method is as follows:

Net loss for the period		
Reported	\$	(5,618)
Compensation expense		(103)
Pro forma	\$	(5,721)
Basic and diluted loss per share		
Reported	\$	(0.13)
Pro forma	\$	(0.13)

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.

**(c) Warrants:**

	Maturity Dates	Exercise Prices	Warrants
Issued pursuant to private placements:	May 17, 2003/2004	Cdn \$0.18/\$0.20	3,000,000
	April 8, 2004	Cdn \$0.21	1,080,000
Outstanding, September 30, 2002			4,080,000

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

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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

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**6. SHARE CAPITAL (continued)**

**(d) Shares reserved for issuance**

	<u>Number of shares</u>
Outstanding, September 30, 2002	45,613,321
Property agreements (Note 4(e))	350,000
Stock options (Note 6(b))	4,079,000
Warrants (Note 6(c))	4,080,000
	<hr/>
Fully diluted, September 30, 2002	<u>54,122,321</u>

**(e) Shareholder rights plan**

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 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 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.

**7. RELATED PARTY TRANSACTIONS**

At September 30, 2002, 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 and property investigation costs include Cdn \$90,000 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 \$58,000 of mining equipment and vehicles which are located in Suriname.

**CANARC RESOURCE CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended September 30, 2002**

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**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	<b>September 30, 2002</b>
Significant non-cash financing and investing activities:	
Settlement of accounts payable with marketable securities	\$ 13
Stock-based compensation	
- exercise of share appreciation rights	60
Supplemental cash flow information:	
Income taxes paid	\$ -
Interest paid	-
Interest received	7

**10. SUBSEQUENT EVENTS**

Subsequent to September 30, 2002 the Company completed a private placement for the issue of 1,250,000 units at Cdn \$0.40 per unit for gross proceeds of Cdn \$500,000. Each unit consists of one common share and one-half common share purchase warrant with each whole warrant exercisable to acquire one additional common share at a price of Cdn \$0.50 per share to September 11, 2004. A 7.5% finders fee was paid on a portion of the proceeds.

The Company also issued a total of 174,105 common shares to two directors pursuant to the exercise of share appreciation rights. The shares were issued for the cancellation of 250,000 stock options previously granted to the directors.