CAP-EX VENTURES LTD.

FINANCIAL STATEMENTS

AUGUST 31, 2010

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Cap-Ex Ventures Ltd.

We have audited the balance sheets of Cap-Ex Ventures Ltd. as at August 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit, and cash flows for the years ended August 31, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2010 and 2009, and the results of its operations and its cash flows for the years ended August 31, 2010 and 2009 in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

December 22, 2010

CAP-EX VENTURES LTD.
BALANCE SHEETS
As at August 31, 2010

		2010		2009
ASSETS				
Current				
Cash and cash equivalents	$	595,690	$	3,382
Accounts receivable		4,083		-
Goods and services tax recoverable		3,360		3,711
		603,133		7,093
Mineral Property (Note 5)		74,600		-
TOTAL ASSETS	$	**677,733**	$	**7,093**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	24,195	$	86,834
Advances (Note 4)		3,122		5,557
		27,317		92,391
Loan due to related party (Note 8)		30,000		-
TOTAL LIABILITIES		**57,317**		**92,391**
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		1,040,295		227,495
Contributed surplus (Note 6)		29,327		29,327
Deficit		(449,206)		(342,120)
TOTAL SHAREHOLDERS' EQUITY		620,416		(85,298)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**677,733**	$	**7,093**

COMMITMENTS AND CONTINGENCIES (Note 5)
SUBSEQUENT EVENTS (Note 12)

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)

On behalf of the Board:

/s/ "Andrew Bowering"
Director

/s/ "Graham Harris"
Director

The accompanying notes are an integral part of these financial statements.

CAP-EX VENTURES LTD.
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
Year ended August 31, 2010

	2010	**2009**
Expenses		
Consulting	12,000	-
Office and administration	15,617	4,817
Professional fees	60,751	19,012
Project investigation costs	828	90,405
Rent	-	15,000
Shareholder communications	3,999	-
Transfer agent and filing fees	27,329	13,590
Travel and related costs	11,628	24,638
Net loss before other item and income tax	(132,152)	(167,462)
Other item		
Gain on forgiveness of advances and accounts payable (Note 4)	25,066	-
Loss and comprehensive loss for the year	(107,086)	(167,462)
Deficit, beginning of year	(342,120)	(174,658)
Deficit, end of year	(449,206)	(342,120)
Basic and diluted loss per share	**(0.01)**	**(0.04)**
Weighted average common shares outstanding - basic and diluted	**7,979,502**	**4,000,000**

The accompanying notes are an integral part of these financial statements.

CAP-EX VENTURES LTD.
STATEMENTS OF CASH FLOWS
Year ended August 31, 2010

		2010		2009
Cash flows from operating activities				
Net Loss from operations	$	(107,086)	$	(167,462)
Changes In Non-Cash Working Capital:				
Gain of forgiveness of advances and accounts payable (Note 4)		(25,066)		-
Goods and services tax recoverable		351		(3,711)
Accounts receivable		(4,083)		-
Share subscription receivable		(18,000)		-
Accounts payable and accrued liabilities		(43,130)		67,570
		(197,014)		(103,603)
Cash flows from financing activities				
Net proceeds from advances		3,122		5,557
Net proceeds from loan from related party		30,000		-
Net proceeds from share subscriptions		815,800		-
		848,922		5,557
Cash flows from investing activities				
Mineral property expenditures		(59,600)		-
Increase (decrease) in cash and cash equivalents		592,308		(98,046)
Cash and cash equivalents, beginning		3,382		101,428
Cash and cash equivalents, ending	$	595,690	$	3,382
Supplemental cash flow information:				
Share capital issued for acquisition of mineral properties	$	15,000	$	-
Cash paid for interest	$	-	$	-
Cash paid for income taxes	$	-	$	-

The accompanying notes are an integral part of these financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Cap-Ex Ventures Ltd. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on February 27, 2007. The Company's business is to acquire, explore and develop interests in mining projects.

Prior to fiscal 2010 the Company was classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4 as the Company was in the process of identifying and evaluating business opportunities with the objective of completing a "qualifying transaction" under TSX-V rules. Under these rules, the Company must identify and complete a Qualifying Transaction within 24 months from the date the Company’s shares are listed for trading on the TSX-V.

The Company closed its Qualifying Transaction on August 13, 2010 which consisted of the acquisition of its interest in the TAY-LP Property within the Tintina Gold Belt in the Yukon (Note 5) and a private placement of 4,772,727 units at a price of $0.11 per unit for proceeds of $525,000 (Note 6).

These financial statements have been prepared on a going concern basis, which assumes the Company will realize its assets and discharge its liabilities in the normal course of business, and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

Although the Company has cash of $595,690 as at August 31, 2010, it does not currently have any revenue generating assets or operations. The Company will require additional financial resources to explore, quantify and develop its mineral properties. The continued operations of the Company and the recoverability of the amounts reported for resource property interests is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development programs, and upon future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars.

Use of estimates and assumptions

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates and assumptions relate to the valuation of future income tax assets, expected tax rates for future income tax recoveries, evaluating possible impairments of mineral properties and determining the fair value of stock-based payments. Where estimates have been used, financial results, as determined by actual events, could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents, when applicable, consist of cash and highly liquid short-term investments with a maturity of less than 90 days from the date of acquisition that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs will be amortized to income using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

Mineral properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators for possible impairment of mineral properties include adverse changes in legal factors related to the property, unfavorable economics related to the property, political instability, environmental restructure, inability to access or explore the property, poor performance indicators of mineral exploration, or abandonment of the property, in which case, an impairment loss is recognized for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows expected from the asset or quoted market prices. The Company has not recognized any impairment losses to date.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

Loss per share

Basic earnings/loss per share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of “in the money” stock options, warrants, agent warrants and agent unit options.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountant ("CICA") Handbook Section 3840, "Related Party Transactions".

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The Company's financial instruments include cash and cash equivalents, accounts receivable, share subscription receivable, accounts payable, advances payable and loan due to related party.

(i) Cash and Cash Equivalents

Cash and cash equivalents are classified as held for trading

(ii) Accounts receivable and accounts payable

Accounts receivable is non-interest bearing and stated at carrying values, which approximate fair values due to their short terms to maturity. Where necessary, accounts receivable includes allowances for uncollectible amounts. Accounts receivable is designated as loans and receivables and accounts payable are designated as other financial liabilities.

(iii) Advances and loan due to related party

Advances and loan to related party are designated as other financial liabilities and initially recorded at total proceeds received less direct issuance costs. Advances and loan to related party is subsequently measured at amortized cost calculated using the effective interest rate method.

The Company does not have derivatives or embedded derivatives.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based compensation

The Company applies the fair value method to stock-based payments consisting of direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital.

Comprehensive income

The Company adopted CICA Handbook Section 1530, “Comprehensive Income”. Section 1530 establishes standards for the reporting and presenting of comprehensive income which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net loss.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND RECENT ACCOUNTING PRONOUNCMENTS

a) Adoption of new accounting standards

During the year, the CICA amended Section 3862 to enhance fair value and liquidity disclosures. The standard now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Each level is based on the transparency of inputs to the valuation of the financial asset or liability as of the measurement date. The adoption of this standard did not have a material effect on the consolidated financial statements. The disclosures required by this amendment are disclosed in Note 10(a).

b) Recent accounting pronouncements

Recent accounting pronouncements that have been announced but are not yet effective are as follows:

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, (“Section 1582”), 1601, Consolidated Financial Statements, (“Section 1601”) and 1602, Non-controlling Interests, (“Section 1602”) which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning September 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other relevant sections must also be adopted at the same time.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND RECENT ACCOUNTING PRONOUNCMENTS (continued)

b) Recent accounting pronouncements

International financial reporting standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under IFRS for fiscal years beginning on or after January 1, 2011.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions.

4. FORGIVENESS OF DEBT

In January 2009, seven individuals advanced a total of US$141,000 to Zhu Zhong Neng and Chayouzhongqi Xingda Mining and Developing Company Ltd. ("Xingda"'), which was facilitated by the Company in anticipation of a Qualifying Transaction. The Company did not proceed with this transaction and ultimately recovered $5,557 from Xingda, which was to be returned to these seven individuals at August 31, 2009.

On February 28, 2010, these seven individuals, one of whom was a former director of the Company, forgave the $5,557 balance described above owed to them. On February 28, 2010, three creditors also forgave various accounts payable of $19,509 owed to them. No consideration was provided to these individuals in exchange for the forgiveness and, as a result, a gain of $25,066 was recognized.

5. MINERAL PROPERTY

	Tay-LP Property
Balance, August 31, 2009	$ -
Acquisition costs	70,000
Exploration expenditures	
Geological & surveying	4,600
Balance, August 31, 2010	$ 74,600

Tay-LP Property

On March 22, 2010, the Company entered into an option agreement with Canarc Resource Corp. (the "Optionor") to acquire a 50% interest in the Tay-LP Property within the Tintina Gold Belt in the Yukon Territory ("Option Agreement"). Upon completion of the option period, a joint-venture will be formed on the property.

5. MINERAL PROPERTY (continued)

Under the terms of the option agreement, the Company is required to make payments to the Optionor and fulfill the Optionor's obligations pursuant to the Ross River Agreement, which the Optionor had previously entered into with a third party to acquire up to a 100% interest in the TAY-LP Property within the Tintina Gold Belt in Yukon, as follows:

Payments to the Optionor:	Payments	Shares	Exploration Expenditures
On signing (paid)	$ 25,000		
On Exchange approval (issued at $0.15)		100,000	
On or before June 30, 2011 (Note 12)			Initial $225,000
On or before October 31, 2011	$ 75,000	100,000	Additional $450,000
	$ 100,000	200,000	

In addition, the Company has assumed the Optionor's existing obligations under the Ross River Agreement as follows:

Payments to fulfill Optionor's obligations:	Payments	Royalty Payments
On or before April 27, 2010 (paid)	$ 30,000	
On or before September 30, 2010	$ 50,000	$ 25,000
On or before September 30, 2011	$ 50,000	$ 25,000
	$ 130,000	$ 50,000

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized: Unlimited common shares without par value

	Number of Shares	Amount	Contributed Surplus
Issued			
Balance, August 31, 2009 and 2008	4,000,000	227,495	29,327
Private placements	10,772,727	825,000	-
Shares issued for mineral property interest	100,000	15,000	-
Less: Share issue costs	-	(9,200)	-
Less: Proceeds not yet received	-	(18,000)	-
Balance, August 31, 2010	14,872,727	$ 1,040,295	$ 29,327

As at August 31, 2010, 6,808,909 (August 31, 2009 – 2,000,000) common shares of the Company remain subject to escrow provisions.

On January 21, 2010, the Company completed a non-brokered private placement of 6,000,000 shares at $0.05 for gross proceeds of $300,000.

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On August 13, 2010, the Company completed a non-brokered private placement of 4,772,727 units at $0.11 per unit for gross proceeds of $525,000. Each unit is comprised of one share and one share purchase warrant. Each warrant allows the holder to acquire one common share of the Company at a price of $0.15 for a period of 24 months from the date of issuance. No value was assigned to the warrants on the basis that they have no intrinsic value at the time of issuance. Share issuance costs associated with this placement totalled $9,200.

On August 19, 2010, the Company issued 100,000 common shares with a value of $15,000 to Canarc Resource Corp. as per the Option Agreement on the Tay-LP Property (Note 5).

7. STOCK OPTIONS AND WARRANTS

Stock Options

In 2007 the Company adopted a stock option plan ("the Plan") whereby it can grant options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company prior to completion of a qualifying transaction. Vesting is determined by the board of directors.

A summary of the changes in the Company's common stock options as at August 31, 2010 and 2009 is presented below:

	Number of Options	Exercise Price		Expiry Date
Balance, August 31, 2008	400,000	$	0.10	January 9, 2013
Cancelled	(280,000)		0.10	January 9, 2013
Balance, August 31, 2009	120,000		0.10	January 9, 2013
Cancelled	(120,000)		0.10	January 9, 2013
Balance, August 31, 2010	-	$	-	

The weighted average contractual life remaining is Nil (2009 - 3.36 years).

Warrants

A summary of the Company's warrants as of August 31, 2010 and 2009 is as follows:

	Number of Warrants	Exercise Price		Expiry Date
Balance, August 31, 2009 and 2008	-		-	
Granted	4,772,727		0.15	August 13, 2012
Balance, August 31, 2010	4,772,727	$	0.15	

The weighted average contractual life remaining is 2 years (2009 – Nil).

8. RELATED PARTY TRANSACTIONS

On April 21, 2010, the Company entered into a loan agreement ("Loan Agreement") with the President of the Company whereby the President advanced $30,000 to Canarc Resource Corp on behalf of the Company pursuant to the March 22, 2010 Option Agreement (see Note 5). Under the terms of the Loan Agreement, the loan is non-interest bearing, unsecured and the amount became due and payable upon closing of its Qualifying Transaction. The Company's qualifying transaction closed on August 13, 2010 (see Note 1).

On May 31, 2010, the Company and the President of the Company agreed to an amendment to the Loan Agreement whereby the loan would not be due and payable until April 12, 2012. The loan has been classified as non-current on the basis that the President alone cannot compel the Company to undertake an early repayment of the loan.

9. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal income tax rates to earnings before income taxes. The Company has a non-capital loss carry forward of approximately $409,000 available to offset taxable income in future years which starts expiring in fiscal 2028. The potential benefit of the non-capital loss carry forward has not been recognized in the financial statements since the Company cannot be assured that it is more likely than not that such benefit will be utilized in future years. In assessing the realization of the Company's future income tax asses, management considers whether it is more likely that not that some portion of all of the future tax asset will not be realized. The ultimate realization of future tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax assets considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

a) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 29.00% (2009 – 30.00%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax expense as reported is as follows:

	August 31, 2010 $	August 31,2009 $
Net loss before income taxes per financial statements	107,086	167,462
Income tax rate	29.00%	30.00%
Expected income tax recovery	31,000	50,000
Permanent difference	(8,000)	1,000
Reduction in non capital loss carried forward	(7,000)	-
Changes In tax Rates	(15,000)	(7,000)
Valuation allowance change	(1,000)	(44,000)
Provision for income taxes	-	-

9. INCOME TAXES (continued)

a) Reconciliation of Tax Rates

The Company has recognized a valuation allowance for the income tax asset since the Company cannot be assured that it is more likely than not that such benefit will be utilized in future years. The valuation allowance is reviewed annually. When circumstances change and which cause a change in management's judgment about the realizability of deferred income tax assets, the impact of the change on the valuation allowance is generally reflected in current income.

b) Future Income Tax Assets and Liabilities

The significant components of the Company future income tax assets and liabilities are as follows:

	August 31, 2010 $	August 31, 2009 $
Future income tax assets:		
Non capital tax losses carried forward	102,000	97,000
Share issuance costs	7,000	11,000
Valuation allowance	(109,000)	(108,000)
Net future income tax asset	-	-

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, advances and loan and due to related party.

a) Fair Value Measurements

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value our financial assets and liabilities are described below:

Level 1 - Quoted Prices in Active Markets for Identical Assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Cash and cash equivalents and bank indebtedness, when applicable, are valued using quoted market prices. Accordingly, these items are included in Level 1 of the fair value hierarchy.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Fair Value Measurements (continued)

Level 2 - Significant Other Observable Inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Derivative instruments are included in Level 2 of the fair value hierarchy as they are valued using pricing models or discounted cash flow models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward price curves, yield curves, and credit spreads. These inputs are obtained from or corroborated with the market where possible.

Level 3 - Significant Unobservable Inputs

Unobservable (supported by little or no market activity) prices.

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total August 31, 2010
Cash and cash equivalents	$ 595,690	$ –	$ –	$ 595,690

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company’s primary exposure to credit risk is on its cash and cash equivalents. Bank accounts are held with a major bank in Canada. As a Canadian bank holds a majority of the Company’s cash and cash equivalents, there is a concentration of credit risk with one bank in Canada. The risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at August 31, 2010, the Company’s maximum exposure to credit risk is the carrying value of cash and cash equivalents and accounts receivable.

c) Currency risk

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company determined that there is very limited currency risk at this time.

d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest-bearing debt.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company requires funds to finance its business development activities. In addition, the Company, from time to time, needs to renegotiate and service its debt facilities. There is no assurance that financing will be available or, if available, that such financings will be on reasonable terms.

11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain a strong capital base in order to advance the Company's corporate strategies to create long term value for its stake holders and sustain the Company's operations in economic cycles.

The Company defines capital to include share capital and debt. The Company manages its capital in order to maintain flexibility and respond to changes in economic and/or marketplace conditions. In order to increase shareholder value, the Company may adjust its capital structure by issuing new shares, purchasing shares for cancellation or raising debt. At this time, the Company utilizes debt as part of its capital management strategy. For the period ending August 31, 2010, the Company has not distributed dividends to its shareholders. There were no changes in the Company's approach to capital management during the period ending on August 31, 2010. The Company is not subject to externally imposed capital requirements.

12. SUBSEQUENT EVENTS

On October 19, 2010, the Company granted 1,400,000 stock options at $0.25 per share, exercisable for a period of 5 years to October 19, 2015, to certain directors, officers, employees and consultants.

On September 28, 2010, the Company made its $50,000 option and $25,000 royalty payment on its Tay-LP Property pursuant to the March 22, 2010 Option Agreement described in Note 5.

Pursuant to the Option Agreement described in Note 5, the Company is to incur $225,000 in exploration expenditures by October 31, 2010. On December 10, 2010, the Option Agreement was amended (the "Amendment") to extend this date from October 31, 2010 to June 30, 2011. In addition, pursuant to the Amendment, Canarc Resource Corp. is to assume operatorship of the TAY-LP Property.