



**2007 ANNUAL REPORT**

## HIGHLIGHTS

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➤ The Company's McFauld's Lake Project has taken on added significance with Noront Resources' recent high-grade, nickel-copper-PGM discovery. Activity has increased substantially in the area and Canstar's McFauld's 1 & 3 properties are well situated with respect to both volcanogenic massive sulphide (VMS) and magmatic nickel deposits. With at least seven drill-ready targets the project has quickly become one of the Company's focal points.



- The appeal process for the Mary March property dispute began on October 16, 2007 and management is confident that we are beginning to see the light at the end of the tunnel. The cross-appeal filed by the Company is seeking a final resolution to the dispute through the appeal process. If a positive decision is reached Canstar will begin mobilizing a drilling crew immediately to pick up where operations left off at the beginning of the dispute.



## LOOKING AHEAD

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- Begin fieldwork on McFauld's 1 & 3 properties, in preparation for a winter drilling program
- Focus on resolving the Mary March property dispute and resume exploration on this significant base and precious metal discovery
- Continued project generation, acquisition and exploration.

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## LETTER TO SHAREHOLDERS

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November 7, 2007

Dear Shareholders,

2007 has been an extremely active year for Canstar, in both corporate matters and exploration. In the forefront is the Mary March appeal, which, after numerous delays, began in October of this year. As well, significant interest was generated in the McFauld's Lake area with Noront Resources' discovery of high-grade nickel-copper mineralization containing significant platinum-group metals (PGM), gold and silver in the vicinity of the Company's McFauld's 1 and 3 properties. This discovery has created considerable speculation with observed metal grades rivalling those in the richest deposits in the World's major nickel mining camps.

The Company has been actively exploring through the year having completed drill programs on the Sunday Lake, Shrimp Lake and Tahoe Lake properties. The results of the Shrimp Lake and Tahoe Lake programs indicated a geological setting ideal for both gold and base metal mineralization, with encouraging assay values in both.

After a number of delays beyond the Company's control, the appeal process of the Mary March property dispute began on October 16<sup>th</sup>, 2007, and hopefully signals the end to this long fight. From the beginning management has been very confident in our position and we feel that our cross-appeal provides the speediest resolution to the matter. The Mary March deposit represents one of Canstar's most valuable assets and the Company will continue to aggressively pursue a resolution in order to resume exploration on what many feel is one of the most exciting recent discoveries in the Buchans mining camp. We will continue to keep our shareholder's updated as we work towards these goals.

Following the fiscal year-end, the markets reacted to a nickel discovery made by a junior exploration company, Noront Resources, in August 2007. The discovery was made in the McFauld's Lake belt and has caused what is being described as an early-stage area play, one in which Canstar is well entrenched. We hold over 1,100 hectares of property in the belt with numerous drill-ready targets and will be planning field programs in preparation of a drilling campaign to begin this winter. While historically the McFauld's Lake Belt is known for its base metal volcanogenic massive sulphide (VMS) deposits, this new nickel/copper/pgm intersection broadens the scope for exploration in the area and strengthens its potential as a new Canadian mining camp.

Market interest is increasing in Canstar and the increasing global demand and limited supply of base and precious metals is continuing to fuel the strength of the metal markets. This signifies a bright future for the industry, and Canstar, for years to come.

On behalf of the Board of Directors, I would like to thank old and new shareholders alike for their support and participation as we continue to advance our projects and the Company in the years ahead.

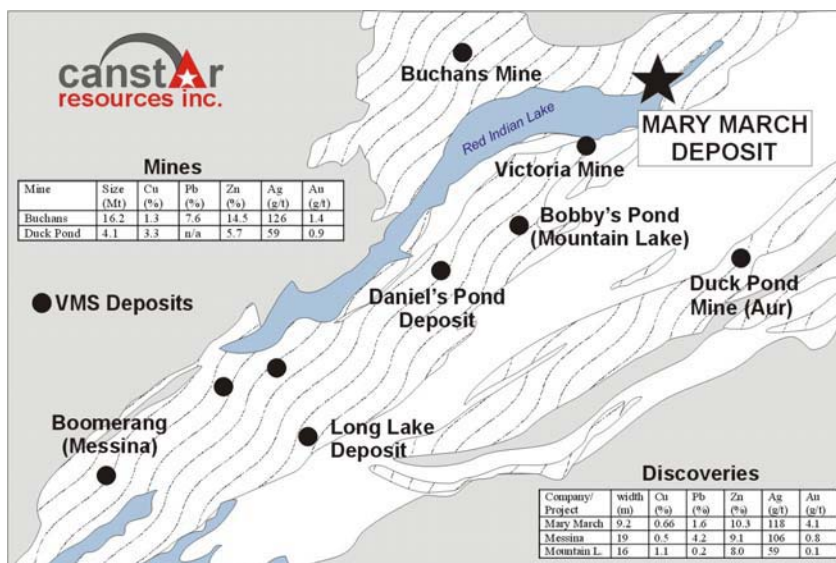
Sincerely,



David Palmer, Ph.D., P. Geo  
*President & CEO*

**CANSTAR RESOURCES INC.**

## MARY MARCH PROJECT, NEWFOUNDLAND

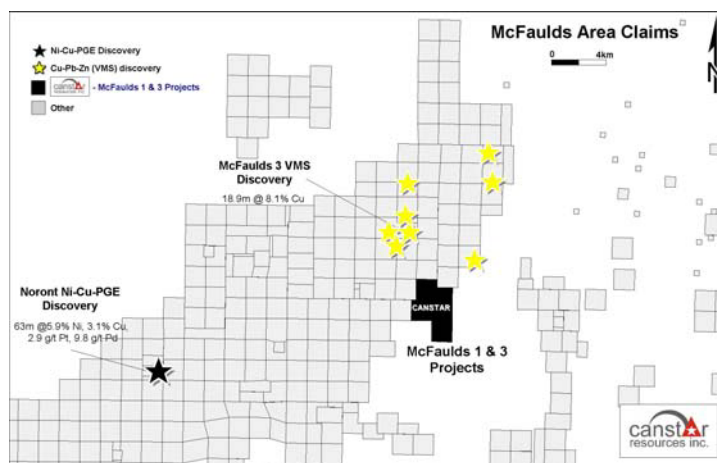


Located in central Newfoundland, 20 kilometers northeast of, and within the same geological group that hosts the prolific former producing *Buchans* mine, discovery holes drilled by Phelps Dodge in 1999 and 2000 produced some of the highest grade base and precious metal intersections (9.2m @ 10.33% Zn, 1.62% Pb, 0.66% Cu, 118.1g/t Ag and 4.1 g/t Au) ever achieved outside of the *Buchans* mine.

In addition to the past-producing *Buchans* mine (16.2 Mt @ 14.50% Zn, 7.56 % Pb, 1.33 % Cu, 126 g/t Ag and 1.37 g/t Au), the area has seen recent discoveries by Messina Minerals (19.0 meters @ 9.1% Zn, 4.2% Pb, 0.5% Cu, 106 g/t Ag and 0.8 g/t Au) and Mountain Lake Resources (16.0m @, 8.0% Zn, 0.19% Pb, 1.11% Cu, 11 g/t Ag, and 0.14 g/t Au), while Aur Resources' Duck Pond deposit (4.1 Mt @ 5.7% Zn, 3.3% Cu, 59 g/t Ag and 0.9 g/t Au) began production in 2007. A crucial portion of the *Mary March* property is encumbered by litigation presently under the appeal process after a favourable decision by the Supreme Court of Newfoundland and Labrador. Presuming a favourable resolution is reached; Canstar will begin mobilizing to resume exploration on this valuable asset.

## McFAULDS LAKE 1 & 3, JAMES BAY LOWLANDS

Canstar's drill-ready *McFauld's Lake 1 and 3* properties are located close to the heart of what is arguably the best base metals 'area play' in Canada at the present time. The property is contiguous to the southeast with the Spider Resources/ KWG Resources property where high grade zinc-copper-silver-lead-gold mineralization has been discovered in ongoing drilling since 2003, including an 18.8 m drill intersection of 8.02% copper, and is in the vicinity of Noront Resources high-grade nickel-copper-PGM discovery, with reported intersections of up to 68.3 meters averaging 5.9% Ni, 3.1% Cu, 2.87 g/t Pt and 9.78 g/t Pd.



The *McFauld's West* property has numerous drill-ready conductors that will be the focus of exploration, including a winter drilling program.

**CANSTAR RESOURCES INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE  
YEAR ENDED JUNE 30, 2007 (AUDITED)  
AND THE YEAR ENDED JUNE 30, 2006 (AUDITED)**

*This Management Discussion and Analysis ("MD&A") should be read in conjunction with the financial statements of the Corporation for the Year ended June 30, 2007(audited) and the year ended June 30, 2006 (audited) and related notes. The Corporation's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Corporation reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). This MD&A is made as of October 29, 2007.*

*The following MD&A may contain forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected herein. Forward-looking statements are based on the estimates and opinions of management of the Corporation at the time the statements were made.*

Additional information relating to the Corporation is on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.canstarresources.com](http://www.canstarresources.com).

***DESCRIPTION OF THE BUSINESS***

Canstar Resources Inc. (the "Corporation" or "Company") is a junior resource company focused primarily on the acquisition, exploration and development of mineral properties located in Canada. The Corporation was formed upon the amalgamation, effective April 5, 2005, of Nustar Resources Inc. ("Nustar") and Candor Ventures Corp. ("Candor"). The amalgamation was approved by shareholders of Nustar and Candor on March 24, 2005 and final approval of the amalgamation by the TSX Venture Exchange was granted on April 5, 2005. In accordance with the terms of the amalgamation, shares of the Corporation were issued to shareholders of Nustar and Candor on a 1:1 basis. The first year-end of Canstar, subsequent to the effective date of the amalgamation, was June 30, 2005. The financial statements discussed herein are for the year ended June 30, 2007 (audited) and the year ended June 30, 2006 (audited). The shares of the Corporation began trading on the TSX Venture Exchange under the symbol "ROX" on April 8, 2005. The Corporation is a reporting issuer in the provinces of Ontario, Alberta and British Columbia.

As a result of the amalgamation, the Corporation wholly-owns or has interests in all of the mineral properties formerly held by Nustar and Candor. The following table contains a brief description of the Corporation's core properties, which are the primary focus of the Corporation's exploration initiatives. Further details with respect to the core properties are also provided in this document under the section entitled "Overall Performance".

Description of Core Property	Target Mineralization	Ownership Interest
<p>The McFauld's Lake Properties, comprised of the following properties located in the McFauld's Lake area of northwestern Ontario, contiguous with the Spider Resources/KWG Resources high-grade copper-zinc massive sulphide discoveries and in the area of Noront Resources' recent high-grade nickel-copper-PGE discovery: (i) a 32-claim unit property totaling 502 hectares ("McFauld's Lake Property 1"); and (ii) a 38-claim unit property immediately east of the 32-claim unit property ("McFauld's Lake Property 3").</p>	Copper-zinc-silver-gold	<p>McFauld's Lake Property 1 is 100% owned <sup>(1)</sup>. The Corporation has an option to earn an undivided 50% interest in McFauld's Lake Property 3 pursuant to an Option and Joint Venture Agreement entered into with Geocanex Limited on September 22, 2004. <sup>(2)</sup></p>
<p>The Mary March Property, comprised of 18 staked claims, 2 licenses, 1 lease and 2 patented lots, totaling 1,616 hectares, located approximately 20 kilometres east of the past producing Buchans mine, near Buchans Junction, Newfoundland.</p>	Zinc-silver-lead-copper-gold	<p>Right to earn a 100% interest in an underlying 50% interest held by Phelps Dodge Corporation of Canada, Limited ("Phelps"), pursuant to a letter of intent entered into with Phelps and first right of refusal on the remaining 50% interest held by Xstrata plc. <sup>(1)(3)</sup></p>
<p>The Slate Bay Property, comprised of 8 contiguous patented claims covering 128 hectares, located about 10 kilometres north of the town of Red Lake, Ontario, within the Red Lake greenstone belt.</p>	Copper-gold-silver	<p>A 75% interest in the property pursuant to an option and joint venture participation agreement entered into with Luxor Enterprises Inc. (Luxor) on February 4, 2002. <sup>(4)</sup></p>
<p>The Tahoe Lake Property, comprised of three unpatented and unsurveyed mineral claims totaling 48 contiguous claim units covering 768 hectares approximately 170 kilometres north-northeast of Red Lake, Ontario.</p>	Gold and base metals	100% owned. <sup>(1)</sup>
<p>The Shrimp Lake Property, comprised of seven unpatented mineral claims totaling 91-claim units over 1,456 hectares approximately 165 kilometres north-northeast of Red Lake.</p>	Gold and base metals	100% owned. <sup>(1)</sup>
<p>The Sunday Lake Property consists of one staked claim (8 units) and one patent claim (4 unit equivalent) located in Onion Lake Township, approximately 30km north of Thunder Bay, ON. A work report is pending to advance the property due date to February 11, 2008.</p>	Variety of mineral concentrations.	<p>The right to earn a 100% interest over three years by paying \$150,000 and issuing 450,000 shares, 50,000 of which were issued on signing the formal agreement. The Sunday Lake Syndicate retains a 2% Net Smelter Royalty interest. Canstar has right of first refusal to buy back 1% for \$1 million. The Sunday Lake Syndicate would receive \$1 million on commencement of commercial production.</p>

Notes:

- (1) Interest was held by Candor prior to the effective date of the amalgamation on April 5, 2005.

- (2) Interest was held by Nustar prior to the effective date of the amalgamation on April 5, 2005. The Company has not met its expenditure commitment and the agreement was renegotiated on August 26, 2005 and amended with the following term replacing section 2a: “The Optionee shall fund exploration work on the Claims in the total amount of \$250,000 during the four year period commencing on the date of execution of this agreement, with the sum of \$50,000 to be spent in the first year, the sum of \$100,000 to be spent in the third year and the sum of \$100,000 to be spent in the fourth year”. The property was written off in 2006, however, the Corporation still maintains 100% ownership of McFauld’s 1 and the McFauld’s 3 JV agreement is still in effect.
- (3) By virtue of an underlying agreement, Phelps may earn a 50% interest in the property from Falconbridge Limited by incurring expenditures of \$1,500,000 over five years. Under the terms of the letter of intent, the Corporation will assume the remaining exploration expenditures of approximately \$755,000 and will issue 100,000 common shares to Phelps, together with 100,000 common share purchase warrants exercisable at a price of \$0.42 for a period of twenty-four months. The Corporation is also required to make a cash payment of \$2,000,000 to Phelps within six months of commercial production. The Corporation’s interest is also subject to a 1% NSR royalty due upon commencement of commercial production.
- (4) In accordance with the terms of the agreement, to earn its interest in the property, Candor, the Corporation’s predecessor, issued 30,000 common shares to Luxor and paid back taxes of approximately \$18,000, with the requirement to pay all property taxes during the earn-in period. The Corporation may maintain its option by issuing an additional 90,000 common shares and spending a total of \$150,000 on the property (which has already been spent) over a three-year period. In February 2005, a one-year extension of the agreement to February 4, 2006 was negotiated. In consideration for such extension, the Corporation has issued an additional 90,000 common shares valued at \$19,800. Canstar vested its 75% interest in November 2005 and indicated its intention to form a joint venture.

The Corporation also has one non-core property, identified in the table below, which the Corporation has chosen to joint venture to other exploration companies.

Description of Property	Target Mineralization	Ownership Interest
The Miminiska Property, comprised of 3 contiguous claims totaling 44-claim units, located approximately 100 kilometres east of Pickle Lake, Ontario.	Gold	100% owned. <sup>(1)(2)</sup>

Notes:

- (1) Interest was held by Nustar prior to the effective date of the amalgamation on April 5, 2005.
- (2) These claims were staked in 2002. A seven-hole drill program was undertaken in February and March 2005 to test chargeability anomalies and the proposed down plunge projection of a gold-mineralized zone known from previous drilling. No intersections of economic significance were achieved.

**An investment in the securities of the Corporation is highly speculative and involves numerous and significant risks and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors described below.**

### *Development Stage Corporation and Exploration Risks*

The Corporation is a junior resource company focused primarily on the acquisition and exploration of mineral properties located in Canada. The properties of the Corporation have no established reserves. There is no assurance that any of the projects can be mined profitably. Accordingly, it is not assured that the Corporation will realize any profits in the short to medium term, if at all. Any profitability in the future from the business of the Corporation will be dependent upon developing and commercially mining an economic deposit of minerals, which in itself is subject to numerous risk factors. The exploration and development of mineral deposits involves a high degree of financial risk over a significant period of time of which even a combination of careful evaluation, experience and knowledge of management may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration, development and production programs of the Corporation will result in profitable commercial mining operations. The profitability of the Corporation's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Substantial expenditures are required to establish reserves which are sufficient to commercially mine the Corporation's properties and to construct, complete and install mining and processing facilities in those properties that are actually mined and developed.

### *No History of Profitability*

The Corporation is a development stage company with no history of profitability. There can be no assurance that the operations of the Corporation will be profitable in the future. The Corporation has limited financial resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Corporation may become unable to acquire or retain its mineral concessions and carry out its business plan.

### *Government Regulations*

The Corporation's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Corporation to carry out its mining activities, the Corporation's exploitation licences must be kept current. There is no guarantee that the Corporation's exploitation licences will be extended or that new exploitation licences will be granted. In addition, such exploitation licences could be changed and there can be no assurance that any application to renew any existing licences will be approved. The Corporation may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Corporation will also have to obtain and comply with permits and licences which may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Corporation will be able to comply with any of such conditions.

### *Market Fluctuation and Commercial Quantities*

The market for minerals is influenced by many factors beyond the control of the Corporation such as changing production costs, the supply and demand for minerals, the rate of inflation, the inventory of mineral producing corporations, the international economic and political environment, changes in international investment patterns, global or regional consumption patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with minerals, and increased production due to improved mining and production methods. The metals industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of metals are discovered, a market will exist for the profitable sale of such metals. Commercial viability of precious and base metals and other mineral deposits may be affected by other factors that are beyond the Corporation's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors which may affect commercial viability so that any adverse combination of such factors may result in the Corporation not receiving an adequate return on invested capital.

### *Mining Risks and Insurance*

The Corporation is subject to risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Corporation may become subject to liability for pollution, damage to life or property and other hazards of mineral exploration against which it or the operator if its exploration programs cannot insure or against which it or such operator may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and would have a material adverse affect on the financial position of the Corporation.

### *Environmental Protection*

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety, which may adversely affect the Corporation or require it to expend significant funds.

### *Capital Investment*

The ability of the Corporation to continue exploration and development of its property interests will be dependent upon its ability to raise significant additional financing hereafter. There is no assurance that adequate financing will be available to the Corporation or that the terms of such financing will be favourable. Should the Corporation not be able to obtain such financing, its properties may be lost entirely.

### *Conflicts of Interest*

Certain of the directors and officers of the Corporation may also serve as directors and officers of other companies involved in natural gold and precious metal resource exploration and development and consequently, the possibility of conflict exists. Any decisions made by such directors involving the Corporation will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Corporation and such other companies. In addition, such directors declare, and refrain from voting on any matters in which such directors may have a conflict of interest.

### **OVERALL PERFORMANCE**

The Corporation is currently engaged in mineral exploration in Canada. The Corporation's exploration activities are at an early stage, and it has not yet been determined whether its properties contain recoverable ore. As a result, the Corporation has no current sources of revenue other than interest earned on cash, short-term investments and money market instruments, all of which were derived from issuances of share capital. There are no known deposits of minerals on any of the mineral exploration properties of the Corporation and any activities of the Corporation thereon will constitute exploratory searches for minerals. The following is a description of the Corporation's core projects and recent or proposed exploration initiatives.

#### *The McFauld's Lake Properties*

The Corporation has interests in a total of two properties in the McFauld's Lake area of northwestern Ontario, approximately 540 kilometres north-northeast of Thunder Bay, Ontario, on the fringes of the James Bay lowlands. Both properties are contiguous to the high-grade copper-zinc (minor silver and gold) massive sulphide discoveries by Spider Resources/KWG Resources, and in the area of Noront Resources high-grade nickel-copper-PGE discovery.

The first property, McFauld's Lake Property 1, was staked in 2003 and consists of two mineral licenses, consisting of 32 wholly-owned claim units totaling 502 hectares. The property was formerly owned by Candor, the Corporation's predecessor, who acquired that portion of an airborne electromagnetic survey previously flown over the property.

The second, McFauld's Lake Property 3, is comprised of three mineral claims totaling 38 claim units covering 128 hectares and is the subject of an arm's length option and joint venture agreement entered into by Nustar, the Corporation's predecessor, with Geocanex Limited on September 22, 2004. The agreement entitles the Corporation to earn an undivided 50% interest in the property. To earn its 50% interest, the Corporation must spend \$50,000 in the first year of the agreement, \$100,000 in the second year, and a further \$100,000 in the fourth year, for a total of \$250,000. In addition, the Corporation must issue 250,000 shares upon entering into the agreement (issued) and 250,000 shares on the first anniversary. Under the terms of the agreement, the Corporation must also make a one time cash payment of \$25,000 on the third anniversary. At this point, a 50/50 joint venture will be established along standard industry norms, including provision for dilution whereby a delinquent partner would convert to a 2% net smelter return royalty. The Corporation will be the operator during the earn-in period and thereafter as long as it holds at least a 50% interest in the joint venture. The Corporation has obtained all required regulatory approvals with respect to the agreement.

A program of ground geophysics over both the wholly-owned McFauld's Lake Property 1 and the joint ventured ground McFauld's Lake Property 3 carried out in the summer of 2004 identified several anomalies, two of which have been identified as priorities for drill testing.

On August 26, 2005, the Corporation negotiated a one-year extension to the schedule of work commitments required under the terms of the option and joint venture agreement with Geocanex Limited, whereby the terms required on the third anniversary were transferred to a fourth year. At the time, no further work was anticipated, and the property was written off in fiscal 2006.

A director of Canstar owns an interest in the McFauld3 Lake 3 property, through their ownership of Geocanex.

The Company is currently reassessing the results of previous exploration programs in light of the recent high-grade nickel-copper-PGE discovery of Noront Resources approximately 19km to the West of the McFaulds 1 and 3 properties.

#### *The Mary March Property*

The Corporation has the right to earn a 100% interest in an underlying interest in the property held by Phelps Dodge Corporation of Canada Limited ("Phelps"), pursuant to a letter of intent entered into with Phelps. By virtue of an underlying agreement, Phelps may earn a 50% interest in the property from Falconbridge Limited by incurring expenditures of \$1,500,000 over five years. Under the terms of the letter of intent, the Corporation will assume the remaining exploration expenditures of approximately \$755,000 and will issue 100,000 common shares to Phelps, together with 100,000 common share purchase warrants exercisable at a price of \$0.50 for a period of twenty-four months. The Corporation is also required to make a cash payment of \$2,000,000 to Phelps within six months of commercial production. The Corporation's interest is also subject to a 1% NSR royalty due upon commencement of commercial production. The remaining 50% interest in the property is held by Xstrata plc, on which the Corporation maintains a right of first refusal.

The Mary March Property is comprised of 18 staked claims, 2 licenses, 1 lease and 2 patented lots totaling 1,616 hectares and is located approximately 20 kilometres east of the past producing Buchans mine, near Buchans Junction, Newfoundland. High grade Cu-Pb-Zn-Ag-Au massive sulphides of economic significance were discovered on the Mary March Property by Phelps in 1999, but the core discovery areas of the property had been dormant since August 2000. A TDEM survey completed by Candor, the Corporation's predecessor, on a non-core portion of the property during the first quarter of 2004 identified significant conductors within the prospective Buchans Group felsic volcanics. Four holes totaling 925.4 metres were drilled to test these targets during the three months ended July 31, 2004. Although no intersections of economic significance were returned, anomalous base metals were identified. The holes were lined with PVC pipe to facilitate down hole geophysical surveying at a later date. The drilling was completed under the terms of a Junior Exploration Assistance Contribution Agreement, pursuant to which 50% of allowable exploration expenditures related to the drilling were reimbursed to the Corporation by the Government of Newfoundland and Labrador. In February 2006, an infiniTEM survey was completed over the eastern portion of the property. No significant anomalies were identified.

Title to the core discovery areas of the Mary March Property is currently being contested. In September and October 2000, Vinland Resources Limited, a privately held Newfoundland company filed applications with the Mineral Claims Recorder for the Government of Newfoundland and Labrador (the “Mineral Claims Recorder”) seeking Map Staking Licenses over the core Mary March discovery areas. On the basis of evidence demonstrating that the lands in question were not open for staking, the applications were rejected by the Mineral Claims Recorder. On December 20, 2000, the party in question filed a grievance with the Mineral Rights Adjudication Board (the “Board”), asking that the Mineral Claims Recorder’s decision be overturned. In a ruling handed down December 17, 2003, the Board ruled against the Province and titleholders. On January 8, 2004, the Province filed an appeal on behalf of the Mineral Claims Recorder before the Supreme Court of Newfoundland and Labrador, Trial Division. The Supreme Court hearing on the matter commenced on January 23, 2006 and concluded on January 27, 2006. On July 26, 2006, the Supreme Court of Newfoundland and Labrador set aside the decision of the Mineral Rights Adjudication Board and referred the matter back to a re-hearing.

Following an appeal by Vinland Resources of this ruling, The Mineral Claims Recorder, in conjunction with Canstar-Phelps Dodge and Xstrata filed a cross appeal to overturn the decision by Newfoundland and Labrador Supreme Court. The cross-appeal asks that the dispute be finally settled during the appeal, as the matter rests on points of law which are best decided by the courts.

There are three possible outcomes of this appeal hearing: 1) that the appeal court hears the cross-appeal and renders a final decision on the question of ownership, thereby ending the seven year struggle; 2) the appeal court upholds the Supreme Court of Newfoundland’s decision, and the matter is sent back to the Adjudication Board; or 3) the losing party to this appeal files an appeal through the Supreme Court of Canada. The latter requires leave (or permission) to proceed, as the Supreme Court of Canada typically only hears matters of national concern. The Corporation’s legal counsel believes that the merits of the case strongly favour Canstar-Phelps Dodge.

The appeal and cross appeal hearing commenced on October 16<sup>th</sup>, and at the time of this report was still in progress, being adjourned until November 9<sup>th</sup>, 2007. The Newfoundland Court of Appeal has a record of giving its decisions reasonably soon after matters are heard. The Corporation will continue to update shareholders on the progress of these proceedings. A comprehensive drilling program has been planned to commence on the property as soon as a favourable decision is handed down.

### *The Slate Bay Property*

On February 4, 2002, Candor, the Corporation’s predecessor, entered into an option and joint venture participation agreement with Luxor Enterprises Inc. (“Luxor”) to earn a 75% interest in the Slate Bay Property. The property is comprised of 8 contiguous, patented claims covering 128 hectares and located about 10 kilometres north of the town of Red Lake, Ontario, within the productive Red Lake greenstone belt. In accordance with the terms of the agreement, the right to earn an interest in the property was acquired by issuing 30,000 common shares to Luxor and paying back taxes of approximately \$18,000. The Corporation is also required to pay all property taxes during the earn-in period. In addition, under the terms of the agreement, the Corporation may maintain its option by issuing an additional 90,000 common shares and spending a total of \$150,000 on the property over a three-year period ending February 4, 2005. In February 2005, a one-year extension of the agreement, to February 4, 2006, was negotiated. In consideration for

such extension, the Corporation issued an additional 90,000 common shares valued at \$19,800. Upon completion of a drilling program in November 2005, the Corporation met all of the expenditure requirements to earn its 75% interest in the property and has advised Luxor that it wishes to establish a joint venture to further explore and develop the property. Under the terms of the agreement, the Corporation will act as manager of the joint venture.

The Corporation has completed detailed ground magnetic and IP surveys over the property and an initial 5-hole drill program conducted in 2001 tested a number of IP anomalies. The first hole intersected a 69.33 metre interval of Cu-Au-Ag mineralized breccia. Additional IP surveying in 2003 identified the faulted extension of the chargeability anomaly related to the mineralized zone and extended its total length to 1,000 metres. On September 20, 2005, a program of follow-up drilling consisting of four holes totaling 641 metres was launched. The drilling program was completed in early November 2005 and intersected a large copper-gold-silver mineralized skarn system, which is believed to have potential for continuity both laterally and to depth, with grades running to a high of 7.2 g/t gold, 5.81% copper and 183 g/t silver over narrow intervals in hole SB-05-06, within considerably longer sections of lower grade material. The Corporation is seeking a joint venture partner to conduct further drilling on the property beneath the discovery zone to better define the size and attitude of the Cu-Au-Ag skarn mineralization intersected earlier in the year.

#### *Tahoe Lake and Shrimp Lake Properties*

The Tahoe Lake Property and nearby Shrimp Lake Property are gold and base metal prospects in northwestern Ontario and are wholly-owned by the Corporation. The Tahoe Lake Property consists of three unpatented and unsurveyed mineral claims totaling 48 units (768 hectares) located approximately 170 kilometres northeast of the town of Red Lake, Ontario. The property is underlain by altered felsic volcanics, including coarse-grained pyroclastics and deformed, grunerite-rich iron formations and is considered to be highly prospective for both volcanogenic massive sulphide-related base metals and iron formation hosted mineralization. The nearby Shrimp Lake Property consists of seven unpatented mineral claims totaling 91 units (1,456 hectares). The Shrimp Lake Property is underlain by an altered volcano-sedimentary assemblage, including fragmental volcanics and a coarse, sulphide-rich, cordierite-bearing unit interpreted to be a possible debris flow, and is considered to be highly prospective for volcanogenic massive sulphide base metal mineralization.

A program of airborne geophysics to recover known anomalies previously identified by Noranda (but never drilled) on the Shrimp Lake Property and define potential drill targets on both properties was completed in December 2005. Following completion of this program, eight first priority conductors have been identified on the Shrimp Lake Property. These conductors are either associated with the target horizon or are located along strike in areas of poor exposure. The conductors have coincident or flanking magnetic correlations. With respect to the Tahoe Lake Property, a structurally complex magnetic feature interpreted to be iron formation related with locally strong conductivity has been identified. Elsewhere on the property, an isolated conductor has been identified in an area thought to be underlain by felsic fragmentals.

In October 2006 a program of ground geophysics, comprising horizontal loop electromagnetics (HLEM) and magnetics was completed on selected airborne conductors in preparation for drilling. A total of five, 800m-long, lines were surveyed on the Tahoe Lake property and ten, 800m-long, lines on the Shrimp Lake property. The surveys successfully located the airborne conductors. As a result preparations were made for drilling, and consisted of

establishing a camp in the project area. Owing to technical difficulties and time constraints, results were inconclusive and a second program was planned for 2007.

During July 2007 a diamond drilling program was completed on the Shrimp Lake and Tahoe Lake projects. A total of ten holes, totaling over 1100m, were completed, with nine holes drilled on the Shrimp Lake property and one hole in the Tahoe Lake property area. Results were encouraging with both gold and base metal environments intersected during drilling on the Shrimp Lake property. Numerous base and precious metal anomalous samples were identified in the drill core, with individual highs of 0.6g/t gold and 0.87% zinc. The results indicate potential for economic-grade mineralization within the volcanic package.

#### *Sunday Lake Property*

In October 2006, the Company signed a Letter of Intent to acquire 100% interest in the Sunday Lake property from The Sunday Lake Syndicate. The property is located approximately 30 Kilometers north of Thunder Bay in Northwestern Ontario. The agreement gives Canstar the right to earn 100% interest over 3 years by paying \$150,000 and issuing 450,000 shares of Canstar, 50,000 of which were issued on signing of the formal agreement. The Syndicate retains 2% Net Smelter Royalty (“NSR”) interest. Canstar has right of first refusal to buy back 1% for \$1 million. The Syndicate would receive \$1 million on the commencement of commercial production.

The Sunday Lake property comprises two mineral claims totaling approximately 360 acres. It covers the eastern portion of a very prominent, roughly circular, 1.2 kilometer diameter, negative magnetic anomaly.

There are no surface bedrock exposures to explain the source of this remarkable geophysical feature. However, a soil geochemical survey over the anomaly, utilizing Mobile Metal Ion (“MMI”) technology, indicates that the source may be a Carbonatite. Carbonatites typically host a variety of mineral concentrations and often occur in association with Kimberlites.

In November 2006, a 282 line kilometer, high-resolution, airborne magnetic survey was flown over the property in order to better delineate the anomaly in preparation for drilling. A minimum of 2 holes will be put down to investigate the source of a prominent, complex, reverse polarity magnetic anomaly, believed to be caused by either carbonatite/kimberlite intrusives or a mafic-ultramafic complex. Both settings are economically significant and host the potential for large tonnage deposits of nickel, copper, niobium-tantalum and/or industrial minerals.

In March 2007 a two-hole diamond drilling program, totaling 484m was completed on the property to test the geophysical anomaly. Hole SL07-01 intersected a significant zone of alteration believed to represent a halo surrounding the interpreted intrusive body. Unfortunately, no intrusive rocks were encountered in the drilling, however, intense zones of oxidized and epidotized metasediments, containing abundant magnetite, were observed directly over the magnetic feature. Hole SL07-02 failed to intersect the intrusive or altered cover rocks suggesting that the anomaly represents a single intrusive event, and not the multi-staged ring complex first thought.

Whole rock geochemistry suggests that the fluids responsible for the altered zone contained significant iron, magnesium and titanium, and indicate a potential mafic or ultramafic

source. Mafic-ultramafic complexes are economically significant and host the potential for large tonnage deposits of nickel, copper and cobalt, as well as platinum group elements.

The drilling program was successful in advancing our knowledge of this previously untested area, however, results were disappointing and it was decided to write-off the property.

A director of Canstar holds a minority interest in the Sunday Lake Syndicate.

## **RESULTS OF OPERATIONS**

*Year Ended June 30, 2007  
Compared to June 30, 2006*

During the year ended June 30, 2007, the Company incurred a net loss before taxes of \$1,108,411 compared to a net loss of \$2,005,753 at June 30, 2006. Overall Operating expenses were down in the year ended June 30, 2007, as compared to the previous year (\$442,128 vs. \$565,628). Stock-based compensation expenses for the year ended June 30, 2007 were similar to those for the previous year (\$245,081 vs. \$268,472), as were Transfer agent and filing fees (\$40,483 vs. \$37,744), while accounting rose modestly (\$33,785 vs. \$26,886). A significant decrease in professional fees (\$67,616 vs. \$103,475) was accompanied by decreases in consulting fees (\$6,321 vs. 23,071), general expenses (\$7,086 vs. \$23,616), salaries and benefits (\$nil vs. \$42,165) and travel (\$139 vs. \$3,471) for the year ending June 30, 2007 as compared to the year ended June 30, 2006.

During the year, the Company granted an aggregate of 1,875,000 incentive stock options to directors, officers and a consultant of the Company at a price of \$0.15 per share and exercisable for a period of five years, expiring on January 26, 2012. A further 350,000 incentive stock options were granted to a consultant of the Company at a price of \$0.15 per share and exercisable for a period of two years, expiring on January 26, 2009. The options vest over 18 months as to one-quarter immediately, one-quarter on July 26, 2007, one-quarter on January 26, 2008 and one quarter on July 26, 2008. For the year ended June 30, 2007, the impact of the options issued in the year on earnings is \$189,757. The fair value of the 1,875,000 stock options was deemed to be \$256,875, and \$43,400 for the 350,000 stock options.

Although the company's activity levels increased during the year ended June 30, 2007, compared to the previous year, operating expenses were reduced. The Company incurred \$497,040 in exploration and development expenditures on its properties compared to \$389,276 at June 30, 2006. The majority of the expenditures were on the Shrimp Lake and Sunday Lake properties.

Management and the directors continued to monitor the legal issues related to the Mary March title case during the year ended June 30, 2007.

As at June 30, 2007, the Corporation had cumulative property acquisition and deferred exploration costs for all properties of \$1,007,664 compared to cumulative deferred exploration costs of \$1,166,351 in the year ended June 30, 2006. Although the Corporation's exploration activity increased on its properties, a significant portion of deferred exploration expenditures were written down.

The Company raised \$555,700 during the year ended June 30, 2007 through exercise of warrants (\$22,800) issuance of warrants for cash (\$199,590, net of costs) and issuance of shares for cash (\$333,310, net of costs), compared to net proceeds of \$880,327 raised during the year ended June 30, 2006.

### ***SUMMARY OF QUARTERLY RESULTS <sup>(1)</sup>***

The following table sets out selected quarterly results of the Corporation and its predecessors, Nustar Resources Inc. and Candor Ventures Corp., for the eight quarters prior to the effective date of this report. The information contained herein is drawn from the audited annual financial statements and unaudited interim financial statements of the Corporation.

Year	2007	2007	2006	2006
Quarter	June 30	March 31	December 31	September 30
Revenue	\$nil	nil	nil	nil
Working Capital	184,186	305,970	443,679	318,163
Interest in Mineral Properties and Deferred Exploration Expenditures	1,007,664	1,600,446	1,502,300	1,178,171
Expenses	129,401	184,085	99,318	29,324
Net (Loss) Income	(861,238)	(2,645)	(99,318)	36,230
Net (Loss) (per share) <sup>(1)</sup>	(0.02)	(0.00)	(0.00)	0.00

Year	2006	2006	2005	2005
Quarter	June 30	March 31	December 31	September 30
Revenue	nil	nil	nil	nil
Working Capital	325,385	427,146	115,238	337,649
Interest in Mineral Properties and Deferred Exploration Expenditures	1,166,351	1,256,390	1,244,405	2,318,071
Expenses	10,409	167,254	211,968	176,257
Net (Loss) Income	(267,204)	50,131	(1,389,673)	(176,257)
Net (Loss) (per share) <sup>(1)</sup>	(0.01)	0.00	(0.03)	(0.00)

Notes:

- (1) Net loss per share on a fully-diluted basis is the same as net loss per share on an undiluted basis, as all factors which were considered in the calculation are anti-dilutive.

### ***LIQUIDITY***

As at June 30, 2007, the Company had working capital of \$184,186 compared to \$325,385 at June 30, 2006.

Working capital decreased by \$141,199 at June 30, 2007 from June 30, 2006 mainly as a result of increased exploration expenditures (\$497,040) and a decrease in financing activities of \$324,627.

The Company's administrative and exploration costs are expected to increase in the remainder of the year due to the increase in costs resulting from planned increased exploration activity.

### ***WORKING CAPITAL RESOURCES***

The Company does not currently have adequate funds to carry out all of its planned exploration activities. The Company does have sufficient funds to cover overhead expenses for the next twelve months.

Most of the Company's requirements for capital to maintain its ownership level in its properties, as well as pay for exploration expenditures and administrative expenses have been met through the completion of private placements and the exercise of stock options. Typically, these monies have come from institutional and high net worth investors and the amounts raised have been a function of the level of market interest in the junior resource industry as well as the general level of interest in the equity and mineral commodity markets. The Corporation will have to rely on further equity financings in order to maintain an adequate liquidity base with which to support its general operations and exploration and development mandate.

The mineral exploration business is risky and most exploration projects will not become mines. The Company may offer other mining companies the opportunity to acquire interests in any of its properties in return for funding by such companies of all or part of the exploration and development of such properties. For the funding of any property acquisitions or exploration conducted by the Company, the Company depends on the issue of shares from treasury to investors. Such financing will depend, in turn, on various factors, such as a positive mineral exploration climate, positive stock market conditions, the Company's track record and the experience of management. If such financing is unavailable for any reason, the Company may become unable to retain its mineral interests and carry out its business plan.

### ***OFF-BALANCE SHEET ARRANGEMENTS***

The Corporation does not have any off-balance sheet arrangements.

### ***TRANSACTIONS WITH RELATED PARTIES***

*Year Ended June 30, 2007*

During the year ended June 30, 2007 the Company incurred a total of \$29,767 (2006 - \$47,165) for consulting and administrative fees to a corporation controlled by an officer and director of the Company. Included in accounts payable and accrued liabilities at June 30, 2007 is \$5,742 (2006 - \$nil) owing to this corporation.

During the year ended June 30, 2006, Canstar issued 250,000 shares valued at \$37,500 under a property option agreement to Geocanex Limited. The Chairman of Canstar is the President of Geocanex Limited. In addition, Geocanex Limited was paid for out-of-pocket expenses it incurred on behalf of Canstar.

During the year ended June 30, 2007, the Company incurred a total of \$15,119 (2006 \$Nil) for rent and operating expenses to a corporation controlled by an officer and director of the Company. Included in accounts payable at June 30, 2007 is \$9,530 owing to this corporation.

The Company incurred \$20,700 (2006 - \$20,100) for accounting services rendered during the year by a firm of chartered accountants of which one of the directors is a partner. Included in accounts payable and accrued liabilities at June 30, 2007 is \$5,000 (2006 - \$5,000) accrued for accounting services.

The above transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties and does not exceed the arm's length equivalent value for these services.

### ***PROPOSED TRANSACTIONS***

There are no proposed acquisitions or dispositions being contemplated by the Corporation as at the date of this report.

### ***SUBSEQUENT EVENTS***

Diamond drilling on the Shrimp Lake and Tahoe Lake projects continued through the year-end and was completed in July 2007.

During September and October 2007, an aggregate of 5,733,333 warrants were exercised for gross proceeds of \$846,799.95. Of the total amount, 5,293,333 warrants were exercised on a flowthrough basis, for proceeds of \$794,000, while 440,000 warrants were exercised on a non-flowthrough basis for proceeds of \$52,800.

### ***CRITICAL ACCOUNTING ESTIMATES***

Critical accounting estimates used in the preparation of the financial statements include the Corporation's estimate of recoverable value of its mineral properties and related deferred exploration expenditures as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Corporation's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and stock price volatility. The timing for exercise of options is out of the Corporation's control and will depend on a variety of factors, including the market value of the Corporation's shares and financial objectives of the stock-based instrument holders. The Corporation used historical data to determine volatility in accordance

with the Black-Scholes option pricing model. However, the future volatility is uncertain and the model has its limitations.

The Corporation's recoverability of its recorded value of its mineral properties and associated deferred exploration expenses is based on current market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Corporation operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Corporation and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

### ***CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION***

The Company has not changed its accounting policies during the year.

### ***FINANCIAL INSTRUMENTS***

#### *Fair Value*

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, amounts receivable, and accounts payable and accrued liabilities on the consolidated balance sheet approximate fair value because of the limited term of these instruments.

#### *Foreign Exchange Risk*

The Company currently is not subject to foreign exchange risk in the resource exploration business.

#### *Commodity Price Risk*

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

### ***DISCLOSURE CONTROLS***

The Corporation's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Corporation. They are assisted in this responsibility by the Chairperson of the Audit Committee who serves as an independent director

of the Corporation. All three individuals sit on the Corporation's Disclosure Policy Committee ("DPC"). The Disclosure Policy requires all staff to keep the DPC fully apprised of all material information affecting the Corporation so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. Access to such material information by the DPC is facilitated by the small size of the Company's senior management and the location of all senior management staff in two corporate offices.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of June 30, 2007, have concluded that the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

### ***MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS***

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely information.

### ***OUTSTANDING SHARE DATA***

The authorized share capital consists of an unlimited number of common shares. As of October 29, 2007, an aggregate of 59,035,880 common shares were issued and outstanding.

### ***APPROVAL***

The Board of Directors of Canstar has approved the disclosure contained in the Management Discussion and Analysis. A copy of this report will be provided to anyone who requests it.

### ***OTHER MATTERS***

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com). and the Company's website at [www.canstarresources.com](http://www.canstarresources.com).

**CANSTAR RESOURCES INC.**  
**(A Development Stage Enterprise)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**



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## AUDITORS' REPORT

To the Shareholders of  
**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**

We have audited the consolidated balance sheets of Canstar Resources Inc. as at June 30, 2007 and 2006 and the consolidated statements of operations and deficit, cash flows and interest in mineral properties and deferred exploration expenditures for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Smith Nixon LLP*

**Chartered Accountants**  
**Licensed Public Accountants**  
**Toronto, Ontario**  
**September 19, 2007**  
(except for note 10(b) which is dated October 25, 2007)

CANSTAR RESOURCES INC.  
(A Development Stage Enterprise)  
**CONSOLIDATED BALANCE SHEETS**  
AS AT JUNE 30,

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	2007 \$	2006 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	260,391	390,577
Short-term investments	4,500	4,500
Amounts receivable and prepaid expenses	<u>11,682</u>	<u>27,469</u>
	276,573	422,546
<b>EQUIPMENT</b> (Note 3)	978	1,222
<b>INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES</b> (Note 4 and Statement)	<u>1,007,664</u>	<u>1,166,351</u>
	<u>1,285,215</u>	<u>1,590,119</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 8)	<u>92,387</u>	<u>97,161</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 5(b))	6,171,595	5,584,508
<b>WARRANTS</b> (Note 5(e))	610,911	816,239
<b>CONTRIBUTED SURPLUS</b> (Note 6)	892,143	647,062
<b>DEFICIT</b>	<u>(6,481,822)</u>	<u>(5,554,851)</u>
	<u>1,192,828</u>	<u>1,492,958</u>
	<u>1,285,215</u>	<u>1,590,119</u>

APPROVED ON BEHALF OF THE BOARD:

\_\_\_\_\_, "W. Deluce", Director

\_\_\_\_\_, "J. E. Hurley", Director

See accompanying notes to the financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
FOR THE YEARS ENDED JUNE 30,

	2007 \$	2006 \$
<b>OPERATING EXPENSES</b>		
Stock-based compensation (Note 5(d))	245,081	268,472
Professional fees	67,616	103,475
Transfer agent and filing fees	40,483	37,744
Accounting	33,785	26,886
Shareholder information	14,736	16,506
Interest and bank charges	13,666	1,579
Rent	12,971	10,869
General and office expenses	7,086	23,616
Consulting fees	6,321	23,071
Travel	139	3,471
Salaries and benefits	-	42,165
Insurance	-	7,469
Amortization	<u>244</u>	<u>305</u>
	<u>442,128</u>	<u>565,628</u>
(Loss) before the under-noted	(442,128)	(565,628)
Interest income	6	1,033
Write off of interest in mineral properties	<u>(666,289)</u>	<u>(1,441,158)</u>
(Loss) before income taxes	(1,108,411)	(2,005,753)
Future income tax recovery (Note 7(a))	<u>181,440</u>	<u>222,750</u>
<b>NET (LOSS)</b> for the year	(926,971)	(1,783,003)
<b>(DEFICIT)</b> , beginning of year	<u>(5,554,851)</u>	<u>(3,771,848)</u>
<b>(DEFICIT)</b> , end of year	<u>(6,481,822)</u>	<u>(5,554,851)</u>
<b>NET (LOSS) PER SHARE</b> – Basic and diluted (Note 5(f))	<u>(0.02)</u>	<u>(0.04)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b> (Note 5(f))	<u>50,749,889</u>	<u>45,106,211</u>

See accompanying notes to the financial statements.

CANSTAR RESOURCES INC.  
(A Development Stage Enterprise)  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
FOR THE YEARS ENDED JUNE 30,

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	2007 \$	2006 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) for the year	(926,971)	(1,783,003)
Charges not involving cash:		
Write off of interest in mineral properties	666,289	1,441,158
Future income tax recovery	(181,440)	(222,750)
Stock-based compensation cost	245,081	268,472
Amortization	244	305
	<u>(196,797)</u>	<u>(295,818)</u>
Changes in non-cash working capital balances:		
Decrease in amounts receivable and prepaid expenses	15,787	147,142
Decrease in accounts payable and accrued liabilities	<u>(7,836)</u>	<u>(264,190)</u>
	<u>7,951</u>	<u>(117,048)</u>
Cash flows from operating activities	<u>(188,846)</u>	<u>(412,866)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Exercise of warrants	22,800	6,000
Exercise of options	-	67,500
Issuance of warrants for cash, net of costs	199,590	336,394
Issuance of shares for cash, net of costs	<u>333,310</u>	<u>470,433</u>
Cash flows from financing activities	<u>555,700</u>	<u>880,327</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest in mineral properties and deferred exploration expenditures	<u>(497,040)</u>	<u>(389,276)</u>
(Decrease) increase in cash	(130,186)	78,185
Cash, beginning of year	<u>390,577</u>	<u>312,392</u>
Cash, end of year	<u>260,391</u>	<u>390,577</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	-	1,579
Issuance of common shares for interest in mineral property	7,500	37,500
Warrants issued for services rendered	94,213	92,700
Change in accrued mineral property and deferred exploration expenditures	3,062	10,802

See accompanying notes to the financial statements.

**CONSOLIDATED STATEMENT OF INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	Seal River \$	Slate Bay Property \$	Miminiska Property \$	Black River Property \$	Mary March Property \$	McFauld's Lake \$	Shrimp Lake \$	Tahoe Lake \$	Sunday Lake and Other \$	Total \$
<b>PROPERTY ACQUISITION COSTS</b>										
Balance, June 30, 2005	-	58,783	3,288	4,300	24,946	55,171	6,370	3,360	-	156,218
Incurred during the year	9,530	3,451	-	380	19,099	37,500	-	-	-	69,960
Written down during the year	(9,530)	-	-	(4,680)	-	(92,671)	-	-	-	(106,881)
Balance, June 30, 2006	-	62,234	3,288	-	44,045	-	6,370	3,360	-	119,297
Incurred during the year	-	-	-	-	3,000	-	-	-	7,500	10,500
Written down during the year	-	-	(3,288)	-	-	-	-	-	(7,500)	(10,788)
Balance, June 30, 2007	-	62,234	-	-	47,045	-	6,370	3,360	-	119,009
<b>DEFERRED EXPLORATION COSTS</b>										
Balance, June 30, 2005	1,127,260	85,256	524,460	25,261	170,250	67,988	6,625	6,613	-	2,013,713
Incurred during the year	63,951	81,689	12,000	30,453	107,940	-	33,968	25,014	27,245	382,260
Less: Government assistance	(7,881)	-	-	-	(6,761)	-	-	-	-	(14,642)
Written down during the year	(1,183,330)	-	-	(55,714)	-	(67,988)	-	-	(27,245)	(1,334,277)
Balance, June 30, 2006	-	166,945	536,460	-	271,429	-	40,593	31,627	-	1,047,054
Incurred during the year	-	500	-	-	33,398	-	311,665	32,498	119,041	497,102
Written down during the year	-	-	(536,460)	-	-	-	-	-	(119,041)	(655,501)
Balance, June 30, 2007	-	167,445	-	-	304,827	-	352,258	64,125	-	888,655
Totals	-	229,679	-	-	351,872	-	358,628	67,485	-	1,007,664

See accompanying notes to the financial statements.

## 1. NATURE OF OPERATIONS

The Company was incorporated on March 5, 1997 as Agri-Solutions Systems Incorporated and, pursuant to Articles of Amendment filed on February 26, 1999, changed its name to loGold Systems Canada Incorporated. On June 14, 2001, the Company announced its intent to establish a mineral resource exploration business. Pursuant to Articles of Amendment filed on July 26, 2001, the Company changed its name to Candor Ventures Corp. The Company sold its water treatment business to loSolutions Incorporated ("loSolutions") during fiscal 2002. On April 5, 2005, the Company amalgamated its operations with Nustar Resources Inc. ("Nustar") and changed its name to Canstar Resources Inc. ("Canstar").

The Company is in the development stage and is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of mineral properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

As at June 30, 2007, the Company had a deficit of \$6,481,822 and working capital of \$184,186. These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

### **Principles of Consolidation:**

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 1480377 Ontario Inc. All significant intercompany transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiary.

### **Equipment and Amortization**

Equipment is stated at acquisition cost. Amortization is provided at the following rates:

Office and field equipment	20%	Declining balance
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### **Short-Term Investments**

Short-term investments are stated at the lower of cost and market.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Interest in Mineral Properties and Deferred Exploration Expenditures**

Interest in mineral properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to their fair value. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

### **Asset Retirement Obligations**

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The Company did not have any asset retirement obligations as at June 30, 2007 and 2006.

### **Flow-Through Financing**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interest in mineral properties and deferred exploration expenditures.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Stock-based Compensation**

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock. The Company's stock-based compensation plan is described in Note 5(d).

**Loss Per Share**

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. As the Company had a loss in each of the years presented, basic and diluted loss per share are the same, as the exercise of all options and warrants would be anti-dilutive.

**Income Taxes**

The Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantially enacted tax rates expected to be in effect in the period in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions 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 related reported amounts of revenue and expense during the report period. The most significant estimates and assumptions include the determination of any impairment of the mineral properties and stock based compensation. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

**3. EQUIPMENT**

	2007		
	Cost \$	Accumulated Amortization \$	Net 2007 \$
Office and field equipment	7,293	6,315	978

	2006		
	Cost \$	Accumulated Amortization \$	Net 2006 \$
Office and field equipment	7,293	6,071	1,222

Continued...

**4. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

The Company has interests in mineral properties in the Madoc, Adrian, and McDonough Townships in Ontario, Canada, the Buchans area of central Newfoundland, Canada, and near the village of Riversdale, Nova Scotia, Canada.

Area of Interest	Acquisition Costs \$	Deferred Exploration Expenditures \$	Write down \$	Total Costs \$
a) Seal River	9,530	1,183,330	(1,192,860)	-
b) Sunday Lake	7,500	119,041	(126,541)	-
c) Slate Bay Property, McDonough Township	62,234	167,445	-	229,679
d) Miminiska Property, Pickle Lake	3,288	536,460	(539,748)	-
e) Black River	4,680	55,714	(60,394)	-
f) Tahoe Lake	3,360	64,125	-	67,485
g) Mary March Property	47,045	304,827	-	351,872
h) Shrimp Lake	6,370	352,258	-	358,628
i) McFaulds Lake	92,671	67,988	(160,659)	-
Balance per Statement of Interest in Mineral Properties and Deferred Exploration Expenditures	236,678	2,851,188	(2,080,202)	1,007,664

**a) Seal River**

Under an Agreement dated August 13, 2004, the Company obtained the right to acquire a 51% interest (subject to a 2% net smelter returns royalty) in all mineral rights, excluding diamonds, in 79 mineral claims located in Seal River area of Manitoba for consideration of incurring exploration expenditures totaling \$1,500,000 as follows:

\$200,000 on or before May 31, 2005;
200,000 on or before September 30, 2005;
400,000 on or before May 31, 2006;
400,000 on or before May 31, 2007; and
300,000 on or before May 31, 2008.
<b>\$1,500,000</b>

By a second Agreement dated August 31, 2004, the Company obtained the right to acquire a 51% interest (subject to a 2% Gross overriding Royalty) in and to diamond rights, in the mineral claims described above, by incurring certain expenditures before September 30, 2005. The Company has met the requirements and earned a 51% interest in the diamond rights for the property.

Upon the exercise of either option, a joint venture will be formed for the further exploration and development of the mineral rights or diamond rights, as the case may be.

As of June 30, 2006, as a result of disappointing exploration results, management determined that the carrying value of the property was not recoverable and as a result, the property was written off.

**4. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**  
(Continued)

**b) Sunday Lake**

On October 3, 2006, the Company signed a letter agreement (the "Agreement") to acquire 100% interest in the Sunday Lake mineral property from the Sunday Lake Syndicate located in 30km north of Thunder Bay, Ontario. The Sunday Lake property comprises one mineral claim (8 units) and one patented claim, totaling approximately 190 hectares.

In order to earn a 100% interest, the Company must pay the Optionor \$150,000 and issue 450,000 common shares to the Optionor over a three year period (50,000 common shares have been issued, valued at \$7,500). The Company's interest would be subject to a 2% Net Smelter Royalty, half of which could be bought out at any time for \$1,000,000. The Optionor would also receive \$1,000,000 on the commencement of commercial production.

A director of Canstar holds a minority interest in the Sunday Lake Syndicate.

Due to poor exploration results, the Company does not intend to further pursue the option agreement. Accordingly, the property has been written off.

**c) Slate Bay Property**

During the year ended January 31, 2003, the Company entered into an agreement with Luxor Explorations Inc. ("Luxor") whereby it can earn a 75% interest in Luxor's Slate Bay Property. The Slate Bay Property consists of eight patented mining claims in southern McDonough Township, Ontario within the Red Lake gold camp. The Company acquired the right to earn its interest by issuing 30,000 common shares to Luxor and by paying back taxes owed of approximately \$18,000. The Company maintained its option by issuing an additional 90,000 common shares and spending an aggregate of \$150,000 on the property over a three-year period. The Company must pay all property taxes during the earn-in period required to keep the property in good standing. Upon having vested its interest, a joint venture was formed with the Company acting as manager, to further explore and develop the property.

During the period ended June 30, 2005, the Company negotiated a one-year extension to the agreement with Luxor. In exchange for the one-year extension, Canstar issued Luxor a further 90,000 common shares of the Company valued at \$19,800.

**d) Miminiska Property, Pickle Lake**

The Company wholly-owns three contiguous claims totaling 44 claim units on the Miminiska Lake Peninsula located about 100 km east of Pickle Lake, Ontario. The claims were staked in 2002. A seven-hole drilling program was undertaken in February-March 2005, designed to test chargeability anomalies and the proposed plunge projection of a mineralized zone known from previous drilling. No intersections of economic significance were achieved.

Due to disappointing drilling results, the Company has decided to write-off the exploration expenditures at June 30, 2007. The claims remain in good standing until February 2011.

**e) Black River Property**

The Black River property consists of two contiguous exploration licenses totaling 104 claims (1,664 ha) located near the village of Riversdale, Colchester County, N.S., some 15 kilometers northeast of Truro.

As of June 30, 2006, as a result of disappointing exploration results, management determined that the carrying value of the property was not recoverable and as a result, the property was written off.

Continued...

#### **4. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

(Continued)

##### **f) Tahoe Lake Property**

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in three mineral claims comprised of 48 contiguous units located in the southern portion of the North Spirit Lake greenstone belt, north of Red Lake, Ontario. The property is located within five kilometers of the Shrimp Lake property, to the northwest.

##### **g) Mary March Property**

The Company holds an Option and Joint Venture Agreement with Phelps Dodge Mining Co. ("Phelps") whereby it can earn a fifty percent interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property is held by Xstrata. The Company has a first right of refusal on Xstrata's 50% interest, should they wish to sell.

The property consists of 18 staked claims, 2 licenses, 1 lease and 2 patented lots aggregating 4.5 sq km (1,616 ha). The Company can earn its 50% interest in the property by delivering 100,000 common shares of Canstar to Phelps and spending \$755,000. Phelps would be granted warrants for a further 100,000 shares of Canstar exercisable for a period not to exceed two years. These warrants could be exercised at a price of 50 cents per share.

Should the Joint Venture thus established proceed to production, Canstar would make a one-time cash payment to Phelps of \$2 million within six months of the commencement of commercial production. Canstar's share of production would be subject to a one percent (1%) Net Smelter Return Royalty payable to Phelps.

The property is currently the center of a legal dispute between Vinland Resources Limited ("Vinland"), a private Newfoundland company, and the Government of Newfoundland and Labrador over mineral rights. The dispute is currently under appeal by Vinland, with a scheduled appeal date of October 16-17, 2007, but needed an extra day that was subsequently added in November 2007. Although the joint venture continues to hold its interest in the claims, no further work will be done on the Mary March Property until the appeal is determined.

##### **h) Shrimp Lake Property**

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in seven mineral claims comprising 91 contiguous units located in the southern portion of the North Spirit Lake greenstone belt, north of Red Lake, Ontario. The property is located within five kilometers of the Tahoe Lake property, to the southeast.

##### **i) McFaulds Lake Properties**

###### **(i) McFaulds One**

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in 32 contiguous claim units located in the McFaulds Lake area of the James Bay Lowlands, Northern Ontario.

###### **(ii) McFaulds Three**

In September 2004, an Option and Joint Venture Agreement was signed with Geocanex Ltd. ("Geocanex") of Toronto, whereby Canstar can earn an undivided fifty percent (50%) interest in seven claims, totaling 1,504 hectares, that comprise the McFaulds Lake Three property. To earn its fifty percent (50%) interest, Canstar must:

- a) Spend \$50,000 in Year One of the Agreement (paid), \$100,000 in Year Two (paid), and a further \$100,000 in Year Four, for a total of \$250,000;

Continued...

**4. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**  
(Continued)

b) Issue 500,000 shares - 250,000 on signing (issued) and 250,000 at the end of each year thereafter.

In addition to the above commitments, having earned into fifty percent (50%), Canstar must then make a one-time cash payment of \$25,000 to Geocanex. A fifty percent (50%) Canstar / fifty percent (50%) Geocanex Joint Venture will then be established along standard industry norms, including provision for dilution whereby a delinquent partner would convert to a two percent (2%) Net Smelter Return Royalty.

Subsequently, four of the claims were allowed to lapse by mutual consent of Canstar and Geocanex, with the three remaining claims, representing 38 contiguous units, remaining under the agreement.

A director of Canstar is the principal shareholder of Geocanex.

In fiscal 2006, both McFaulds properties were written off due to disappointing exploration results.

**5. CAPITAL STOCK, OPTIONS AND WARRANTS**

The capital stock is as follows:

**a) Authorized**

Unlimited number of common shares

**b) Issued**

53,302,547 common shares

Summary of changes in capital stock:

	Common Shares #	Amount \$
<b>Common shares</b>		
Balance, June 30, 2005	39,950,047	5,247,834
Common shares issued for cash	7,312,500	563,606
Warrants exercised	50,000	9,300
Common shares issued for interest in mineral properties (Note 5(f))	250,000	37,500
Options exercised	450,000	67,500
Renunciation of flow-through expenditures	-	(222,750)
Share issue costs	-	(118,482)
Balance, June 30, 2006	48,012,547	5,584,508
Common shares issued for cash	5,050,000	379,030
Warrants exercised	190,000	28,817
Common shares issued for interest in mineral properties	50,000	7,500
Renunciation of flow-through expenditures	-	(181,440)
Share issue costs	-	(104,655)
Warrants expired	-	457,835
Balance, June 30, 2007	53,302,547	6,171,595

Continued...

**5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)**

**b) Issued (Continued)**

During the year ended June 30, 2006, the Company completed a \$450,000 private placement financing comprising of 3,375,000 flow-through units at \$0.10 per unit for gross proceeds of \$337,500, each flow-through unit consisting of one common share and one common share purchase warrant; and 1,125,000 hard dollar units at \$0.10 per unit for gross proceeds of \$112,500, each hard dollar unit consisting of one common share and one common share purchase warrant. Each whole warrant attached to the flow-through units and hard dollar units will entitle the holder to acquire one common share for \$0.12 until September 20, 2006, and thereafter for \$0.15 until September 20, 2007, at which time the warrants expire. The warrants were valued at \$159,000. A 10% commission was payable in cash and 900,000 compensation warrants valued at \$59,300 were issued. Each compensation warrant entitles the holder to purchase an additional common share of the Company for \$0.12 until September 20, 2006, and thereafter for \$0.15 until September 20, 2007, at which time the warrants expire.

During the year ended June 30, 2006, the Company completed a \$450,000 private placement financing comprising of 2,812,500 units at \$0.16 per unit. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.20 until August 2, 2007, at which time the warrants expire. The warrants were valued at \$176,894. A finder's fee of 250,000 compensation warrants valued at \$33,400 were issued. Each compensation warrant entitles the holder to purchase an additional common share of the Company for \$0.20 until August 2, 2007, at which time the warrants expire.

During the year ended June 30, 2007, the Company completed a \$606,000 private placement financing comprising of 5,050,000 units at a price of \$0.12 per unit of which 4,200,000 units consisted of flow-through units. Each unit consists of one common share of the Company and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 per share for a two-year period. The common share purchase warrants were valued at \$164,311, net of issue costs of \$62,658. Broker fees consisted of \$73,100 in cash and 1,010,000 common share purchase warrants entitling the holder to purchase one common share of the Company at a price of \$0.12 per share for a two year period valued at \$94,213.

**c) Stock Options**

The Company has granted options for the purchase of common shares to its directors, officers, and consultants. The aggregate number of common shares which may be issued under the stock option plan is 9,030,000. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company at the time of grant at the market price of the common shares, subject to all applicable regulatory requirements. As at June 30, 2007, the following stock options were outstanding:

<u>Options Granted #</u>	<u>Exercisable Options #</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
800,000	800,000	0.15	December 2, 2007
500,000	500,000	0.50	April 11, 2008
350,000	87,500	0.15	January 26, 2009
598,334	598,334	0.30	March 4, 2009
951,666	951,666	0.30	April 26, 2010
500,000	500,000	0.15	November 10, 2010
<u>1,875,000</u>	<u>468,750</u>	0.15	January 26, 2012
<u>5,575,000</u>	<u>3,906,250</u>		

Continued...

**5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)**

**c) Stock Options (Continued)**

A summary of changes in stock options is as follows:

	Number of Options #	Weighted Average Exercise Price \$
Balance, January 31, 2005	1,950,000	0.32
Options issued on amalgamation	1,150,000	0.15
Options issued on amalgamation	100,000	0.15
Granted	1,151,666	0.30
Exercised	(251,666)	(0.22)
Balance, June 30, 2005	4,100,000	0.35
Granted	550,000	0.15
Exercised	(450,000)	(0.15)
Balance, June 30, 2006	4,200,000	0.27
Granted	2,225,000	0.15
Expired	(850,000)	(0.23)
Balance, June 30, 2007	<u>5,575,000</u>	<u>0.23</u>

**d) Stock-Based Compensation**

During the year ended June 30, 2007, the Company granted 2,225,000 stock options. 1,800,000 options were granted to directors and officers of the Company and 425,000 stock options were granted to consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of \$0.15 per common share until January 28, 2009 and 2012. The stock options vest 1/4 at the date of grant and 1/4 at the conclusion of each six-month period subsequent to the date of grant.

The weighted average grant date fair value of options granted during the year amounted to \$0.13 per option (2006 - \$0.086). The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	4.1%	3.6%
Expected life	2 or 5 years	5 years
Expected volatility in the market price of the shares	188%, 150%	84%
Expected dividend yield	0%	0%

The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because the Company's stock-based compensation options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, amounts estimated using the Black-Scholes option pricing model may differ materially to the actual fair value of the Company's stock-based compensation options.

Continued...

**5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)**

**e) Share Purchase Warrants**

A summary of the changes in stock warrants is as follows:

	Number of Warrants #	Weighted Average Exercise Price \$	Value \$
Balance, January 31, 2005	567,500	0.35	-
Warrants from Nustar Resources Inc. received on amalgamation	3,125,000	0.10	-
Warrants from Nustar Resources Inc. received on amalgamation	904,750	0.70	-
Warrants granted on private placement	3,335,000	0.70	396,865
Broker warrants granted	335,000	0.30	60,970
Warrants expired	(567,500)	0.35	-
Warrants expired	(312,500)	0.10	-
Warrants exercised	(2,812,500)	0.10	-
Balance, June 30, 2005	4,574,750	0.35	457,835
Exercised	(50,000)	(0.12)	(3,300)
Issued for services	900,000	0.15	59,300
Issued for services	250,000	0.20	33,400
Issued, net of issue costs of \$46,092	4,500,000	0.15	113,408
Issued, net of issue costs of \$21,298	2,812,500	0.20	155,596
Balance, June 30, 2006	12,987,250	0.33	816,239
Exercised	(190,000)	(0.12)	(6,017)
Issued for services (Note 5(b))	1,010,000	0.12	94,213
Issued, net of issue costs of \$62,658 (Note 5(b))	5,050,000	0.15	164,311
Expired	(4,574,750)	(0.67)	(457,835)
Balance, June 30, 2007	14,282,500	0.16	610,911

As at June 30, 2007, the following warrants were issued and outstanding:

<u>Number of warrants</u> #	<u>Exercise Price</u> \$	<u>Expiry date</u>
5,160,000	0.15	September 20, 2007
3,062,500	0.20	August 2, 2007
5,050,000	0.15	December 28, 2008
<u>1,010,000</u>	0.12	December 28, 2008
<u>14,282,500</u>		

The weighted average grant date fair value of warrants issued during the year ended June 30, 2007 amounted to \$0.0868 per whole common share purchase warrant. The fair value of each whole common share purchase warrant granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

Continued...

**5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)**

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	4.2%	3.04-3.7%
Expected life	2 years	1.5-2 years
Expected volatility in the market price of the shares	116%	129%-149%
Expected dividend yield	0%	0%

**f) Loss Per Share**

The loss per share figures have been calculated using the weighted average number of common shares outstanding during the respective years. Basic loss per share is computed by dividing earnings by the weighted average number of common shares outstanding for the period. No dilutive loss per share has been disclosed as it would be anti-dilutive.

**6. CONTRIBUTED SURPLUS**

A summary of the changes in contributed surplus during the year is as follows:

	Amount \$
Balance, January 31, 2005	385,850
Stock-based compensation	11,894
Exercise of options	<u>(19,154)</u>
Balance, June 30, 2005	378,590
Stock-based compensation	<u>268,472</u>
Balance, June 30, 2006	647,062
Stock-based compensation	<u>245,081</u>
Balance, June 30, 2007	<u><u>892,143</u></u>

**7. INCOME TAXES**

The Company utilizes the asset and liability method of accounting for incomes taxes.

**a) Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the federal statutory rate of 36% (2006 – 36%) were as follows:

	2007 \$	2006 \$
(Loss) before taxes:	<u>(1,108,411)</u>	<u>(2,005,753)</u>
Expected income tax recovery based on statutory rate	(399,000)	(722,000)
Adjustments to benefit resulting from:		
Stock-based compensation	88,260	96,650
Share issue costs	(26,300)	(71,400)
Expiry of losses	319,800	373,500
Other	-	(280,200)
Change in valuation allowance	<u>(164,200)</u>	<u>380,700</u>
Income tax (recovery)	<u>(181,440)</u>	<u>(222,750)</u>

## 7. INCOME TAXES (Continued)

In March 2007, the Company renounced \$504,000 of Canadian exploration expenditures related to proceeds from the issuance of flow-through shares with an effective date of December 31, 2006. Consequently, this increased the future income tax liability by \$181,440.

### b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at June 30, 2007 are as follows:

	2007	2006
	\$	\$
Future income tax assets (liabilities):		
Non-capital losses	343,200	626,700
Share issue costs	116,900	126,900
Resource properties	1,494,400	1,365,100
Other	2,500	2,500
Valuation allowance	(1,957,000)	(2,121,200)
	-	-

As at June 30, 2007, the Company had available for deduction against future taxable income, non-capital losses of approximately \$976,300 which expire as follows:

<u>Year of Expiry</u>	<u>Amount</u>
2008	\$ 648,400
2009	42,700
2013	47,300
2014	7,600
2015	11,400
2016	95,100
2027	100,900
	<u>\$ 953,400</u>

The Company has approximately \$707,600 and \$4,174,700 of Canadian development expenses and Canadian exploration expenditures, respectively, as at June 30, 2007 which, under certain circumstances, may be utilized to reduce taxable income of future years. Management believes that it is not considered more likely than not that it will create sufficient taxable income to realize its future tax assets. As a result, a full valuation allowance has been recognized.

## 8. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2007 the Company incurred a total of \$29,767 (2006 - \$47,165) for consulting and administrative fees to a corporation controlled by an officer and director of the Company. Included in accounts payable and accrued liabilities at June 30, 2007 is \$5,742 (2006 - \$nil) owing to this corporation.

During the year ended June 30, 2006, Canstar issued 250,000 shares valued at \$37,500 under a property option agreement to Geocanex Limited. The Chairman of Canstar is the President of Geocanex Limited. In addition, Geocanex Limited was paid for out-of-pocket expenses it incurred on behalf of Canstar.

During the year ended June 30, 2007, the Company incurred a total of \$15,119 (2006 \$Nil) for rent and operating expenses to a corporation controlled by an officer and director of the Company. Included in accounts payable at June 30, 2007 is \$9,530 (2006 - \$Nil) owing to this corporation.

## **8. RELATED PARTY TRANSACTIONS (Continued)**

The Company incurred \$20,700 (2006 - \$20,100), for accounting services rendered during the year by a firm of chartered accountants of which one of the directors is a partner. Included in accounts payable and accrued liabilities at June 30, 2007 is \$5,000 (2006 - \$5,000) accrued for accounting services.

The above transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties and does not exceed the arm's length equivalent value for these services.

## **9. ENVIRONMENTAL CONTINGENCIES**

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## **10. COMMITMENTS AND CONTINGENCIES**

- (a) As at June 30, 2007, the Company is committed to incur prior to December 31, 2007, on a best efforts basis, \$99,465 in qualifying Canadian exploration expenditures pursuant to a private placement for which flow-through proceeds had been renounced to shareholders during the 2007 calendar year.
- (b) Vinland Resources Limited appealed the ruling of the Newfoundland and Labrador Supreme Court, Trial Division, regarding the Mary March Property in the Buchans area of Newfoundland. The timing for the hearing of the appeal and cross-appeal was set for October 16 and 17, 2007 but needed and extra day that was subsequently added in November 2007. The Canstar-Phelps Dodge Corporation of Canada joint venture continues to hold its interest in the subject claims over which Vinland has sought Map Staking Licenses. The Corporation's legal advisors believe that the merits of the case strongly favour Canstar and that the appeal will be determined in favour of the Canstar-Phelps Dodge Corporation of Canada joint venture. No further work will be done on the property until the appeal is determined (Note 4(e)).

## **11. FINANCIAL INSTRUMENTS**

### **Fair Value**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, short-term investments, amounts receivable, and accounts payable and accrued liabilities on the consolidated balance sheet approximate fair value due to the limited term of these instruments.

### **Foreign Exchange Risk**

The Company currently is not subject to foreign exchange risk.

### **Commodity Price Risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

## **CORPORATE DATA**

<p><b>DIRECTORS</b> Harry J. Hodge David Palmer William S. Deluce T. Patrick Reid John E. Hurley</p> <p><b>OFFICERS</b> Harry J. Hodge, P.Eng. <i>Chairman of the Board</i></p> <p>David Palmer, Ph.D., P.Geo. <i>President &amp; CEO</i></p> <p><b>QUALIFIED PERSON</b> David Palmer, Ph.D., P.Geo.</p>	<p><b>SHARES LISTED</b> ROX – TSX Venture Exchange</p> <p><b>CAPITALIZATION</b> Issued: 53,302,547 Common Shares (as at June 30, 2007)</p> <p><b>HEAD OFFICE</b> 2 Toronto Street, Suite 306 Toronto, ON , Canada M5C 2B6 Tel: 416-777-6703 Fax: 416-777-6705</p>	<p><b>REGISTRAR &amp; TRANSFER AGENT</b> Equity Transfer &amp; Trust 400-200 University Avenue Toronto, ON, M5H 4H1</p> <p><b>AUDITOR</b> Smith Nixon LLP 1900-390 Bay Street Toronto, ON, Canada M5H 2Y2</p> <p><b>LEGAL COUNSEL</b> Irwin Professional Corporation 512-120 Adelaide St. West Toronto, ON</p>
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### **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Shareholders will be held at the Boardroom of Suite 2700, 130 Adelaide Street West, Toronto, ON, at 10:00am on Thursday, December 13<sup>th</sup>, 2007.

### **Disclaimer**

This report presents a review of The Company's projects in Canada, including the McFauld's Lake and Victory projects. Readers are cautioned that the projects are at an early stage of exploration and that estimates and projections contained herein are based on limited and incomplete data. More work is required before the mineralization on the projects and their economic aspects can be confidentially modeled. Therefore, the work results and estimates herein may be considered to be generally indicative only of the nature and quality of the projects. No representation or prediction is intended as to the results of future work, nor can there be any promise that the estimates herein will be confirmed by future exploration or analysis, or that the projects will otherwise prove to be economic.

### **Forward-Looking Statements**

This report contains forward-looking statements including, but not limited to, comments regarding predictions and projections. One can identify these forward-looking statements by use of words such as "expects", "plans", "anticipates", "intends" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements address future events and conditions and therefore involve inherent risks, uncertainties and other factors, which may cause the actual results, performance or achievements of The Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to the integration of acquisitions, risks related to joint venture operations, actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future metal prices, variation in grade or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes and other risks of the mining industry, as well as delays in obtaining government approvals or financings or in the completion in development or construction activities. Although The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.