

**NOTICE TO SHAREHOLDERS  
FOR THE THREE  
MONTHS ENDED  
SEPTEMBER 30, 2006**

**CANSTAR RESOURCES INC.  
(A Development Stage Enterprise)**

Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Canstar Resources Inc. (the "Company" or "Canstar") have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles consistently applied. The most significant of these accounting principles have been set out in the June 30, 2006 audited consolidated financial statements. Only changes in accounting information have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Auditor involvement

The independent auditor of Canstar Resources Inc. has not performed a review of the unaudited consolidated financial statements for the three months ended September 30, 2006 and September 30, 2005.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Balance Sheets**  
**(Prepared by Management - Unaudited)**

	September 30, 2006	June 30, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash (Note 8)	\$ 405,298	\$ 390,577
Short-term investments	4,500	4,500
Amounts receivable and prepaid expenses	16,405	27,469
	426,203	422,546
<b>Equipment</b>	1,146	1,222
<b>Interest in mineral properties and deferred exploration expenditures (Note 3)</b>	1,178,171	1,166,351
	\$ 1,605,520	\$ 1,590,119
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 108,040	\$ 97,161
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 4(b))	5,613,325	5,584,508
Warrants (Note 4(e))	810,223	816,239
Contributed surplus (Note 4(d))	665,013	647,062
Deficit	(5,591,081)	(5,554,851)
	1,497,480	1,492,958
	\$ 1,605,520	\$ 1,590,119

Going concern (Note 1)

APPROVED ON BEHALF OF THE BOARD:

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*"Harry J. Hodge"*, Director

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*"John E. Hurley"*, Director

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Operations and Deficit**  
**(Prepared by Management - Unaudited)**

	Three Months Ended September 30,	
	2006	2005
<b>Expenses</b>		
Stock-based compensation (Note 4(d))	\$ 17,951	\$ 83,817
Consulting fees	150	400
Professional fees	2,012	24,803
Salaries and benefits	-	25,269
Transfer agent and filing fees	3,629	4,315
Accounting	4,330	9,350
General and office expenses	1,149	8,665
Rent	-	4,498
Insurance	-	2,355
Amortization	76	76
Interest and bank charges	27	95
Travel	-	2,739
	<b>29,324</b>	<b>166,382</b>
(Loss) before the under-noted	(29,324)	(166,382)
Interest income	2	-
General exploration	(6,908)	(9,875)
<b>Net (loss) for the period</b>	<b>(36,230)</b>	<b>(176,257)</b>
<b>Deficit, beginning of period</b>	<b>(5,554,851)</b>	<b>(3,771,848)</b>
<b>Deficit, end of period</b>	<b>\$ (5,591,081)</b>	<b>\$ (3,948,105)</b>
<b>Net (loss) per share</b> - basic and diluted (Note 5)	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Weighted average number of shares</b>	<b>48,139,232</b>	<b>40,445,937</b>

See accompanying notes to the consolidated financial statements

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Cash Flows**  
**(Prepared by Management - Unaudited)**

	Three Months Ended September 30,	
	2006	2005
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
<b>Net (loss) for the period</b>	\$ (36,230)	\$ (176,257)
Items not involving cash		
Amortization	76	76
Stock-based compensation (Note 4(d))	17,951	83,817
	(18,203)	(92,364)
Changes in non-cash working capital items		
Amounts receivable and prepaid expenses	11,065	27,365
Accounts payable and accrued liabilities	10,879	(297,088)
	3,741	(362,087)
<b>Investing</b>		
Interest in mineral properties and deferred exploration expenditures	(11,820)	(110,641)
<b>Financing</b>		
Exercise of warrants	22,800	-
Issuance of shares for cash, net of costs	-	399,700
	22,800	399,700
<b>Change in cash</b>	14,721	(73,028)
<b>Cash, beginning of period</b>	390,577	312,392
<b>Cash, end of period</b>	\$ 405,298	\$ 239,364

See accompanying notes to the consolidated financial statements

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Interest In Mineral Properties And Deferred**  
**Exploration Expenditures**  
**(Prepared by Management - Unaudited)**

	Three Months Ended September 30,	
	2006	2005
<b><u>Slate Bay Property, McDonough Township (1)</u></b>		
Balance, beginning of period	\$ 229,179	\$ 144,039
Property acquisition costs	-	1,999
Salaries and wages	-	2,812
Drilling	-	26,546
Geophysical	-	500
Geological	-	200
General exploration	-	1,452
Total expenditures during the period	-	33,509
Balance, end of period	\$ 229,179	\$ 177,548
<b><u>Miminiska Property, Pickle Lake (1)</u></b>		
Balance, beginning of period	\$ 539,748	\$ 527,748
Salaries and wages	-	5,625
Geological	-	228
General exploration	-	6
Total expenditures during the period	-	5,859
Balance, end of period	\$ 539,748	\$ 533,607
<b><u>Black River Property (1)</u></b>		
Balance, beginning of period	\$ -	\$ 29,561
Property acquisition costs	-	380
Salaries and wages	-	938
Geophysical	-	6,150
Geological	-	80
Total expenditures during the period	-	7,548
Balance, end of period	\$ -	\$ 37,109

(1) For a description of these properties, refer to Note 5 of the audited consolidated financial statements for the year ended June 30, 2006.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Interest In Mineral Properties And Deferred**  
**Exploration Expenditures**  
**(Prepared by Management - Unaudited)**

	Three Months Ended September 30,	
	2006	2005
<b>Mary March Property (1)(Note 3(2))</b>		
Balance, beginning of period	\$ 315,474	\$ 195,196
Drilling	-	971
Geological	-	88
General exploration	-	1,800
General and administrative	1,305	225
Supplies and equipment	2,100	1,800
Travel	3,032	-
Total expenditures during the period	6,437	4,884
Balance, end of period	\$ 321,911	\$ 200,080
<b>McFauld's Lake (1)</b>		
Balance, beginning of period	\$ -	\$ 123,159
Property acquisition costs	-	37,500
Total expenditures during the period	-	37,500
Balance, end of period	\$ -	\$ 160,659
<b>Seal River (1)</b>		
Balance, beginning of period	\$ -	\$ 1,127,260
Salaries and wages	-	5,625
Geophysical	-	40,620
Geological	-	514
General exploration	-	2,315
Transportation (recovery)	-	(6,471)
Advance	-	15,297
Total expenditures during the period	-	57,900
Balance, end of period	\$ -	\$ 1,185,160

(1) For a description of these properties, refer to Note 5 of the audited consolidated financial statements for the year ended June 30, 2006.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Interest In Mineral Properties And Deferred**  
**Exploration Expenditures**  
**(Prepared by Management - Unaudited)**

	Three Months Ended September 30,	
	2006	2005
<b>Shrimp Lake (1)</b>		
Balance, beginning of period	\$ 46,963	\$ 12,995
Salaries and wages	-	470
Geological	1,727	-
Total expenditures during the period	1,727	470
Balance, end of period	\$ 48,690	\$ 13,465
<b>Tahoe Lake (1)</b>		
Balance, beginning of period	\$ 34,987	\$ 9,973
Salaries and wages	-	470
Geological	1,727	-
Total expenditures during the period	1,727	470
Balance, end of period	\$ 36,714	\$ 10,443
<b>Sunday Lake Property (2)</b>		
Balance, beginning of period	\$ -	\$ -
Geological	1,929	-
Balance, end of period	\$ 1,929	\$ -
<b>TOTAL</b>	<b>\$ 1,178,171</b>	<b>\$ 2,318,071</b>

(1) For a description of these properties, refer to Note 5 of the audited consolidated financial statements for the year ended June 30, 2006.

(2) Refer to Note 9.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended September 30, 2006**  
**(Prepared by Management - Unaudited)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

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 during fiscal 2002. On April 5, 2005, the Company amalgamated its operations with Nustar Resources Inc. and changed its name to Canstar Resources Inc.

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 September 30, 2006, the Company had a deficit of \$5,591,081 and working capital of \$318,163. 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 unaudited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles for interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian Generally Accepted Accounting Principles for annual consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended September 30, 2006, may not necessarily be indicative of the results that may be expected for the year ending June 30, 2007.

The consolidated balance sheet at June 30, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian Generally Accepted Accounting Principles for complete consolidated financial statements. The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual consolidated financial statements for the year ended June 30, 2006. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2006.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended September 30, 2006**  
**(Prepared by Management - Unaudited)**

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

(1) For a description of these properties, refer to Note 5 of the audited consolidated financial statements for the year ended June 30, 2006.

(2) Vinland Resources Limited ("Vinland") 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 has not been determined. The Joint Venture continues to hold its interest in the subject claims over which Vinland has sought Map Staking Licenses. No further work will be done on the property until the outcome of the appeal is determined.

**4. CAPITAL STOCK, CONTRIBUTED SURPLUS, OPTIONS, AND WARRANTS**

(a) Authorized:

Unlimited number of common shares

(b) Issued:

	Shares	Amount
Balance, June 30, 2006	48,012,547	\$ 5,584,508
Warrants exercised	190,000	22,800
Warrants exercised - valuation	-	6,017
<b>Balance, September 30, 2006</b>	<b>48,202,547</b>	<b>\$ 5,613,325</b>

(c) Stock Option Plan

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2006 and September 30, 2006	4,200,000	\$ 0.27

The options outstanding as at September 30, 2006 are as follows:

	Black-Scholes Valuation	Number of Options	Exercise Price	Expiry Date
\$ -	-	600,000	\$0.20	January 22, 2007
123,936	123,936	500,000	\$0.50	April 11, 2008
26,338	26,338	100,000	\$0.41	April 11, 2008
112,724	112,724	598,334	\$0.30	March 4, 2009
-	-	700,000	\$0.15	August 23, 2009
261,428	261,428	1,151,666	\$0.30	April 26, 2010
47,261	47,261	550,000	\$0.15	November 10, 2010
<b>\$ 571,687</b>	<b>571,687</b>	<b>4,200,000</b>		

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended September 30, 2006**  
**(Prepared by Management - Unaudited)**

**4. CAPITAL STOCK, CONTRIBUTED SURPLUS, OPTIONS, AND WARRANTS (Continued)**

(c) Stock Option Plan (Continued)

Stock options have been expensed as follows:

Number of Options	Black-Scholes Value at September 30, 2006	Remainder to be added to Contributed Surplus	Total Stock-based Compensation
100,000	\$ 26,338	\$ -	\$ 26,338
500,000	123,936	-	123,936
598,334	112,724	-	112,724
1,151,666	223,303	38,125	261,428
550,000	47,261	-	47,261
<b>2,900,000</b>	<b>\$ 533,562</b>	<b>\$ 38,125</b>	<b>\$ 571,687</b>

(d) Contributed Surplus

The following is a continuity of contributed surplus as at September 30, 2006:

	Contributed Surplus
Balance, June 30, 2006	\$ 647,062
Vesting of stock options	17,951
<b>Balance, September 30, 2006</b>	<b>\$ 665,013</b>

(e) Warrants

A summary of changes in warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2006	12,987,250	\$ 0.33
Warrants exercised	(190,000)	0.12
<b>Balance, September 30, 2006</b>	<b>12,797,250</b>	<b>\$ 0.35</b>

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended September 30, 2006**  
**(Prepared by Management - Unaudited)**

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**4. CAPITAL STOCK, CONTRIBUTED SURPLUS, OPTIONS, AND WARRANTS (Continued)**

(e) Warrants (Continued)

The warrants outstanding as at September 30, 2006 are as follows:

	Black-Scholes Valuation	Number of Warrants	Exercise Price	Expiry Date
\$	-	904,750	\$0.70	December 10, 2006
	396,865	3,335,000	\$0.70	April 7, 2007
	60,970	335,000	\$0.30	April 7, 2007
	163,392	5,160,000	\$0.15	September 20, 2007
	188,996	3,062,500	\$0.20	August 2, 2007
\$	810,223	12,797,250		

**5. BASIC AND DILUTED LOSS PER SHARE**

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, 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 stock options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for stock options and warrants.

**6. INCOME TAXES**

The estimated taxable income for the period is \$nil. Based upon the level of historical taxable income, it cannot be reasonably determined if the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities. Consequently, the future recovery or loss arising from differences in tax values and accounting values have been reduced by an equivalent estimated taxable temporary difference valuation allowance. This estimated taxable temporary difference valuation allowance will be adjusted in the period that it can be determined that it is more likely than not that some or all of the future tax assets or future tax liabilities will be realized.

For further information about the Company's losses for tax purposes, refer to the audited June 30, 2006 consolidated financial statements. The benefits for these losses and the estimated loss for the period are not recognized in these consolidated financial statements.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended September 30, 2006**  
**(Prepared by Management)**  
**(Unaudited)**

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**7. RELATED PARTY TRANSACTIONS**

During the three months ended September 30, 2005, 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.

At September 30, 2006, the Company owed \$5,000 (2005 - \$1,605) to a firm of chartered accountants of which one of the directors is a partner, 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.

**8. COMMITMENT**

As at September 30, 2006, the Company is committed to incur prior to December 31, 2006, on a best efforts basis \$85,000 in qualifying Canadian exploration expenditures pursuant to a private placement for which flow-through proceeds had been received during the 2006 calendar year.

**9. SUBSEQUENT EVENT**

Subsequent to September 30, 2006, the Company announced the intent to purchase the Sunday Lake Mineral property from the Sunday Lake Syndicate. The agreement gives the Company the right to earn a 100% interest over three years by paying \$150,000 and issuing 450,000 shares, 50,000 of which will be 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.

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