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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED  
DECEMBER 31, 2007**

**(UNAUDITED)**

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

The accompanying unaudited interim consolidated financial statements of Canstar Resources Inc. (A Development Stage Company) were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the June 30, 2007 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Interim Consolidated Balance Sheets**  
**(Expressed In Canadian Dollars)**  
**(Prepared by Management)**  
**(Unaudited)**

	December 31, 2007	June 30, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash (Note 6)	\$ 884,271	\$ 260,391
Short-term investments	4,500	4,500
Amounts receivable and prepaid expenses	77,559	11,682
	<b>966,330</b>	<b>276,573</b>
<b>Equipment</b>	<b>880</b>	<b>978</b>
<b>Interest in mineral properties and deferred exploration expenditures</b>	<b>1,434,100</b>	<b>1,007,664</b>
	<b>\$ 2,401,310</b>	<b>\$ 1,285,215</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 5)	\$ 348,112	\$ 92,388
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 3(b))	7,396,054	6,171,595
Warrants (Note 3(d))	155,081	610,911
Contributed surplus	1,198,440	892,143
Deficit	(6,696,377)	(6,481,822)
	<b>2,053,198</b>	<b>1,192,827</b>
	<b>\$ 2,401,310</b>	<b>\$ 1,285,215</b>

**Nature of Operations and Going Concern (Note 1)**

**Commitments (Note 6)**

**Subsequent Event (Note 8)**

APPROVED ON BEHALF OF THE BOARD:

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*"W. Deluce"*, Director

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*"John E. Hurley"*, Director

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Interim Consolidated Statements of Operations and Comprehensive Loss**  
**(Expressed In Canadian Dollars)**  
**(Prepared by Management)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b>Operating Expenses</b>				
Stock-based compensation (Note 3(i))	\$ 73,511	\$ 16,017	\$ 117,301	\$ 33,968
Professional fees	10,884	19,206	10,884	21,218
Transfer agent and filing fees	22,104	20,811	25,167	24,440
Accounting	11,057	11,930	18,852	16,260
Shareholder information	13,371	10,971	12,311	10,971
Interest and bank charges	76	13,540	107	13,567
General and office expenses	11,433	5,158	19,804	6,307
Consulting fees	542	1,639	3,792	1,789
Amortization	49	46	98	122
	<b>143,027</b>	<b>99,318</b>	<b>208,316</b>	<b>128,642</b>
(Loss) before the under-noted	<b>(143,027)</b>	<b>(99,318)</b>	<b>(208,316)</b>	<b>(128,642)</b>
Interest income	-	-	-	2
General exploration	-	-	(947)	(6,908)
Write-off of interest in mineral properties	-	-	(5,292)	-
<b>Net (loss) and other comprehensive (loss)</b>	<b>(143,027)</b>	<b>(99,318)</b>	<b>(214,555)</b>	<b>(135,548)</b>
<b>Net (loss) per share</b>				
- basic and diluted (Note 4)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>Weighted average number of shares</b>	<b>59,401,377</b>	<b>48,368,574</b>	<b>56,655,907</b>	<b>48,254,684</b>

*The accompanying notes are an integral part of these unaudited interim consolidated financial statements*

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Interim Consolidated Statements of Cash Flows**  
**(Expressed In Canadian Dollars)**  
**(Prepared by Management)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net (loss) for the period	\$ (143,027)	\$ (99,318)	\$ (214,555)	\$ (135,548)
Charges not involving cash				
Stock-based compensation (Note 3(i))	73,511	16,017	117,301	33,968
Amortization	49	46	98	122
	(69,467)	(83,255)	(97,156)	(101,458)
Changes in non-cash working capital items				
(Increase) Decrease in amounts receivable and prepaid expenses	(61,914)	(21,057)	(65,877)	(9,992)
(Decrease) Increase in accounts payable and accrued liabilities	288,311	191,565	255,725	202,444
	156,930	87,253	92,692	90,994
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Exercise of warrants	183,624	-	957,624	22,800
Issuance of shares and warrants for cash, net of costs	-	532,900	-	532,900
	183,624	532,900	957,624	555,700
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest in mineral properties and deferred exploration expenditures	(311,988)	(324,129)	(426,436)	(335,949)
<b>Increase in cash</b>	<b>28,566</b>	<b>296,024</b>	<b>623,880</b>	<b>310,745</b>
<b>Cash, beginning of period</b>	<b>855,705</b>	<b>405,298</b>	<b>260,391</b>	<b>390,577</b>
<b>Cash, end of period</b>	<b>\$ 884,271</b>	<b>\$ 701,322</b>	<b>\$ 884,271</b>	<b>\$ 701,322</b>

*The accompanying notes are an integral part of these unaudited interim consolidated financial statements*

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Interim Consolidated Statements of Changes in Shareholders' Equity**  
**(Expressed In Canadian Dollars)**  
**(Prepared by Management)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b>Capital Stock</b>				
Balance at beginning of period	\$ 7,172,486	\$ 5,613,325	\$ 6,171,595	\$ 5,584,508
Issued on private placement	-	606,000	-	606,000
Issuance of warrants - valuation	-	(155,400)	-	(155,400)
Issuance of broker warrants - valuation	-	(85,700)	-	(85,700)
Exercise of warrants - cash	183,625	-	957,625	22,800
Exercise of warrants - valuation	39,943	-	266,834	6,017
Cost of Issue	-	(73,100)	-	(73,100)
<b>Balance at end of period</b>	<b>\$ 7,396,054</b>	<b>\$ 5,905,125</b>	<b>\$ 7,396,054</b>	<b>\$ 5,905,125</b>
<b>Warrants</b>				
Balance at beginning of period	\$ 195,024	\$ 810,223	\$ 610,911	\$ 816,240
Exercise of warrants - valuation	(39,943)	-	(266,834)	(6,017)
Issuance of warrants - valuation	-	155,400	-	155,400
Issuance of broker warrants - valuation	-	85,700	-	85,700
Expiration of warrants - valuation	-	-	(188,996)	-
<b>Balance at end of period</b>	<b>\$ 155,081</b>	<b>\$ 1,051,323</b>	<b>\$ 155,081</b>	<b>\$ 1,051,323</b>
<b>Contributed Surplus</b>				
Balance at beginning of period	\$ 1,124,929	\$ 665,013	\$ 892,143	\$ 647,062
Stock-based compensation	73,511	16,017	117,301	33,968
Warrants expired	-	-	188,996	-
<b>Balance at end of period</b>	<b>\$ 1,198,440</b>	<b>\$ 681,030</b>	<b>\$ 1,198,440</b>	<b>\$ 681,030</b>
<b>Deficit</b>				
Balance at beginning of period	\$ (6,553,350)	\$ (5,591,081)	\$ (6,481,822)	\$ (5,554,851)
Net (Loss) for the period	(143,027)	(99,318)	(214,555)	(135,548)
<b>Balance at end of period</b>	<b>\$ (6,696,377)</b>	<b>\$ (5,690,399)</b>	<b>\$ (6,696,377)</b>	<b>\$ (5,690,399)</b>
<b>Total shareholders' equity, end of period</b>	<b>\$ 2,053,198</b>	<b>\$ 1,947,079</b>	<b>\$ 2,053,198</b>	<b>\$ 1,947,079</b>

*The accompanying notes are an integral part of these unaudited interim consolidated financial statements*

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Interim Consolidated Statements of Interest in Mineral Properties**  
**and Deferred Exploration Expenditures**  
**(Expressed In Canadian Dollars)**  
**(Prepared by Management)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b><u>Slate Bay Property, McDonough Township**</u></b>				
Balance, beginning of period	\$ 229,679	\$ 229,179	\$ 229,679	\$ 229,179
Geophysical	-	500	-	500
	-	500	-	500
Balance, end of period	\$ 229,679	\$ 229,679	\$ 229,679	\$ 229,679
<b><u>Miminiska Property, Pickle Lake**</u></b>				
Balance, beginning and end of period	\$ -	\$ 539,748	\$ -	\$ 539,748
<b><u>Mcfauld's Lake Property**</u></b>				
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Property acquisition costs	25,000	-	25,000	-
Geological	9,208	-	9,208	-
	34,208	-	34,208	-
Balance, end of period	\$ 34,208	\$ -	\$ 34,208	\$ -
<b><u>Mary March Property**</u> (Note 8)</b>				
Balance, beginning of period	\$ 376,659	\$ 321,911	\$ 351,872	\$ 315,474
Agreement costs	34,625	10,354	37,012	10,354
Drilling	-	2,100	2,100	2,100
Geological	-	-	6,500	-
General and administrative	-	-	-	1,305
Supplies and equipment	-	-	-	2,100
Claim staking, maintenance fees	-	-	13,800	-
General exploration	1,667	-	1,667	-
Travel	-	-	-	3,032
	36,292	12,454	61,079	18,891
Balance, end of period	\$ 412,951	\$ 334,365	\$ 412,951	\$ 334,365

\*\* For a description of these properties, please refer to Note 4 of the audited consolidated financial statements for the year ended June 30, 2007.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Interim Consolidated Statements of Interest in Mineral Properties**  
**and Deferred Exploration Expenditures (Continued)**  
**(Expressed In Canadian Dollars)**  
**(Prepared by Management)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b><u>Shrimp Lake Property**</u></b>				
Balance, beginning of period	\$ 408,706	\$ 48,690	\$ 358,628	\$ 46,963
Drilling	100	221,500	45,730	221,500
Geological	3,250	770	6,500	2,497
Geophysical	-	47,306	-	47,306
General exploration	-	-	1,198	-
	3,350	269,576	53,428	271,303
Balance, end of period	\$ 412,056	\$ 318,266	\$ 412,056	\$ 318,266
<b><u>Tahoe Lake Property**</u></b>				
Balance, beginning of period	\$ 107,068	\$ 36,714	\$ 67,485	\$ 34,987
Geological	3,250	-	6,500	1,727
Geophysical	-	26,438	-	26,438
General exploration	-	-	3,595	-
Drilling	234,888	-	267,182	-
Travel	-	-	444	-
	238,138	26,438	277,721	28,165
Balance, end of period	\$ 345,206	\$ 63,152	\$ 345,206	\$ 63,152
<b><u>Sunday Lake Property**</u></b>				
Balance, beginning of period	\$ -	\$ 1,929	\$ -	\$ -
Geological	-	-	-	1,929
Assays	-	-	5,292	-
Geophysical	-	15,161	-	15,161
Write off of mineral property expenditures	-	-	(5,292)	-
	-	15,161	-	17,090
Balance, end of period	\$ -	\$ 17,090	\$ -	\$ 17,090
<b>Total, end of period</b>	<b>\$ 1,434,100</b>	<b>\$ 1,502,300</b>	<b>\$ 1,434,100</b>	<b>\$ 1,502,300</b>

\*\* For a description of these properties, please refer to Note 4 of the audited consolidated financial statements for the year ended June 30, 2007.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Ended December 31, 2007**  
**(Expressed in Canadian Dollars)**  
**(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 December 31, 2007, the Company had a deficit of \$6,696,377 and working capital of \$618,218. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, as applicable to a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited interim consolidated financial statements.

**2. ACCOUNTING POLICIES**

These unaudited consolidated interim 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 and six months ended December 31, 2007 may not necessarily be indicative of the results that may be expected for the year ending June 30, 2008.

The consolidated balance sheet at June 30, 2007 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, 2007. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2007.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Ended December 31, 2007**  
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**2. ACCOUNTING POLICIES (Continued)**

**Financial Instruments**

Financial Instruments, Comprehensive Income (Loss), and Hedges

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", 3861 "Financial Instruments - Disclosure and Presentation" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis; accordingly, comparative amounts for prior periods have not been restated. The Company has adopted these new standards effective July 1, 2007.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3861 establishes standards for presentation of financial statements and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustment as part of other comprehensive income. Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge is applied and what disclosures are necessary when it applied.

Under adoption of these new standards, the Company designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. The Company's marketable securities are designated as available-for-sale and are presented at market value with the gain or loss realized in the accumulated other comprehensive income. Accounts receivable and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Ended December 31, 2007**  
**(Expressed in Canadian Dollars)**  
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**(Unaudited)**

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**2. ACCOUNTING POLICIES** (Continued)

**Financial Instruments** (Continued)

Financial Instruments, Comprehensive Income (Loss), and Hedges (Continued)

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Impact Upon Adoption of Sections 1530, 3855, 3861 and 3865

The Corporation has evaluated the impact of sections 1530, 3855, 3861 and 3865 on its financial statements and has determined that no adjustments are currently required.

**Accounting Policy Choice for Transaction Costs**

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement". The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

**Accounting Changes**

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

**Canstar Resources Inc.**  
**(A Development Stage Enterprise)**  
**Notes to Interim Consolidated Financial Statements**  
**Six Months Ended December 31, 2007**  
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**2. ACCOUNTING POLICIES** (Continued)

**Future Accounting Changes**

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual financial statements for the Corporation's reporting period beginning on July 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Corporation is currently assessing the impact of these new accounting standards on its financial statements.

**Canstar Resources Inc.**  
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**Notes to Interim Consolidated Financial Statements**  
**Six Months Ended December 31, 2007**  
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**3. CAPITAL STOCK, CONTRIBUTED SURPLUS, OPTIONS, AND WARRANTS**

(a) Authorized:  
 Unlimited number of common shares

(b) Issued:

	Shares	Amount
Balance, June 30, 2007	53,302,547	\$ 6,171,595
Warrants exercised	6,424,166	957,625
Warrants exercised - valuation	-	266,834
<b>Balance, December 31, 2007</b>	<b>59,726,713</b>	<b>\$ 7,396,054</b>

(c) Stock Option Plan

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2007	5,575,000	\$ 0.23
Granted (i)	1,200,000	0.15
Expired	(800,000)	0.15
<b>Balance, December 31, 2007</b>	<b>5,975,000</b>	<b>\$ 0.22</b>

(i) On December 20, 2007 the Company granted an aggregate of 1,200,000 incentive stock options to directors, officers and a consultant with an exercise price of \$0.15, expiring on December 20, 2012. The above noted options are subject to semi-annual vesting over a period of 18 months, with one quarter vesting on the initial grant date. A fair value of \$152,400 was calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 146.1%; risk-free interest rate of 3.88% and an expected average life of 5 years. A total of \$73,511 has been recognized during the current period in accordance with the established vesting terms.

**Canstar Resources Inc.**  
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**Notes to Interim Consolidated Financial Statements**  
**Six Months Ended December 31, 2007**  
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**(Unaudited)**

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

(c) Stock Option Plan (Continued)

The options outstanding as at December 31, 2007 are as follows:

Black-Scholes Valuation	Number of Options	Exercise Price	Expiry Date
123,936	500,000	\$0.50	April 11, 2008
38,277	350,000	\$0.15	January 26, 2009
112,724	598,334	\$0.30	March 4, 2009
256,276	951,666	\$0.30	April 26, 2010
42,965	500,000	\$0.15	November 10, 2010
226,549	1,875,000	\$0.15	January 26, 2012
42,232	1,200,000	\$0.15	December 20, 2012
<b>\$ 842,959</b>	<b>5,975,000</b>	<b>\$0.22</b>	

(d) Warrants

A summary of changes in warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2007	14,282,500	\$ 0.16
Exercised	(6,424,166)	0.15
Expired	(3,062,500)	0.15
<b>Balance, December 31, 2007</b>	<b>4,795,834</b>	<b>\$ 0.14</b>

The warrants outstanding as at December 31, 2007 are as follows:

Black-Scholes Valuation	Number of Warrants	Exercise Price	Expiry Date
\$ 79,527	3,985,834	\$0.15	December 28, 2008
75,554	810,000	\$0.12	December 28, 2008
<b>\$ 155,081</b>	<b>4,795,834</b>	<b>\$0.14</b>	

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**(Prepared by Management)**  
**(Unaudited)**

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

The loss per share figures have been calculated using the weighted average number of common shares outstanding during the respective periods. 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.

**5. RELATED PARTY TRANSACTIONS**

During the period ending December 31, 2007 the Company incurred a total of \$32,500 (December 31, 2006 - \$Nil) for consulting and administrative fees to a corporation controlled by an officer and director of the Company. As at December 31, 2007 \$nil (June 30, 2007 - \$5,742) is included in accounts payable owing to this corporation.

At December 31, 2007 \$9,720 (June 30, 2007 - \$5,741) was included in accounts payable and accrued liabilities payable to the CEO, President and director of the Company for out-of-pocket expenses incurred on behalf of the Company.

As at December 31, 2007, the Company owed \$nil (June 30, 2007 - \$9,530) to a corporation controlled by an officer and director of the Company for rent and operating expenses and \$17,190 (June 30, 2007 - \$5,000) to a firm of chartered accountants of which one of the directors is a partner, for accounting and tax services.

Pursuant to an August 25, 2005 amendment to the McFauld's three property agreement, a \$25,000 option payment is included in accounts payable and accrued liabilities (December 31, 2006 - \$nil) as owing to Geocanex Limited, a corporation controlled by a director of the Company.

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.

**6. COMMITMENTS**

The Company is committed to spending \$665,875, on a best efforts basis, in qualifying Canadian exploration expenditures, as a result of the the exercise of flow-through warrants. Pursuant to the terms of its flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the Canadian Income Tax Act for the look back rule. The look back rule requires the Company to incur qualifying exploration expenditures in Canada ("CEE") within twelve months from the date of renunciation (which will be deemed to be December 31, 2007).

**7. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to current period financial statement presentation

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**8. SUBSEQUENT EVENTS**

Vinland Resources Limited ("Vinland") has appealed the ruling of the Newfoundland and Labrador Supreme Court Trial Division regarding the Mary March Property in the Buchans area of Newfoundland. Canstar and Phelps Dodge Corp. of Canada subsequently filed a cross-appeal asking that ownership of the property in question be decided upon by the Appeal Panel, thus eliminating the need for a second Adjudication Board hearing. The timing for the hearing of the appeal and cross-appeal was set for October 16 and 17, and was adjourned until November 9, 2007, at which time the hearing was completed. The Appeal Judges reserved, and the Company is currently waiting for their decision on the appeal and cross appeal.

The court of appeal met with both sides on January 24, 2008 to clarify some of the evidence given during the hearing held between October 16 and November 9, 2007. On February 18th, 2008 the Court of Appeal handed down their decision dismissing Vinland Resources' appeal as well as Canstar Resources' cross-appeal. The decision upheld the Supreme Court of Newfoundland's ruling, which was favourable to Canstar, that the matter be re-heard by the Mineral Rights Board of Newfoundland. 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 hearing 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.