

## CANSTAR RESOURCES INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED) AND THE YEAR ENDED JUNE 30, 2007 (AUDITED)

*This Management Discussion and Analysis ("MD&A") should be read in conjunction with the financial statements of the Corporation for the six-month period ended December 31, 2007 (unaudited) and the year ended June 30, 2007 (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 February 21, 2008.*

*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 three-months ended December 31, 2007 (unaudited) and the year ended June 30, 2007 (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>	<p>Copper-zinc-silver-gold</p>	<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 and as amended on August 26, 2005. <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>	<p>Zinc-silver-lead-copper-gold</p>	<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 approximately 10 kilometres north of the town of Red Lake, Ontario, within the Red Lake greenstone belt.</p>	<p>Copper-gold-silver</p>	<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>	<p>Gold and base metals</p>	<p>100% owned. <sup>(1)</sup></p>
<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>	<p>Gold and base metals</p>	<p>100% owned. <sup>(1)</sup></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 Xstrata plc 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.

- (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 (issued). 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 anniversary (September 22, 2008). 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 McFauld's Lake 3 property, through his 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 McFauld's 1 and 3 properties. The Company contracted an airborne geophysical survey in December 2007. Both the McFauld's 1 and 3 properties were covered by the survey and results are pending.

### *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.

The appeal and cross appeal hearing were heard on October 16<sup>th</sup> and 17<sup>th</sup>, 2007 however, an additional day was required and the hearing was completed on November 9<sup>th</sup>, 2007. The Judges reserved decision. 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. A decision was handed down on February 18<sup>th</sup>, 2008 dismissing Vinland's appeal and Canstar-Xstrata-Phelps' cross appeal. The decision upheld the Supreme Court of Newfoundland's ruling overturning the Mineral Right's Board decision, favouring Vinland, and called for a re-hearing. The Supreme Court ruling favoured Canstar, as does the Appeal Courts decision. The Corporation will update shareholders as soon as news becomes available. A comprehensive drilling program has been planned to commence on the property presuming 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 gave 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 had right of first refusal to buy back 1% for

\$1 million. The Syndicate would receive \$1 million on the commencement of commercial production.

Owing to disappointing results from a diamond drilling program completed in March 2007, the Company decided to terminate the Sunday Lake option. Formal notice was given on October 25, 2007. A director of Canstar holds a minority interest in the Sunday Lake Syndicate.

## **RESULTS OF OPERATIONS**

*Quarter Ended December 31, 2007  
Compared to December 31, 2006*

During the quarter ended December 31, 2007, the Company incurred a net loss of \$143,027 compared to a net loss of \$99,318 at December 31, 2006. Increased expenses were mainly due to stock-based compensation (\$73,511 v. \$16,017), resulting from the issuance of director's options during the third quarter of 2007, and general and office expenses (\$11,433 v. \$5,158). These increases were offset by decreases in professional fees (\$10,884 v. \$19,206); and interest and bank charges (\$76 v. \$13,540).

Although the Company had very little activity for the three months ended December 31, 2007, expenses were higher than in the same period as the previous year mainly as a result of stock-based compensation costs. Exploration during the period was comprised of an airborne electromagnetic and magnetic survey carried out over the Company's McFauld's 1 and 3 properties, which was completed in December, 2007. Drilling for the Shrimp Lake and Tahoe Lake projects completed in 2007 were also incurred in this period. The Company incurred \$286,988 in exploration expenditures as compared to \$324,129 at December 31, 2006.

As at December 31, 2007, the Corporation had cumulative deferred exploration costs for all properties of \$1,409,100, compared to cumulative deferred exploration costs of \$1,502,300 in the period ending December 31, 2006.

Management and the directors continued to monitor the legal issues related to the Mary March title case during the quarter ended December 31, 2007.

During the three-month period ended December 31, 2007 the Company raised \$183,624 through the exercise of an aggregate of 1,264,166 warrants. Of the total amount, 1,064,166 warrants were exercised on a flowthrough basis, for proceeds of \$159,624, while 200,000 warrants were exercised on a non-flowthrough basis for proceeds of \$24,000. For the same period in the previous year \$532,900 was raised, net of costs, through a private placement comprising the sale of 5,050,000 units of Canstar at \$0.12 per unit. Each unit consisted of one common share and one warrant, which are exercisable into one share at \$0.15 per share for 24 months. Of the total units, 4,200,000 were comprised of flowthrough common shares and 850,000 units were comprised of non-flowthrough common shares.

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

The following table sets out selected quarterly results of the Corporation 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	2007	2007
Quarter	December 31	September 30	June 30	March 31
Revenue	\$nil	\$nil	\$nil	nil
Working Capital	618,218	816,048	184,186	305,970
Interest in Mineral Properties and Deferred Exploration Expenditures	1,409,100	1,122,112	1,007,664	1,600,446
Expenses	143,027	65,289	129,401	184,085
Net (Loss) Income	(143,027)	(71,528)	(861,238)	(2,645)
Net (Loss) (per share) <sup>(1)</sup>	(0.00)	(0.00)	(0.02)	(0.00)

Year	2006	2006	2006	2006
Quarter	December 31	September 30	June 30	March 31
Revenue	\$nil	\$nil	\$nil	\$nil
Working Capital	443,679	318,163	325,385	427,146
Interest in Mineral Properties and Deferred Exploration Expenditures	1,502,300	1,178,171	1,166,351	1,256,390
Expenses	99,318	29,324	10,409	167,254
Net (Loss) Income	(99,318)	(36,230)	(267,204)	(50,131)
Net (Loss) (per share) <sup>(1)</sup>	(0.00)	0.00	(0.01)	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 December 31, 2007, the Company had working capital of \$618,218 compared to \$816,048 at September 30, 2007. Working capital decreased by \$197,830 during the three months ended December 31, 2007 mainly as a result of exploration expenditures.

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***

#### *Six-Months Ended December 31, 2007*

During the six-month 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 Geocamex 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.

## ***PROPOSED TRANSACTIONS***

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

## ***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 Appaeal 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 18<sup>th</sup>, 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.

## ***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 December 31, 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 February 21, 2007, an aggregate of 59,726,713 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).