

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

INDEX	PAGE
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Consolidated Statement of Interests in Mineral Properties and Deferred Exploration Expenditures	5
Notes to the Consolidated Financial Statements	6 - 19

AUDITORS' REPORT

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

We have audited the consolidated balance sheet of Canstar Resources Inc. as at June 30, 2008 and the consolidated statements of operations and deficit, cash flows and interest in mineral properties and deferred exploration expenditures for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were reported on by another firm of Chartered Accountants who issued an audit report without reservation dated September 19, 2007, except for Note 10(b) which is dated October 25, 2007.

Signed: "MSCM LLP"

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
September 23, 2008

	2008 \$	2007 \$
ASSETS		
CURRENT		
Cash	548,944	260,391
Short-term investments	187,500	4,500
Amounts receivable and prepaid expenses (Note 8)	<u>18,621</u>	<u>11,682</u>
	755,065	276,573
EQUIPMENT (Note 3)	1,654	978
INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Notes 4, 8 and Statement)		
	<u>1,435,250</u>	<u>1,007,664</u>
	<u>2,191,969</u>	<u>1,285,215</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 8)	<u>54,278</u>	<u>92,387</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5(b))	6,694,960	5,713,760
WARRANTS (Note 5(d))	205,240	610,911
CONTRIBUTED SURPLUS (Note 6)	1,748,923	1,349,978
DEFICIT	<u>(6,511,432)</u>	<u>(6,481,822)</u>
	<u>2,137,691</u>	<u>1,192,828</u>
	<u>2,191,969</u>	<u>1,285,215</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 9)

APPROVED ON BEHALF OF THE BOARD:

"W. Deluce", Director

"J. E. Hurley", Director

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

	2008 \$	2007 \$
OPERATING EXPENSES		
Stock-based compensation (Note 5(c))	209,949	245,081
Professional fees (Note 8)	72,965	67,616
Transfer agent and filing fees	41,350	40,483
Rent (Note 8)	17,667	12,971
Interest and bank charges	16,222	13,666
General and office expenses	10,879	7,086
Accounting	9,310	33,785
Shareholder information	4,734	14,736
Consulting fees (Note 8)	3,792	6,321
Travel	392	139
Amortization	<u>292</u>	<u>244</u>
	<u>387,552</u>	<u>442,128</u>
(Loss) before the under-noted	(387,552)	(442,128)
Interest income	-	6
Write-off of interest in mineral properties and general exploration	(8,285)	(666,289)
Unrealized (loss) on short term investment	(12,500)	
Option payments received on interest in mineral properties in excess of carrying value	<u>185,627</u>	<u>-</u>
(Loss) before income taxes	(222,710)	(1,108,411)
Future income tax recovery (Note 7(a))	<u>193,100</u>	<u>181,440</u>
NET (LOSS) for the year	(29,610)	(926,971)
(DEFICIT), beginning of year	<u>(6,481,822)</u>	<u>(5,554,851)</u>
(DEFICIT), end of year	<u>(6,511,432)</u>	<u>(6,481,822)</u>
NET (LOSS) PER SHARE – Basic and diluted	<u>(0.00)</u>	<u>(0.02)</u>
WEIGHTED AVERAGE NUMBER OF SHARES	<u>58,182,510</u>	<u>50,749,889</u>

See accompanying notes to the consolidated financial statements.

	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(29,610)	(926,971)
Charges not involving cash:		
Write-off of interest in mineral properties and general exploration	8,285	666,289
Future income tax recovery	(193,100)	(181,440)
Stock-based compensation cost	209,949	245,081
Option payments received on interest in mineral properties in excess of carrying value	(185,627)	-
Unrealized loss on short-term investment	12,500	-
Amortization	<u>292</u>	<u>244</u>
	(177,311)	(196,797)
Changes in non-cash working capital balances:		
(Increase) decrease in amounts receivable and prepaid expenses	(2,440)	15,787
(Decrease) in accounts payable and accrued liabilities	<u>(35,561)</u>	<u>(7,836)</u>
Cash flows used in operating activities	<u>(215,312)</u>	<u>(188,846)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of warrants	957,625	22,800
Issuance of warrants for cash, net of costs	-	199,590
Issuance of shares for cash, net of costs	<u>-</u>	<u>333,310</u>
Cash flows from financing activities	<u>957,625</u>	<u>555,700</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(968)	-
Interest in mineral properties and deferred exploration expenditures	<u>(452,792)</u>	<u>(497,040)</u>
Cash flows used in investing activities	<u>(453,760)</u>	<u>(497,040)</u>
Increase (decrease) in cash	288,553	(130,186)
Cash, beginning of year	<u>260,391</u>	<u>390,577</u>
Cash, end of year	<u><u>548,944</u></u>	<u><u>260,391</u></u>
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Issuance of common shares for interest in mineral property		7,500
Warrants issued for services rendered		94,213
Change in accrued mineral property and deferred exploration expenditures	(2,548)	3,062
Shares received for interest in mineral property	200,000	-

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Slate Bay Property \$	Miminiska Property \$	Mary March Property \$	McFauld's Lake \$	Shrimp Lake \$	Tahoe Lake \$	Sunday Lake and Other \$	Total \$
PROPERTY ACQUISITION COSTS								
Balance, June 30, 2006	62,234	3,288	44,045	-	6,370	3,360	-	119,297
Incurred	-	-	3,000	-	-	-	7,500	10,500
Written down	-	(3,288)	-	-	-	-	(7,500)	(10,788)
Balance, June 30, 2007	62,234	-	47,045	-	6,370	3,360	-	119,009
Incurred	-	-	19,239	-	-	-	-	19,239
Balance, June 30, 2008	62,234	-	66,284	-	6,370	3,360	-	138,248
DEFERRED EXPLORATION COSTS								
Balance, June 30, 2006	166,945	536,460	271,429	-	40,593	31,627	119,041	1,166,095
Incurred	500	-	33,398	-	311,665	32,498	(119,041)	259,020
Written down	-	(536,460)	-	-	-	-	-	(536,460)
Balance, June 30, 2007	167,445	-	304,827	-	352,258	64,125	-	888,655
Incurred	-	-	88,390	64,373	55,623	264,334	8,285	481,005
Written down	-	-	-	-	-	-	(8,285)	(8,285)
Option payments received	-	-	-	(64,373)	-	-	-	(64,373)
Balance, June 30, 2008	167,445	-	393,217	-	407,881	328,459	-	1,297,002
Totals	229,679	-	459,501	-	414,251	331,819	-	1,435,250

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Canstar Resources Inc. (the "Company") is in the development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 "Enterprises in the Development Stage", as it is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of mineral properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

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

As at June 30, 2008, the Company had a deficit of \$6,511,432 and working capital of \$700,787. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due. The Company's ability to continue operations and fund its future exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty there is some doubt about the ability of the Company to continue as a going concern. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation:

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

Equipment and Amortization

Equipment is stated at acquisition cost. Amortization is provided over the assets estimated useful lives at the following rates:

Office and field equipment	20%	Declining balance
----------------------------	-----	-------------------

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in Mineral Properties and Deferred Exploration Expenditures

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

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

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

Asset Retirement Obligations

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The Company did not have any asset retirement obligations as at June 30, 2008 and 2007.

Flow-Through Financing

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

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

Stock-based Compensation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Per Share

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

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Measurement Uncertainty

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

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

New Standards and Accounting Policy Changes

Effective July 1, 2007, the Company adopted the following new accounting standards issued by the CICA. The new standards and accounting policy changes are as follows:

- (i) Financial instruments - recognition and measurement (Section 3855)

This standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is de-recognized or impaired at which time the amounts would be recorded in net earnings.

Short-term investments are recognized as held-for-trading and are valued at their quoted fair market value as of the date of the balance sheet. This has resulted in an unrealized loss of \$12,500 during the year ended June 30, 2008.

Continued...

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Standards and Accounting Policy Changes (continued)

(ii) Comprehensive income (Section 1530)

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income.

For the year ended June 30, 2008, the Company did not have other comprehensive income or loss and therefore no consolidated statement of other comprehensive income or loss has been presented.

(iii) Hedges (Section 3865)

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered in this standard.

(iv) Accounting Changes (Section 1506)

In July 2006, the CICA issued changes to the CICA Handbook section 1506 entitled "Accounting Changes". The changes to this section particularly affect the following items; an entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements; changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical); expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements and; disclosure of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. Changes to this section were effective for interim and annual periods beginning on or after April 1, 2007.

The Company has determined that the adoption of these new policies had no material impact on its consolidated financial statements and determined that no adjustments are required for the year ended June 30, 2008.

Future Accounting Changes

(i) General standards of financial statement presentation

In June 2007, the CICA amended Handbook Section 1400, General standards for financial statement presentation. These standards become effective for interim and annual financial statements for the Company's reporting periods beginning on July 1, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Changes (continued)

(ii) Capital disclosures

On December 1, 2006, the CICA issued Handbook Section 1535 - Capital Disclosures, for interim and annual financial statements for the Company'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.

(iii) Financial instruments - disclosures and presentation

On December 1, 2006, the CICA issued two new accounting standards: Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These standards become effective for interim and annual financial statements for the Company's reporting period beginning on July 1, 2008.

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.

(iv) International financial reporting standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canada GAAP and IFRS.

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

3. EQUIPMENT

	2008		
	Cost \$	Accumulated Amortization \$	Net 2008 \$
Office and field equipment	8,261	6,607	1,654
	2007		
	Cost \$	Accumulated Amortization \$	Net 2007 \$
Office and field equipment	7,293	6,315	978

Continued...

4. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

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

a) Sunday Lake

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

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

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

Due to poor exploration results, the Company does not intend to further pursue the option agreement. Accordingly, the property was written off during the year ended June 30, 2007.

b) Slate Bay Property

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

During the period ended June 30, 2005, the Company negotiated a one-year extension to the agreement with Luxor. In exchange for the one-year extension, Canstar issued Luxor a further 90,000 common shares of the Company valued at \$19,800. Upon completion of a drilling program in November 2005, the Company 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 Company will act as manager of the joint venture

c) Miminiska Property, Pickle Lake

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

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

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

d) Tahoe Lake Property

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

e) Shrimp Lake Property

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

f) McFaulds Lake Properties

(i) McFaulds One

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

(ii) McFaulds Three

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

- a) Spend \$50,000 in Year One of the Agreement (paid), \$100,000 in Year Two (paid), and a further \$100,000 in Year Four (unpaid), for a total of \$250,000;
- b) Issue 500,000 shares - 250,000 on signing (issued) and 250,000 (issued) at the first anniversary date of the agreement.

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

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

A director of Canstar is the principal shareholder of Geocanex.

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

In fiscal 2008, the Company entered into an option agreement with United Reef Ltd. ("United Reef") and Geocanex covering the McFaulds one and three properties. The agreement allows United Reef and the Company to each earn a 50% interest in the properties. Geocanex has waived the one time \$25,000 payment and approximately \$100,000 in expenditures that were remaining to be paid as per the agreement entered into in September 2004. The Company received a cash payment of \$50,000 and 2,500,000 United Reef common shares (valued at \$200,000) from United Reef. United Reef is required to incur exploration expenditures of \$150,000 on the properties before December 31, 2008. Canstar will maintain a 0.5% net smelter royalty on the properties, 0.25% of which can be purchased by United Reef for \$250,000.

Continued...

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

g) Mary March Property

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

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

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

Title to the core discovery areas of the Mary March Property is currently being contested. In September and October 2000, Vinland Resources Limited (Vinland"), 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 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 16th and 17th, 2007 however, an additional day was required and the hearing was completed on November 9th, 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 18th, 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 favours Canstar, as does the Appeal Courts decision. The adjudication hearing has been set for November 24, 2008. A comprehensive drilling program has been planned to commence on the property presuming a favourable decision is handed down.

Continued...

5. CAPITAL STOCK, OPTIONS AND WARRANTS

The capital stock is as follows:

a) Authorized

Unlimited number of common shares

b) Issued

59,726,713 common shares

Summary of changes in capital stock:

	Common Shares #	Amount \$
Common shares		
Balance, June 30, 2006	48,012,547	5,584,508
Common shares issued for cash (i)	5,050,000	379,030
Warrants exercised	190,000	28,817
Common shares issued for interest in mineral properties (Note 4(a))	50,000	7,500
Renunciation of flow-through expenditures	-	(181,440)
Share issue costs	-	(104,655)
Balance, June 30, 2007	53,302,547	5,713,760
Warrants exercised	6,424,166	1,174,300
Renunciation of flow-through expenditures		(193,100)
Balance, June 30, 2008	<u>59,726,713</u>	<u>6,694,960</u>

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

Continued...

5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

c) Stock Options

The Company has granted options for the purchase of common shares to its directors, officers, and consultants. The aggregate number of common shares which may be issued under the stock option plan is 9,030,000. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company at the time of grant at the market price of the common shares, subject to all applicable regulatory requirements. As at June 30, 2008, the following stock options were outstanding:

<u>Options Granted</u> #	<u>Exercisable Options</u> #	<u>Exercise Price</u> \$	<u>Expiry Date</u>
350,000	262,500	0.15	January 26, 2009
598,334	598,334	0.30	March 4, 2009
951,666	951,666	0.30	April 26, 2010
500,000	500,000	0.15	November 10, 2010
1,875,000	1,406,250	0.15	January 26, 2012
<u>1,200,000</u>	<u>600,000</u>	0.15	December 20, 2012
<u>5,475,000</u>	<u>4,318,750</u>		

The weighted average exercise price of the options granted and exercisable is \$0.19 and \$0.20 respectively. The weighted average contractual life of options granted and exercisable is 2.85 and 2.59 respectively.

A summary of changes in stock options is as follows:

	<u>Number of Options #</u>	<u>Weighted Average Exercise Price \$</u>
Balance, June 30, 2006	4,200,000	0.27
Granted	2,225,000	0.15
Exercised	(850,000)	(0.23)
Balance, June 30, 2007	5,575,000	0.23
Granted	1,200,000	0.15
Expired	(1,300,000)	(0.23)
Balance, June 30, 2008	<u>5,475,000</u>	<u>0.19</u>

During the year ended June 30, 2008, the Company granted 1,200,000 (2007 – 1,800,000 and 425,000) stock options to directors, officers and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of \$0.15 (2007 - \$0.15) per common share until December 20, 2012 (2007 – January 26, 2012 and January 26, 2009). The stock options vest 1/4 on the date of grant and at the conclusion of each six-month period subsequent to the date of grant. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; (2007 – 0%) risk-free interest rate of 3.9% (2007 – 4.1%); expected life of 5 years (2007 – 2 and 5 years); and expected volatility of 118% (2007 – 188% and 150%).

Continued...

5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

d) Share Purchase Warrants

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

	Number of Warrants #	Weighted Average Exercise Price \$	Value \$
Balance, June 30, 2006	12,987,250	0.33	816,239
Exercised	(190,000)	(0.12)	(6,017)
Issued for services (Note 5(b)(i))	1,010,000	0.12	94,213
Issued, net of issue costs of \$62,658 (Note 5(b)(i))	5,050,000	0.15	164,311
Expired	(4,574,750)	(0.67)	(457,835)
Balance, June 30, 2007	14,282,500	0.16	610,911
Exercised	(6,424,166)	(0.15)	(216,675)
Expired	(3,062,500)	(0.20)	(188,996)
Balance, June 30, 2008	<u>4,795,834</u>	0.14	<u>205,240</u>

As at June 30, 2008, the following warrants were issued and outstanding:

<u>Number of warrants</u> #	<u>Exercise Price</u> \$	<u>Expiry date</u>
3,985,834	0.15	December 28, 2008
<u>810,000</u>	0.12	December 28, 2008
<u><u>4,795,834</u></u>		

6. CONTRIBUTED SURPLUS

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

	Amount \$
Balance, June 30, 2006	647,062
Stock-based compensation	245,081
Warrants expired	<u>457,835</u>
Balance, June 30, 2007	1,349,978
Stock-based compensation	209,949
Warrants expired	<u>188,996</u>
Balance, June 30, 2008	<u><u>1,748,923</u></u>

Continued...

7. INCOME TAXES

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

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 34.5% (2007 – 36%) were as follows:

	2008 \$	2007 \$
(Loss) before taxes:	(222,710)	(1,108,411)
Expected income tax recovery based on statutory rate	(76,800)	(399,000)
Adjustments to benefit resulting from:		
Stock-based compensation	72,400	88,260
Share issue costs	-	(26,300)
Expiry of losses	223,700	319,800
Change in substantively enacted tax rate	343,900	-
Change in valuation allowance	(756,300)	(164,200)
Income tax (recovery)	(193,100)	(181,440)

In February 2008, the Company renounced \$665,875 (2007 - \$504,000) of Canadian exploration expenditures related to proceeds from the exercise of flow-through warrants (2007 – proceeds from the issuance of flow-through shares) with an effective date of December 31, 2007 (2007 – December 31, 2006).

b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at June 30, 2008 are as follows:

	2008 \$	2007 \$
Future income tax assets (liabilities):		
Non-capital losses	120,900	343,200
Share issue costs	64,900	116,900
Resource properties	1,010,700	1,494,400
Other	4,200	2,500
Valuation allowance	(1,200,700)	(1,957,000)
	-	-

As at June 30, 2008, the Company had available for deduction against future taxable income, non-capital losses of approximately \$405,900 which expire as follows:

<u>Year of Expiry</u>	<u>Amount</u>
2009	\$ 42,700
2013	47,300
2014	7,600
2015	11,400
2016	95,100
2027	100,900
2028	100,900
	<u>\$ 405,900</u>

Continued...

7. INCOME TAXES (Continued)

b) Future tax balances (Continued)

The Company has approximately \$726,800 and \$3,917,100 of Canadian development expenses and Canadian exploration expenditures, respectively, as at June 30, 2008 which, under certain circumstances, may be utilized to reduce taxable income of future years. Management believes that it is not considered more likely than not that it will create sufficient taxable income to realize its future tax assets. As a result, a full valuation allowance has been recognized.

8. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended June 30, 2008 the Company incurred a total of \$65,000 (2007 - \$29,767) for consulting and administrative fees charged by a corporation controlled by an officer and director of the Company. \$61,208 (2007 - \$29,767) of this amount was capitalized in interest in mineral properties and deferred exploration expenditures. Included in accounts payable and accrued liabilities at June 30, 2008 is \$Nil (2006 - \$5,742) owing to this corporation.

During the year ended June 30, 2008, the Company incurred a total of \$17,667 (2007 - \$15,119) for rent and operating expenses charged by a corporation controlled by an officer and director of the Company. Included in accounts receivable at June 30, 2008 is \$15,733 (2007 - \$Nil) owing from this corporation. Included in accounts payable and accrued liabilities at June 30, 2008 is \$Nil (2007 - \$9,530) owing to this corporation.

The Company incurred \$11,500 (2007 - \$20,700), for accounting and tax services rendered during the year by a firm of chartered accountants of which one of the directors is a partner. Included in accounts payable and accrued liabilities at June 30, 2008 is \$10,000 (2007 - \$5,000) accrued for accounting services.

Included in accounts payable and accrued liabilities at June 30, 2008 is \$7,940 (2007 - \$Nil) owing to 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. Amounts owing to or from related parties are subject to normal trade payment terms.

9. COMMITMENTS AND CONTINGENCIES

a) Environmental Contingencies

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

b) Flow-through Expenditures

As at June 30, 2008, the Company is committed to incur prior to December 31, 2008, on a best efforts basis \$600,000 in qualifying Canadian exploration expenditures pursuant to the exercise of warrants for flow-through shares for which flow-through proceeds had been received prior to December 31, 2007 and renounced to the subscribers effective as at that date.

c) Mary March Property

See Note 4(g).

10. FINANCIAL INSTRUMENTS

Fair Value

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

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

Foreign Exchange Risk

The Company currently is not subject to foreign exchange risk.

Commodity Price Risk

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

11. SUBSEQUENT EVENT

Subsequent to the year end, the Company entered into agreements with arm's length parties to acquire a 100% interest in two mineral properties in the area of Conception Bay South on the Avalon Peninsula, Province of Newfoundland and Labrador.

In order to acquire a 100% interest in the two properties, the Company must make combined cash payments of \$30,000 on signing; \$35,000 on the first anniversary of the agreement and \$45,000 on the second anniversary of the agreement, and combined share payments of 100,000 common shares of the company on signing; 175,000 shares on the first anniversary of the agreement; and 275,000 shares on the second anniversary of signing. Both properties are subject to net smelter royalties of 2% and 2.5%, while the Company reserves the option to buy back 1% and 1.5%, respectively, for \$2,750,000. The agreements are subject to regulatory approval.