
CANSTAR RESOURCES INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2017

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed interim financial statements of Canstar Resources Inc. (the "Company" or "Canstar") are the responsibility of management and the Board of Directors.

The unaudited condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

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

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

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

NOTICE TO READER

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

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

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

CANSTAR RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

As at	March 31, 2017	June 30, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 676,466	\$ 214,898
Short-term investments	159,302	100,000
Amounts receivable and prepaid expenses	29,063	39,191
Total current assets	864,831	354,089
Equipment (Note 4)	1,239	1,457
Interest in exploration properties and deferred exploration expenditures (Note 3)	2,846,344	2,573,226
Total assets	\$ 3,712,414	\$ 2,928,772
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 119,364	\$ 95,313
Total liabilities	119,364	95,313
SHAREHOLDERS' EQUITY		
Capital stock (Note 5(b))	11,886,106	11,122,125
Warrants (Note 5(d))	371,970	150,561
Share-based payments reserve (Note 5(c))	760,305	547,455
Shares to be issued	8,400	-
Deficit	(9,433,731)	(8,986,682)
Total shareholders' equity	3,593,050	2,833,459
Total liabilities and shareholders' equity	\$ 3,712,414	\$ 2,928,772

Nature and Continuance of Operations (Note 1)
Commitments and Contingencies (Notes 3 and 8)

APPROVED ON BEHALF OF THE BOARD:

"D. Peterson", Director

"J.E. Hurley", Director

See accompanying notes to the unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Operating expenses				
Share-based payments (Notes 5(c) and 7)	\$ 212,850	\$ -	\$ 212,850	\$ 53,550
Interest and bank charges	946	304	1,324	1,173
Transfer agent and filing fees	59,714	7,387	74,395	23,828
Management fees (Note 7)	6,496	-	37,169	-
Professional fees	22,343	19,290	69,777	54,864
General and office expenses	7,103	6,781	12,072	57,309
Shareholder information	4,960	7,480	23,615	16,682
Amortization (Note 4)	72	91	218	273
Rent (Note 7)	5,210	5,210	15,629	15,629
Total operating expenses	319,694	46,543	447,049	223,308
Loss before the undernoted	(319,694)	(46,543)	(447,049)	(223,308)
Interest income	-	118	-	6,254
Flow-through premium (Note 8)	-	23,863	-	23,863
Net loss and comprehensive loss for the period	\$ (319,694)	\$ (22,562)	\$ (447,049)	\$ (193,191)
Net loss per share - basic and diluted (Note 6)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares	102,458,242	89,034,235	100,623,138	84,954,682

See accompanying notes to the unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Nine Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (447,049)	\$ (193,191)
Charges not involving cash:		
Share-based payments	212,850	53,550
Amortization	218	273
Flow-through premium	-	(23,863)
Issuance of shares for property	-	8,000
	(233,981)	(155,231)
Changes in non-cash working capital items:		
Decrease (increase) in amounts receivable and prepaid expenses	10,128	(40,088)
Increase in accounts payable and accrued liabilities	(5,649)	8,714
Cash flows (used in) operating activities	(229,502)	(186,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of units	1,043,795	366,200
Shares to be issued	8,400	-
Proceeds from exercise of warrants	28,035	-
Share issue costs	(56,740)	(4,390)
Cash flows from financing activities	1,023,490	361,810
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest in exploration properties and deferred exploration expenditures - net	(273,118)	(187,509)
Proceeds from sale of short-term investments	-	215,698
Purchase of short-term investments	(59,302)	-
Cash flows (used in) from investing activities	(332,420)	28,189
Change in cash and cash equivalents	461,568	203,394
Cash and cash equivalents, beginning of period	214,898	52,185
Cash and cash equivalents, end of period	\$ 676,466	\$ 255,579

See accompanying notes to the unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Shares to be Issued	Capital Stock	Warrants	Share-based Payment Reserve	Deficit	Total
Balance, June 30, 2015	\$ -	\$ 10,762,607	\$ -	\$ 528,405	\$ (8,779,371)	\$ 2,511,641
Share-based payments	-	-	-	53,550	-	53,550
Issuance of units in private placement	-	267,996	98,204	-	-	366,200
Share issue costs	-	(3,888)	(1,564)	-	-	(5,452)
Finders warrants	-	-	1,062	-	-	1,062
Flow-through premium	-	(23,863)	-	-	-	(23,863)
Issuance of shares for property	-	8,000	-	-	-	8,000
Expiry of stock options	-	-	-	(34,500)	34,500	-
Net loss for the period	-	-	-	-	(193,191)	(193,191)
Balance, March 31, 2016	-	11,010,852	97,702	547,455	(8,938,062)	2,717,947
Balance, June 30, 2016	-	11,122,125	150,561	547,455	(8,986,682)	2,833,459
Share-based payments	-	-	-	212,850	-	212,850
Issuance of units in private placement	-	810,393	233,402	-	-	1,043,795
Shares to be issued (note 9)	8,400	-	-	-	-	8,400
Share issue costs	-	(58,952)	(16,628)	-	-	(75,580)
Finders warrants	-	-	18,840	-	-	18,840
Exercise of warrants	-	42,240	(14,205)	-	-	28,035
Adjustment on cancellation of shares	-	(29,700)	-	-	-	(29,700)
Net loss for the period	-	-	-	-	(447,049)	(447,049)
Balance, March 31, 2017	\$ 8,400	\$ 11,886,106	\$ 371,970	\$ 760,305	\$ (9,433,731)	\$ 3,593,050

See accompanying notes to the unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
STATEMENTS OF INTEREST IN EXPLORATION PROPERTIES AND DEFERRED
EXPLORATION EXPENDITURES
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Mary March Properties	Kenora Properties	Total
PROPERTY ACQUISITION COSTS			
Balance, June 30, 2015	\$ 65,884	\$ 18,200	\$ 84,084
Common shares issued	-	8,000	8,000
Balance, March 31, 2016	65,884	26,200	92,084
DEFERRED EXPLORATION COSTS			
Balance, June 30, 2015	1,969,866	77,779	2,047,645
Access	8,125	75,523	83,648
Assaying	-	3,043	3,043
Field supplies	-	17,796	17,796
Geological consulting	-	31,075	31,075
Geophysics and exploration	6,300	-	6,300
Labour and supervision	-	25,000	25,000
Travel	-	12,647	12,647
Balance, March 31, 2016	1,984,291	242,863	2,227,154
Total, March 31, 2016	\$ 2,050,175	\$ 269,063	\$ 2,319,238

PROPERTY ACQUISITION COSTS			
Balance, June 30, 2016 and March 31, 2017	\$ 65,884	\$ 26,200	\$ 92,084
DEFERRED EXPLORATION COSTS			
Balance, June 30, 2016	1,987,090	494,052	2,481,142
Access	294	11,241	11,535
Assaying	-	2,032	2,032
Drilling	-	64,181	64,181
Field supplies	70	23,896	23,966
Geological consulting	-	57,800	57,800
Geophysics and exploration	6,300	5,893	12,193
Labour and supervision	-	70,073	70,073
Travel	-	31,338	31,338
Balance, March 31, 2017	1,993,754	760,506	2,754,260
Total, March 31, 2017	\$ 2,059,638	\$ 786,706	\$ 2,846,344

See accompanying notes to the unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2017

1. NATURE AND CONTINUANCE OF OPERATIONS

Canstar Resources Inc. (the "Company" or "Canstar") was formed by amalgamation on April 5, 2005. The Company's registered and head office is located at 56 Temperance Street, Suite 1000, Toronto, Ontario M5H 3V5.

On January 9, 2017, the Company completed a consolidation of its issued and outstanding common shares at a ratio of 500 pre-consolidation common shares to 1 post-consolidation common shares followed by an immediate deconsolidation of the common shares at a ratio of 1 pre-consolidation common share to 500 post-consolidation common shares (see note 5).

The unaudited condensed interim financial statements were approved by the Board of Directors on May 24, 2017.

The Company 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 March 31, 2017, the Company had a deficit of \$9,433,731 and working capital of \$745,467. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance:

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of May 24, 2017, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2016, except where noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending June 30, 2017 could result in restatement of these unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New IFRS standards not yet adopted:

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published but are only effective for its annual periods beginning after July 1, 2016.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 3. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

Change in accounting policies:

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. At July 1, 2016, the Company adopted this standard and there was no material impact on the Company’s unaudited condensed interim financial statements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. At July 1, 2016, the Company adopted this standard and there was no material impact on the Company’s unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2017

3. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company has interests in exploration properties in the Kenora Townships in Ontario, Canada, and the Buchans area of Newfoundland, Canada. Due to disappointing exploration results and/or lack of a current exploration plan or recent work, the Slate Bay property has been written off for accounting purposes.

a) Mary March Properties

(i) Glencore Joint Venture

The Company entered into an option and Joint Venture Agreement with Glencore plc ("Glencore") whereby the Company has a 50% interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property is held by Glencore. The Company has a first right of refusal on Glencore's 50% interest, should they wish to sell. Exploration of the property was held up approximately 10 years due to a title dispute that was resolved in 2012 in the Company's favour by the Newfoundland and Labrador Supreme Court.

The property consists of 92 staked claims, 5 licenses, 1 lease and 2 patented lots.

Should the Glencore joint venture thus established proceed to production, the Company would make a one-time cash payment 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 ("NSR").

The Company is the operator of the Glencore joint venture and has the deciding vote in the event of a deadlock between the Company and Glencore. A diamond drilling program was completed in late 2012. The Company followed this up with a drill program in the fall of 2013. Glencore contributed \$150,000 towards the 2012 exploration costs of the joint venture but did not contribute to the 2013, 2014 and 2015 exploration expenditures. Glencore was therefore subject to a voluntary reduction due to non-participation of these exploration programs. Canstar now holds a 56% interest in the joint venture and Glencore holds a 44% interest.

During fiscal 2015, the Company received \$95,143 pursuant to the Junior Exploration Assistance program of the Department of Natural Resources of the Government of Newfoundland and Labrador. This program provides a grant of 50% of eligible costs incurred up to a maximum of \$100,000 per project. When the funds were received, they were recorded as a reduction to the carrying value of the Mary March Properties.

(ii) Mary March Extension Property

The Mary March Extension Property was acquired on April 7, 2009 and is comprised of 34 claims. The property is located immediately west and north of the Mary March Property.

In 2011, a previous option holder, Xmet Inc., completed two drill holes on the property and decided to discontinue the option agreement. Canstar holds a 100% interest in the property, which has been written off for accounting purposes.

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2017

3. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES
(CONTINUED)

b) Kenora Properties

On March 2, 2014, the Company entered into an option agreement to acquire several properties in the Kenora, Ontario area, collectively called the Kenora Gold Project. The Kenora Gold Project is situated in the Wabigoon sub-province, and located approximately 20 kilometres east of the Town of Kenora.

Canstar acquired a 100% interest in the Kenora Gold Project by making cash payments of \$18,200 and issuing 200,000 common shares (valued at \$8,000). The Kenora Gold Project is subject to a 3% NSR, subject to a buy-back right of \$1,000,000 for the first 1.5% and \$3,000,000 for the remaining 1.5%, which would reduce the NSR to 0%.

c) Slate Bay Property

The Slate Bay Property is comprised of eight contiguous patented claims located approximately 10 kilometres north of the town of Red Lake, Ontario. The Company earned 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.

The Company has attempted to joint venture this property without success. Accordingly, the property has been written off although the Company still retains its interest.

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2017

4. EQUIPMENT

Cost	Office and field equipment
Balance, June 30, 2015, March 31, 2016, June 30, 2016 and March 31, 2017	\$ 10,141
Accumulated Amortization	Office and field equipment
Balance, June 30, 2015	\$ 8,321
Amortization	273
Balance, March 31, 2016	8,594
Balance, June 30, 2016	8,684
Amortization	218
Balance, March 31, 2017	\$ 8,902
Carrying Value	Office and field equipment
Balance, June 30, 2015	\$ 1,820
Balance, March 31, 2016	\$ 1,547
Balance, June 30, 2016	\$ 1,457
Balance, March 31, 2017	\$ 1,239

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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(UNAUDITED)
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5. CAPITAL STOCK, OPTIONS AND WARRANTS

- (a) **Authorized**
 Unlimited number of common shares, without par value
- (b) **Issued**
 102,686,522 common shares

Summary of changes in capital stock:

	Shares	Amount
Balance, June 30, 2015,	82,856,381	\$ 10,762,607
Issuance of common shares in private placement (i)	6,103,333	366,200
Cost of issue	-	(5,452)
Flow-through premium (i)	-	(23,863)
Warrant valuation (i)	-	(96,640)
Issuance of shares for property (iii) (Note 3 (b))	200,000	8,000
Balance, March 31, 2016	89,159,714	\$ 11,010,852
Balance, June 30, 2016	92,199,914	11,122,125
Private placement (ii)	10,437,950	1,043,795
Warrant valuation (ii)	-	(233,402)
Exercise of warrants	296,560	42,240
Cost of issue	-	(58,952)
Adjustment on cancellation of shares (iv)	(247,902)	(29,700)
Balance, March 31, 2017	102,686,522	\$ 11,886,106

(i) On December 23, 2015 and December 29, 2015, the Company completed two tranches of a non-brokered private placement financing comprising an aggregate of 6,103,333 flow-through units at \$0.06 per unit for gross proceeds of \$366,200 of which \$23,863 was allocated to the flow-through premium. Each unit consists of one flow-through common share and one common share purchase warrant.

Each warrant entitles the holder to purchase one common share of the Company for a period of 24 months after closing at a price of \$0.10 in the first year after closing, and \$0.175 in the second year after closing if the holder so elects. When the closing price on the TSX Venture Exchange of the shares equals or exceeds \$0.175 per share in the first year after closing, or \$0.25 per share in the second year after closing, for a period of 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants.

The grant date fair value of the warrants was estimated to be \$96,640 net of issue costs of \$1,564. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 0.50%, and expected life of 2 years.

Finders fees of \$1,100 were paid and 29,600 finders warrants were issued, valued at \$1,062. The finders warrants are exercisable into units having the same terms as the private placement at an exercise price of \$0.06 for a period of two years.

Insiders of the Company acquired 1,283,333 units of the private placement for gross proceeds of \$77,000.

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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(UNAUDITED)
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5. CAPITAL STOCK, OPTIONS AND WARRANTS (CONTINUED)

(b) Issued (continued)

(ii) On August 2, 2016, the Company completed a non-brokered private placement financing of 10,437,950 units at \$0.10 per unit for gross proceeds of \$1,043,795. Each unit consists of one common share and one-half of one common share purchase warrant.

Each warrant entitles the holder to purchase one common share of the Company until December 31, 2017 at a price of \$0.15. The grant date fair value of the warrants was estimated to be \$233,402. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 127%, risk-free interest rate of 0.55%, and expected life of 1.4 years.

Finders fees of \$58,952 were paid including 265,000 finders warrants issued, valued at \$18,840, of which \$16,628 was allocated to warrants. Each finders warrant is exercisable at \$0.10 into one common share and one-half of one common share purchase warrant and have the same terms as the private placement.

(iii) On February 26, 2016, the Company issued 200,000 common shares at a fair value of \$0.04 per share pursuant to the acquisition of the Kenora Gold Project (Note 3) based on the quoted market price at the time of receipt.

(iv) As a result of the consolidation of the Company's common shares as disclosed in note 1, 247,902 common shares were cancelled. Shareholders can receive cash consideration equal to \$0.12 per common share for the shares that were cancelled. Accordingly, the Company accrued \$29,700 in relation to the cash consideration to be paid.

(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 15,000,000. 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.

A summary of changes in stock options is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2015	6,075,000	\$ 0.11
Expired	(450,000)	0.08
Balance, March 31, 2016 and June 30, 2016	5,625,000	\$ 0.12
Granted (i)	2,475,000	0.11
Balance, March 31, 2017	8,100,000	\$ 0.11

CANSTAR RESOURCES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2017

5. CAPITAL STOCK, OPTIONS AND WARRANTS (CONTINUED)

(c) Stock Options (continued)

(i) On January 3, 2017, the Company granted 2,475,000 stock options to certain 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 \$0.11 for a period of 5 years. A grant date fair value of \$212,850 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.14%; expected life of 5 years; and an expected volatility of 108% based on the Company's historical trading data.

The total value of share-based payments for the three and nine months ended March 31, 2017 was \$212,850, (three and nine months ended March 31, 2016 - \$53,550).

As at March 31, 2017, the following stock options were outstanding:

Number of Options	Exercisable Options	Exercise Price	Weighted Average Remaining Contractual Life (years)	Expiry Date
2,175,000	2,175,000	\$0.18	0.31	April 24, 2017
300,000	300,000	\$0.18	0.32	April 25, 2017
100,000	100,000	\$0.20	0.61	August 10, 2017
500,000	500,000	\$0.10	1.33	May 1, 2018
100,000	100,000	\$0.10	1.54	July 17, 2018
2,450,000	2,450,000	\$0.05	2.95	December 11, 2019
2,475,000	2,475,000	\$0.11	4.76	January 3, 2022
8,100,000	8,100,000	\$0.11	2.38	

The weighted average exercise price of exercisable options at March 31, 2017 was \$0.11.

(d) Share Purchase Warrants

A summary of changes in warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2015	-	\$ -
Issued	6,132,933	0.175
Balance, March 31, 2016	6,132,933	0.175
Balance, June 30, 2016	9,354,759	\$ 0.175
Granted	5,483,975	0.150
Exercised ⁽¹⁾	(296,560)	0.090
Issued from exercise	148,280	0.130
Balance, March 31, 2017	14,690,454	\$ 0.150

⁽¹⁾ Weighted average market share price was \$0.19 on the date of exercise.

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5. CAPITAL STOCK, OPTIONS AND WARRANTS (CONTINUED)

(d) Share Purchase Warrants (continued)

As at March 31, 2017, the following warrants were outstanding.

Black-Scholes Valuation	Number of Warrants	Exercise Price	Expiry Date
\$ 220,097	5,298,975	\$0.15	December 31, 2017
7,465 ⁽³⁾	105,000	\$0.10	December 31, 2017
8,797 ⁽²⁾	570,000	\$0.175	December 29, 2017
531 ⁽¹⁾	14,800	\$0.06	December 29, 2017
87,615 ⁽²⁾	5,533,333	\$0.175	December 23, 2017
47,844 ⁽²⁾	3,040,200	\$0.10	May 2, 2018
2,945 ⁽¹⁾	128,146	\$0.06	May 2, 2018
\$ 375,294	14,690,454	\$0.15	

⁽¹⁾ Each warrant is exercisable into one common share and one warrant exercisable into a common share at \$0.10 for the first year and \$0.175 for the second year.

⁽²⁾ Each warrant is exercisable at \$0.10 for the first year and \$0.175 for the second year.

⁽³⁾ Each warrant is exercisable into one common share and one-half of one warrant exercisable into a common share at \$0.15 until December 31, 2017.

6. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the three and nine months ended March 31, 2017 was based on the net loss attributable to common shareholders of \$319,694 and \$447,049, respectively (three and nine months ended March 31, 2016 - \$22,562 and \$193,191, respectively) and the weighted average number of common shares outstanding of 102,458,242 and 100,623,138, respectively (three and nine months ended March 31, 2016 - \$89,034,235 and 84,954,682, respectively). Diluted loss per share did not include the effect of 8,100,000 options and 14,690,454 warrants outstanding (March 31, 2016 - 5,625,000 options and 6,132,933 warrants outstanding) as they are anti-dilutive.

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7. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. The below noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

Canstar entered into the following transactions with related parties:

During the three and nine months ended March 31, 2017, the Company incurred \$5,210 and \$15,629, respectively (three and nine months ended March 31, 2016 - \$5,210 and \$15,629, respectively) for rent charged by a corporation of which the Chairman of the Board and the president are directors of the Company.

The remuneration of directors and key management during the three and nine months ended March 31, 2017 and March 31, 2016 was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Short-term benefits (i)	\$ 26,765	\$ 26,748	\$ 106,942	\$ 76,840
Share-based payments	193,500	-	193,500	53,550
	\$ 220,265	\$ 26,748	\$ 300,442	\$ 130,390

(i) During the three and nine months ended March 31, 2017, \$20,073 and \$70,073, respectively (three and nine months ended March 31, 2016 - \$25,000) of short-term benefits was capitalized as deferred exploration expenditures and \$6,691 and \$36,868, respectively (three and nine months ended March 31, 2016 - \$nil and \$50,092, respectively) is included in management fees.

During the three and nine months ended March 31, 2017, the Company incurred \$2,890 and \$27,038, respectively (three and nine months ended March 31, 2016 - \$3,890 and \$13,597, respectively) for professional fees charged by Peterson McVicar LLP (formerly Peterson & Company LLP), a law firm of which a director is a partner. Of this amount, \$8,508 (2016 - \$3,250) has been included in share issue costs.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including directors (executive or non-executive) of the Company.

As at March 31, 2017, the directors of the Company together control 6,491,182 common shares or approximately 6.32% of the total common shares outstanding. To the knowledge of directors and officers of Canstar, the remainder of the Company's outstanding common shares are widely held.

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8. COMMITMENTS AND CONTINGENCIES

Environmental Contingencies

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

9. SUBSEQUENT EVENT

Subsequent to March 31, 2017, 48,000 warrants were exercised into units consisting of one common share and one half of one warrant for gross proceeds of \$8,400. Each whole warrant is exercisable into a common share at an exercise price of \$0.15 per common share until December 31, 2017.

Subsequent to March 31, 2017, 2,475,000 stock options with an exercise price of \$0.18 expired unexercised.