CANSTAR RESOURCES INC.

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(EXPRESSED IN CANADIAN DOLLARS)

CANSTAR RESOURCES INC.

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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Independent Auditor's Report

To the Shareholders of Canstar Resources Inc.

We have audited the accompanying financial statements of Canstar Resources Inc., which comprise the statement of financial position as at June 30, 2014, and the statements of operations and comprehensive loss, cash flows, changes in equity, and interest in exploration properties and deferred exploration expenditures for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canstar Resources Inc. as at June 30, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
October 23, 2014

CANSTAR RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	June 30, 2014 $	June 30, 2013 $
ASSETS		
CURRENT		
Cash and cash equivalents	333,891	1,574,609
Short-term investments	650,000	-
Amounts receivable and prepaid expenses	35,276	17,802
TOTAL CURRENT ASSETS	1,019,167	1,592,411
EQUIPMENT (Note 5)	2,276	576
INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Notes 4 and 6(c))	1,833,274	1,580,170
TOTAL ASSETS	2,854,717	3,173,157
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 10)	109,895	155,787
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)	10,762,607	10,762,607
WARRANTS (Note 6)	8,600	8,600
SHARE-BASED PAYMENTS RESERVE (Note 6)	567,741	708,899
DEFICIT	(8,594,126)	(8,462,736)
TOTAL SHAREHOLDERS' EQUITY	2,744,822	3,017,370
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,854,717	3,173,157

COMMITMENTS AND CONTINGENCIES (Notes 4 and 13)

SUBSEQUENT EVENT (Note 14)

APPROVED ON BEHALF OF THE BOARD:

Signed " W. Deluce " , Director

Signed " J.E. Hurley " , Director

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

	2014 $	2013 $
OPERATING EXPENSES		
Share-based payments (Note 6(c))	67,907	212,259
Professional fees	107,490	123,679
Transfer agent and filing fees	24,606	42,262
Management fees (Note 10)	106,225	17,901
General and office expenses	20,363	23,596
Rent (Note 10)	20,838	9,973
Travel	11,081	9,296
Shareholder information	6,665	2,516
Interest and bank charges	1,718	470
Depreciation	180	144
Loss before interest income	367,073	442,096
Interest income	(19,200)	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	347,873	442,096
NET LOSS PER SHARE – Basic and diluted (Note 12)	0.00	0.01
WEIGHTED AVERAGE NUMBER OF SHARES – Basic and diluted	82,856,381	80,065,471

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

	2014 $	2013 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(347,873)	(442,096)
Charges not involving cash:		
Share-based payments	67,907	212,259
Depreciation	180	144
	(279,786)	(229,693)
Changes in non-cash working capital balances:		
(Increase) in amounts receivable and prepaid expenses	(17,474)	(8,685)
(Decrease) increase in accounts payable and accrued liabilities	(23,169)	36,969
Cash flows (used in) operating activities	(320,429)	(201,409)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of options	-	100,000
Exercise of warrants	-	1,070,934
Cash flows from financing activities	-	1,170,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(1,880)	-
Purchase of short-term investments	(650,000)	-
Receipt of government junior exploration assistance (Note 4(b)(i))	-	100,000
Proceeds received from joint venture partner (Note 4(b)(i))	-	150,000
Interest in exploration properties and deferred exploration expenditures	(268,409)	(575,631)
Cash flows (used in) investing activities	(920,289)	(325,631)
(Decrease) increase in cash and cash equivalents	(1,240,718)	643,894
Cash and cash equivalents, beginning of year	1,574,609	930,715
Cash and cash equivalents, end of year	333,891	1,574,609
SUPPLEMENTAL INFORMATION		
Change in accrued exploration property and deferred exploration expenditures	(22,723)	48,537
Share-based payments capitalized to interest in exploration properties and deferred exploration expenditures (Note 6(c))	7,418	95,129
Shares issued for interest in exploration properties (Note 4(b)(i))	-	16,000
Warrants issued for interest in exploration properties (Note 4(b)(i))	-	8,600
CASH AND CASH EQUIVALENTS AS AT JUNE 30		
Cash	83,891	273,687
Cash equivalents	250,000	1,300,922
	333,891	1,574,609

See accompanying notes to the financial statements.

CANSTAR RESOURCES INC.
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

	Capital Stock $	Warrants $	Share-based Payments Reserve $	Deficit $	Total $
Balance, June 30, 2012	9,308,861	243,834	545,750	(8,141,901)	1,956,544
Share-based payments	-	-	307,388	-	307,388
Issuance of shares for exploration property	16,000	-	-	-	16,000
Issuance of warrants for exploration property	-	8,600	-	-	8,600
Exercise of stock options	180,291	-	(80,291)	-	100,000
Expiry of options	-	-	(63,948)	63,948	-
Exercise of warrants	1,257,455	(186,521)	-	-	1,070,934
Expiry of warrants	-	(57,313)	-	57,313	-
Net loss for the year	-	-	-	(442,096)	(442,096)
Balance, June 30, 2013	10,762,607	8,600	708,899	(8,462,736)	3,017,370
Share-based payments	-	-	75,325	-	75,325
Expiry of options	-	-	(216,483)	216,483	-
Net loss for the year	-	-	-	(347,873)	(347,873)
Balance, June 30, 2014	10,762,607	8,600	567,741	(8,594,126)	2,744,822

See accompanying notes to the financial statements.

STATEMENTS OF INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE YEARS ENDED JUNE 30,

	Mary March Properties $	Kenora Property $	Total $
PROPERTY ACQUISITION COSTS			
Balance, June 30, 2012	41,284	-	41,284
Incurred	24,600		24,600
Balance, June 30, 2013	65,884	-	65,884
DEFERRED EXPLORATION COSTS			
Balance, June 30, 2012	1,044,990	-	1,044,990
Access costs (Note 6(c))	86,353	-	86,353
Administrative	10,892	-	10,892
Assaying	2,398	-	2,398
Drilling	305,097	-	305,097
Field costs	1,524	-	1,524
Field supplies	17,625	-	17,625
Project management and geological (Note 6(c))	128,142	-	128,142
Geophysics and exploration	23,902	-	23,902
Labour and supervision	66,978	-	66,978
Legal	68,203	-	68,203
Travel	8,182	-	8,182
Government junior exploration assistance	(100,000)	-	(100,000)
Reimbursement from JV partner	(150,000)	-	(150,000)
Balance, June 30, 2013	1,514,286	-	1,514,286
Total, June 30, 2013	1,580,170	-	1,580,170
PROPERTY ACQUISITION COSTS			
Balance, June 30, 2013	65,884	-	65,884
Incurred	-	9,100	9,100
Balance, June 30, 2014	65,884	9.100	74,984
DEFERRED EXPLORATION COSTS			
Balance, June 30, 2013	1,514,286	-	1,514,286
Access costs (Note 6(c))	2,610	-	2,610
Administrative	2,880	-	2,880
Assaying	27,429	-	27,429
Drilling			
Field costs	895	-	895
Field supplies	4,131	-	4,131
Project management and geological (Note 6(c))	5,514	-	5,514
Geophysics and exploration	61,345	8,300	69,645
Labour and supervision	3,391		3,391
Legal (recovery)	(5)	-	(5)
Travel	8,436	-	8,436
Balance, June 30, 2014	1,749,990	8,300	1,758,290
Total, June 30, 2014	1,815,874	17,400	1,833,274

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS

Canstar Resources Inc. (the "Company" or “Canstar”) was formed by amalgamation on April 5, 2005. The Company is publicly traded with its shares listed on the TSX Venture Exchange. The Company’s registered and head office is located at 56 Temperance Street, Suite 1000, Toronto, Ontario M5H 3V5.

The financial statements were approved by the Board of Directors on October 23, 2014.

The Company is in the process of exploring its exploration properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of exploration properties and deferred exploration expenditures 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, 2014, the Company had a deficit of $8,594,126 (2013 - $8, 462,736) and working capital of $909,272 (2013 - $1,436,624). 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. The Company has enough working capital to fund operations for the next year. These 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. BASIS OF PREPARATION

Statement of Compliance

These financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These financial statements have been prepared in compliance with IFRS and in accordance with the accounting policies described in Note 3, Summary of Significant Accounting Policies. The policies set out below have been consistently applied to all the periods presented, unless otherwise noted.

Basis of Measurement

These financial statements are prepared on the historical cost basis except for those financial instruments carried at fair value. In addition, these financial statements are prepared using the accrual basis of accounting except for cash flow information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the years ended June 30, 2014 and 2013.

Functional and presentation currency

The Company's presentation and functional currency is the Canadian dollar. The Company does not have any foreign operations. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at period end exchange rates are recognized in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and short-term investments with original maturities of ninety days or less. During the year ended June 30, 2014 the Company earned $19,200 (2013 - $Nil) in interest from its cash equivalents and short-term investments.

Short-term investments

Short-term investments consist of guaranteed investment certificates with original maturity dates exceeding ninety days and not exceeding one year. As at June 30, 2014 the principal amounts of the GIC investments were $650,000 (2013 – $Nil) bearing interest at a rate of 1.71% with a maturity date of June 10, 2015.

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income. Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years. Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in the statement of operations or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Loss per share

Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive. In the Company's case, diluted loss per share is the same as basic loss per share for the periods presented as there were no potentially dilutive securities during the years ended June 30, 2014 and 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow-through shares

The Company finances a portion of its exploration and evaluation activities through the issuance of flow-through shares. Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the fair value of the Company's common shares is allocated to liabilities. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized in the statement of operations.

Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are measured at fair value through profit or loss ("FVTPL"). These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of operations. The Company's cash equivalents and short-term investments are classified as FVTPL.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of operations. The Company's amounts receivable are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Financial liabilities that are not measured at fair value through profit or loss are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of operations. The Company has classified accounts payable and accrued liabilities as other financial liabilities. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At June 30, 2014, the Company's financial instruments that were carried at fair value consisted of cash equivalents of $250,000 (2013 - $1,300,922) and short-term investments of $650,000 (2013 - $Nil) that were classified as Level 1 within the fair value hierarchy.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of operations.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

The carrying value of equipment is assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset or CGU is impaired and an impairment loss is charged to the statement of operations so as to reduce the carrying amount to its recoverable amount.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share-based transactions are set out in the stock option note.

The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration properties and deferred exploration expenditures
Once a licence to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration properties and deferred exploration expenditures. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Purchased exploration and evaluation assets are recognized as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Capitalized exploration and evaluation costs are considered to be intangible assets. These assets are not depreciated as they are not currently available for use.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress.

Mineral reserves and capitalized mine development expenditures are, upon commencement of production, depreciated using a unit of production method or are written off if the property is abandoned.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial year in which this is determined. Exploration properties and deferred exploration expenditures are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Equipment
Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. The cost of equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated decommissioning and restoration costs associated with the asset. Equipment is depreciated on a diminishing balance basis at 20% per year.

Provisions
General
Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, dismantling operating facilities, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the exploration or production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related exploration and evaluation asset to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of operations.

The Company does not currently have any such significant legal or constructive obligations and therefore no decommissioning liabilities have been recorded as at June 30, 2014 and 2013.

Critical judgments and estimation uncertainties

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In determining whether any impairment losses have been incurred, management assesses the higher of the asset's fair value less costs to sell and its value in use for non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at the end of each reporting period.

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgments and estimation uncertainties (Continued)

Capitalization of deferred exploration costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Estimation of decommissioning and restoration costs and the timing of expenditure

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting standards recently adopted
The Company has adopted the following new standards, along with any consequential amendments, effective July 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 11 – Joint Arrangements ("IFRS 11") was issued by the IASB in May 2011 and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. The adoption of this standard did not result in any changes to the Company's financial statements.

IFRS 13 – Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The adoption of this standard did not result in any significant changes to the Company's disclosures of its financial instruments.

Recent Accounting Pronouncements
Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 2 – Share-based Payment ("IFRS 2") was amended to clarify the definition of "vesting conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

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 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)
IFRS 13 – Fair Value Measurement ("IFRS 13") was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

4. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company has interests in exploration properties in the McFauld's Lake area, the McDonough and 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 and McFaulds Lake properties have been written off for accounting purposes.

a) 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.

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

b) Mary March Properties

(i) Glencore Joint Venture

The Company entered into an option and Joint Venture Agreement with Freeport – Mcmoran of Canada Limited ("FMCL") formerly known as Phelps Dodge Mining Co. whereby the Company earned a 50% interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property was held by Glencore plc ("Glencore"). The Company has a first right of refusal on Glencore's 50% interest, should they wish to sell. The Company, combined with the $755,000 spent by FMCL, had completed the necessary exploration expenditures to earn a 50% interest in the property. Exploration of the property was held up approximately 10 years due to a title dispute that was resolved in 2012 in the Company's favor by the Newfoundland and Labrador Supreme Court.

The property consists of 134 staked claims, two licenses, one lease and two patented lots. The Company earned its 50% interest in the property by delivering 100,000 common shares (issued and valued at $16,000) of the Company to FMCL and spending $755,000. As part of the agreement with FMCL, FMCL would be granted warrants (issued and valued at $8,600) 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 $0.25 per share until July 27, 2013 and $0.50 per share until July 27, 2014 (Note 14). The 100,000 warrants issued were assigned an aggregate fair value of $8,600 using the Black-Scholes valuation model with the following assumptions: expected dividend yield 0%, expected volatility 129%, risk-free rate of return 1.12% and expected life of 1.5 years.

Should the Glencore Joint Venture thus established proceed to production, the Company would make a one-time cash payment to FMCL 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") payable to FMCL.

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 recently 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 and 2014 exploration expenditures. Glencore was therefore subject to a voluntary reduction due to non-participation of these exploration programs. Canstar now holds a 53.4% interest in the joint venture and Glencore holds a 46.6% interest.

During fiscal 2013, the Company received $100,000 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.

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

c) McFaulds Lake Properties

The Company held a 55% interest in a single claim totalling 6 claim units in the McFauld's Lake area of northwestern Ontario, approximately 540 kilometres north-northeast of Thunder Bay, Ontario. On December 8, 2013 these claims were allowed to lapse and are no longer a strategic holding for the Company.

d) 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 has a right to earn a 100% interest in the Kenora Gold Project by making cash payments totalling $18,200 ($9,100 paid) over a two year term, and issuing 200,000 common shares on or before March 2, 2016. The optionors will maintain 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%.

5. EQUIPMENT

	Office and field equipment $
Cost	
Balance, June 30, 2012 and 2013	8,261
Additions	1,880
Balance, June 30, 2014	10,141
Accumulated depreciation	
Balance, June 30, 2012	7,541
Depreciation	144
Balance, June 30, 2013	7,685
Depreciation	180
Balance, June 30, 2014	7,865
Carrying value	
At June 30, 2013	576
At June 30, 2014	2,276

6. CAPITAL STOCK, OPTIONS AND WARRANTS

a) Authorized

Unlimited number of common shares, without par value

b) Issued

82,856,381 common shares

Summary of changes in capital stock:

	Common Shares #	Amount $
Common shares		
Balance, June 30, 2012	76,701,713	9,308,861
Issued for property (Note 4(b)(i))	100,000	16,000
Exercise of warrants	5,354,668	1,070,934
Exercise of warrants – valuation allocation	-	186,521
Exercise of stock options	700,000	100,000
Exercise of stock options – valuation allocation	-	80,291
Balance, June 30, 2013 and 2014	82,856,381	10,762,607

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 subject to all applicable regulatory requirements. As at June 30, 2014, the following stock options were outstanding:

Options Granted #	Exercisable Options #	Exercise Price $	Expiry Date
901,666	901,666	0.10	March 22, 2015
2,325,000	2,325,000	0.18	April 24, 2017
300,000	300,000	0.18	April 25, 2017
100,000	100,000	0.20	August 10, 2017
500,000	250,000	0.10	May 1, 2018
100,000	50,000	0.10	July 17, 2018
4,226,666	3,926,666		

The weighted average exercise price of the options granted and exercisable as at June 30, 2014 and 2013 is $0.15 and $0.15 respectively. The weighted average remaining contractual life of options granted and exercisable as at June 30, 2014 and 2013 is 2.78 years and 2.91 years, respectively. The weighted average share price at the time of exercise of the options exercised during the year ended June 30, 2013 was $0.14.

6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

c) Stock Options (Continued)

A summary of changes in stock options is as follows:

	Number of Options #	Weighted Average Exercise Price $
Balance, June 30, 2012	6,525,000	0.16
Granted	600,000	0.12
Exercised	(700,000)	(0.14)
Expired	(550,000)	(0.15)
Balance, June 30, 2013	5,875,000	0.15
Granted	100,000	0.10
Expired	(1,748,334)	(0.15)
Balance, June 30, 2014	4,226,666	0.15

(i) On August 10, 2012, the Company granted 100,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.20 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A grant date fair value of $16,600 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 1.36%; expected life of 5 years; and an expected volatility of 152% based on the Company's historical trading data.

(ii) On May 1, 2013, the Company granted 500,000 stock options to an officer of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of$0.10 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A grant date fair value of $39,000 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 1.15%; expected life of 5 years; and an expected volatility of 155% based on the Company's historical trading data.

(iii) On July 17, 2013, the Company granted 100,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.10 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A grant date fair value of $5,400 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 1.66%; expected life of 5 years; and an expected volatility of 155% based on the Company's historical trading data.

The total value of the share-based payments was $75,325 (2013 - $307,388) of which $67,907 (2013 - $212,259) were expensed and $7,418 (2013 - $95,129) were capitalized to deferred exploration and evaluation expenditures. Of the $7,418 (2013 - $95,129) capitalized during 2014, $580 (2013 - $25,853) is included in access costs and $6,838 (2013 - $69,276) is included in geological consulting.

6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

(d) Share Purchase Warrants

A summary of changes in warrants is as follows:

	Number of Warrants #	Weighted Average Exercise Price $	Value $
Balance, June 30, 2012	7,000,000	0.20	243,834
Issued (Note 4(b)(i))	100,000	0.50	8,600
Expired	(1,645,332)	0.20	(57,313)
Exercised	(5,354,668)	0.20	(186,521)
Balance, June 30, 2013 and 2014	100,000	0.50	8,600

7. FINANCIAL INSTRUMENTS

Fair Value:
IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the end of the reporting period 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 values of the Company's short-term financial instruments carried at amortized cost approximate their fair values.

8. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management approach during the years ended June 30, 2014 and 2013.

9. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous year.

Credit risk
The Company's credit risk is primarily attributable to cash and cash equivalents and receivables included in amounts receivable and prepaid expenses. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in amounts receivable and prepaid expenses consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable and prepaid expenses is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2014, the Company had a cash and cash equivalents balance of $333,891 (2013 - $1,574,609) to settle current liabilities of $109,895 (2013 - $155,787). The Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing (Note 1). Management is continuing to pursue various financing initiatives in order to provide sufficient cash flow to finance operations as well as funding its exploration expenditures. The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Interest rate risk
The Company has cash, cash equivalents and short-term investment balances subject to interest. Management does not believe the Company is exposed to significant interest rate risk.

Foreign currency risk
The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is not exposed to foreign exchange risk.

Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis
Based on management's knowledge and experience in the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

(i) Cash, cash equivalents and short-term investments are invested with a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank. Sensitivity to a plus or minus 1% change in rates, based on the balance of cash, cash equivalents and short-term investments at June 30, 2014, would affect the net loss by plus or minus $9,800 during a twelve month period.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

10. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2014, the Company incurred $Nil (2013 - $6,500) for rent charged by corporations of which the principal shareholder is a former director of the Company.

During the year ended June 30, 2014, the Company incurred $20,838 (2013 - $3,473) for rent charged by a corporation of which the Chairman of the Board and the President are directors of the Company. Included in accounts payable as at June 30, 2014 is $Nil (2013 - $3,925) owed to this corporation. These amounts are non-interest bearing and unsecured, with no fixed terms of repayment.

The remuneration of directors and key management during the years ended June 30, 2014 and 2013 was as follows:

	2014 **$**	**2013** **$**
Short-term benefits included in management fees	106,225	17,901
Share-based payments	37,826	160,974
	144,051	178,875

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 June 30, 2014, the directors of the Company together control 2,349,514 shares or approximately 2.84% of the shares outstanding.

11. DEFERRED INCOME TAXES

a) The reconciliation of the income tax recovery, calculated using the combined Canadian federal and Ontario provincial statutory income tax rate of 26.5% (2013 – 26.5%) is as follows:

	2014 **$**	**2013** **$**
Loss before income taxes	(347,873)	(442,096)
Expected income tax (recovery)	(92,000)	(117,000)
Adjustments to benefit resulting from:		
Non-deductible expenses	24,000	56,000
Change in tax rate	-	(50,000)
Tax benefits not recognized	68,000	111,000
Deferred income tax (recovery)	-	-

b) Deferred tax assets have not been recognized in respect to the following deductible temporary differences:

	2014 **$**	**2013** **$**
Non capital losses	543,000	524,000
Capital loss carry-forwards	172,000	102,000
Exploration properties	5,194,000	4,906,000
Share issue costs	25,000	38,000
Investment tax credits and other	245,000	88,000
	6,179,000	5,658,000

c) Tax benefits from non-capital loss carry-forwards have not been recorded in the financial statements. These losses, which may reduce taxable income in future fiscal years, amount to approximately $543,000 and expire as follows:

Year	**Amount** **$**
2015	4,000
2026	95,000
2027	101,000
2028	101,000
2029	102,000
2030	90,000
2031	36,000
2032	14,000
	543,000

d) The Company has Canadian development and exploration expenditure pools for tax purposes of approximately $7,027,000 at June 30, 2014 (2013 - $6,208,000) that may, in certain situations be applied to reduce taxable income in subsequent years.

12. NET LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended June 30, 2014 and 2013 was based on the net loss attributable to common shareholders of $347,873 and $442,096, respectively, and the weighted average number of common shares outstanding of 82,856,381 and 80,065,471, respectively.

13. COMMITMENTS AND CONTINGENCIES

Environmental Contingencies

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. 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.

14. SUBSEQUENT EVENT

Subsequent to year-end, 100,000 warrants with an exercise price of $0.50 expired unexercised.