
CANSTAR RESOURCES INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2013

(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 Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

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

As at	December 31, 2013	June 30, 2013
ASSETS		
Current		
Cash and cash equivalents	\$ 1,301,999	\$ 1,574,609
Amounts receivable and prepaid expenses	45,657	17,802
Total current assets	1,347,656	1,592,411
Equipment (Note 4)	518	576
Interest in mineral properties and deferred exploration and evaluation expenditures (Note 3)	1,750,424	1,580,170
Total assets	\$ 3,098,598	\$ 3,173,157
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 226,310	\$ 155,787
SHAREHOLDERS' EQUITY		
Capital stock (Note 5(b))	10,762,607	10,762,607
Warrants (Note 5(d))	8,600	8,600
Share-based payment reserve (Note 5(c))	776,130	708,899
Deficit	(8,675,049)	(8,462,736)
Total shareholders' equity	2,872,288	3,017,370
Total liabilities and shareholders' equity	\$ 3,098,598	\$ 3,173,157

Commitments and Contingencies (Note 8)

APPROVED ON BEHALF OF THE BOARD:

"W. Deluce", Director

"John E. Hurley", Director

See accompanying notes to the unaudited condensed interim financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Operating expenses				
Share-based payments (Note 5(c))	\$ 12,239	\$ 16,544	\$ 59,806	\$ 149,658
Interest and bank charges	492	558	643	644
Transfer agent and filing fees	11,899	18,336	14,260	24,061
General exploration	-	5,718	-	5,718
Professional fees	24,262	35,181	45,124	65,598
General and office expenses	30,651	1,363	68,275	3,358
Shareholder information	11,336	11,561	15,970	11,561
Amortization	29	36	58	72
Rent (Note 7)	5,209	1,500	10,419	4,000
Total operating expenses	96,117	90,797	214,555	264,670
Loss before the undernoted	(96,117)	(90,797)	(214,555)	(264,670)
Interest income	-	-	2,242	-
Comprehensive loss for the period	\$ (96,117)	\$ (90,797)	\$ (212,313)	\$ (264,670)
Net loss per share				
- basic and diluted (Note 6)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares	82,856,381	77,925,349	82,856,381	77,385,312

See accompanying notes to the unaudited condensed interim financial statements.

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

	Six Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (212,313)	\$ (264,670)
Charges not involving cash:		
Share-based payments	59,806	149,658
Amortization	58	72
	(152,449)	(114,940)
Changes in non-cash working capital items:		
Increase in amounts receivable and prepaid expenses	(27,855)	(68,895)
Increase (decrease) in accounts payable and accrued liabilities	70,523	(3,766)
Cash flows from operating activities	(109,781)	(187,601)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of warrants	-	851,334
Proceeds from exercise of stock options	-	100,000
Cash flows from financing activities	-	951,334
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest in mineral properties and deferred exploration and evaluation expenditures - net	(162,829)	(387,316)
Cash flows from investing activities	(162,829)	(387,316)
Change in cash and cash equivalents	(272,610)	376,417
Cash and cash equivalents, beginning of period	1,574,609	930,715
Cash and cash equivalents, end of period	\$ 1,301,999	\$ 1,307,132
SUPPLEMENTAL CASH FLOW INFORMATION		
Share-based compensation capitalized to deferred exploration and evaluation expenditures	\$ 7,425	\$ 66,524
Change in amounts receivable from exploration partner	-	(150,000)
Common shares issued for property interest	-	16,000
Warrants issued for property interest	-	8,600
	December 31,	
	2013	2012
CASH AND CASH EQUIVALENTS		
Cash	\$ 99,118	\$ 906,210
Cash equivalents	1,202,881	400,922
	\$ 1,301,999	\$ 1,307,132

See accompanying notes to the unaudited condensed interim financial statements.

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

	Capital Stock	Warrants	Share-based Payment Reserve	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, June 30, 2012	\$ 9,308,861	\$ 243,834	\$ 545,750	\$ -	\$ (8,141,901)	\$ 1,956,544
Share-based payments	-	-	216,182	-	-	216,182
Issuance of shares for property	16,000	-	-	-	-	16,000
Issuance of warrants for property	-	8,600	-	-	-	8,600
Exercise of stock options	180,291	-	(80,291)	-	-	100,000
Expiry of stock options	-	-	(63,948)	-	63,948	-
Exercise of warrants	999,609	(148,275)	-	-	-	851,334
Expiry of warrants	-	(36,343)	-	-	36,343	-
Net loss for the period	-	-	-	-	(264,670)	(264,670)
Balance, December 31, 2012	\$ 10,504,761	\$ 67,816	\$ 617,693	\$ -	\$ (8,306,280)	\$ 2,883,990
Share-based payments	-	-	91,206	-	-	91,206
Exercise of warrants	257,846	(38,246)	-	-	-	219,600
Expiry of warrants	-	(20,970)	-	-	20,970	-
Net loss for the period	-	-	-	-	(177,426)	(177,426)
Balance, June 30, 2013	\$ 10,762,607	\$ 8,600	\$ 708,899	\$ -	\$ (8,462,736)	\$ 3,017,370
Share-based payments	-	-	67,231	-	-	67,231
Net loss for the period	-	-	-	-	(212,313)	(212,313)
Balance, December 31, 2013	\$ 10,762,607	\$ 8,600	\$ 776,130	\$ -	\$ (8,675,049)	\$ 2,872,288

See accompanying notes to the unaudited condensed interim financial statements.

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

	Mary March Properties
PROPERTY ACQUISITION COSTS	
Balance, June 30, 2012	\$ 41,284
Incurred	24,600
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Balance, December 31, 2012, June 30, 2013 and December 31, 2013	65,884
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DEFERRED EXPLORATION COSTS	
Balance, June 30, 2012	1,044,990
Access	33,407
Administrative	(8,185)
Drilling	187,970
Field costs	1,524
Field supplies	17,124
Project management and geological	75,621
Geophysics and exploration	9,049
Labour and supervision	66,978
Legal	66,517
Travel	3,835
Reimbursement from joint venture partner	(150,000)
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Balance, December 31, 2012	1,348,830
Access	52,946
Administrative	19,077
Assaying	2,398
Drilling	117,127
Field supplies	501
Project management and geological	52,521
Geophysics and exploration	14,853
Legal	1,686
Travel	4,347
Government junior exploration assistance	(100,000)
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Balance, June 30, 2013	1,514,286
Access	2,610
Administrative	1,391
Assaying	23,242
Drilling	119,078
Field costs	835
Field supplies	4,131
Project management and geological	5,514
Geophysics and exploration	3,720
Labour and supervision	3,391
Travel	6,342
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Balance, December 31, 2013	1,684,540
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Total	\$ 1,750,424

See accompanying notes to the unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

1. NATURE 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 120 Adelaide Street West, Suite 2500, Toronto, Ontario M5H 1T1.

The Company is publicly traded with its shares listed on the Toronto Stock Exchange for venture issuers under the symbol ROX. As at December 31, 2013, directors of the Company control 2,299,514 common shares of the Company or approximately 3% 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.

The unaudited condensed interim financial statements were approved by the Board of Directors on February 28, 2014.

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 December 31, 2013, the Company had a deficit of \$8,675,049 and working capital of \$1,121,346. The Company's ability to continue operations and fund its future exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty there is some doubt about the ability of the Company to continue as a going concern. These unaudited condensed interim financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 February 28, 2014, 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, 2013, 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, 2014 could result in restatement of these unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting standards recently adopted

There are no relevant changes in accounting standards other than as disclosed in the most recent annual financial statements as at and for the year ended June 30, 2013 other than the following:

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company adopted IFRS 10 in its financial statements for the annual period beginning on July 1, 2013. The Company has determined that the adoption of IFRS 10 did not have a material impact on its unaudited condensed interim statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 Interests in Joint Ventures ("IAS 31"). Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company adopted IFRS 11 in its financial statements for the annual period beginning on July 1, 2013. The Company has determined that the adoption of IFRS 11 did not have a material impact on its unaudited condensed interim financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. The Company adopted IFRS 13 in its financial statements for the annual period beginning on July 1, 2013. The Company has determined that the adoption of IFRS 13 did not have a material impact on its unaudited condensed interim financial statements.

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, 2013. These include:

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 will be effective for annual periods beginning on or after January 1, 2018. However, IFRS 9 is available for early adoption. The Company has not yet determined the impact of this standard on its unaudited condensed interim financial statements.

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New IFRS standards not yet adopted (Continued)

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 with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IAS 32 on its unaudited condensed interim financial statements.

3. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION AND EVALUATION EXPENDITURES

The Company has interests in mineral properties in the McFauld's Lake area, and McDonough Townships in Ontario, Canada, and in the Buchans area of Newfoundland, Canada. Due to disappointing exploration results and/or lack of a current exploration plan or recent work, all properties except Mary March 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.

b) Mary March Properties

(i) Xstrata Joint Venture

The Company entered into an option and Joint Venture Agreement with Freeport-Mcmoran of Canada Limited ("FMCL") formally 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 is held by Xstrata Canada Corporation ("Xstrata"). The Company has a first right of refusal on Xstrata's 50% interest, should they wish to sell. The Company, combined with the \$750,000 spent by FMCL, had completed the necessary exploration expenditures to earn a 50% interest in the property. Exploration of the property was held up for 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 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 was also 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. 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 Xstrata 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 payable to FMCL.

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

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

b) Mary March Properties (Continued)

(i) Xstrata Joint Venture (Continued)

The Company is the operator of the Xstrata Joint Venture and has the deciding vote in the event of a deadlock between the Company and Xstrata. A diamond drilling program was completed in late 2012. The Company followed this up with a drill program in the fall of 2013. Xstrata contributed \$150,000 towards the 2012 exploration costs of the joint venture but did not contribute to the fall 2013 drill program.

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 Property.

(ii) Mary March Extension Project

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.

c) McFauld's Lake Properties

The Company held a 55% interest in a single claim totaling 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 is no longer a strategic holding for the Company.

4. EQUIPMENT

Cost	Office and field equipment
Balance, June 30, 2012, December 31, 2012, June 30, 2013 and December 31, 2013	\$ 8,261

Accumulated Amortization	Office and field equipment
Balance, June 30, 2012	\$ 7,541
Amortization	72
Balance, December 31, 2012	7,613
Amortization	72
Balance, June 30, 2013	7,685
Amortization	58
Balance, December 31, 2013	\$ 7,743

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

4. **EQUIPMENT** (Continued)

<u>Carrying Value</u>	<u>Office and field equipment</u>
Balance, June 30, 2012	\$ 720
Balance, December 31, 2012	\$ 648
Balance, June 30, 2013	\$ 576
Balance, December 31, 2013	\$ 518

5. **CAPITAL STOCK, SHARE-BASED PAYMENT RESERVE 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:

	Shares	Amount
Balance, June 30, 2012	76,701,713	\$ 9,308,861
Issuance of common shares for property (Note 3(b)(i))	100,000	16,000
Exercise of stock options	700,000	100,000
Exercise of stock options - valuation allocation	-	80,291
Exercise of warrants	4,256,668	851,335
Exercise of warrants - valuation allocation	-	148,274
Balance, December 31, 2012	81,758,381	10,504,761
Exercise of warrants	1,098,000	219,599
Exercise of warrants - valuation allocation	-	38,247
Balance, June 30, 2013 and December 31, 2013	82,856,381	\$ 10,762,607

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

5. CAPITAL STOCK, SHARE-BASED PAYMENT RESERVE AND WARRANTS (Continued)

(c) Stock Options

The Company has granted options for the purchase of common shares to its directors, officers, and consultants. The aggregate number of common shares which may be issued under the stock option plan is 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. As at December 31, 2013, the following stock options were outstanding:

Number of Options	Exercisable Options	Exercise Price	Weighted Average Remaining Contractual Life (years) of Number of Options	Expiry Date
200,000	200,000	\$0.10	0.02	January 6, 2014 ⁽¹⁾
398,334	398,334	\$0.10	0.02	January 6, 2014 ⁽¹⁾
100,000	100,000	\$0.20	0.02	January 6, 2014 ⁽¹⁾
901,666	901,666	\$0.10	1.22	March 22, 2015
500,000	500,000	\$0.17	2.97	December 19, 2016
2,875,000	2,875,000	\$0.18	3.32	April 24, 2017
300,000	300,000	\$0.18	3.32	April 25, 2017
100,000	75,000	\$0.20	3.61	August 10, 2017
500,000	250,000	\$0.10	4.33	May 1, 2018
100,000	25,000	\$0.10	4.55	July 17, 2018
5,975,000	5,625,000	\$0.15	2.70	

⁽¹⁾ Subsequent to the three and six months ended December 31, 2013, these stock options expired unexercised.

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 (i)	100,000	0.20
Exercised	(700,000)	0.15
Expired	(550,000)	0.15
Balance, December 31, 2012	5,375,000	0.16
Granted (ii)	500,000	0.10
Balance, June 30, 2013	5,875,000	0.15
Granted (iii)	100,000	0.10
Balance, December 31, 2013	5,975,000	\$ 0.15

CANSTAR RESOURCES INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

5. CAPITAL STOCK, SHARE-BASED PAYMENT RESERVE AND WARRANTS (Continued)

(c) Stock Options (Continued)

- (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 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%.
- (ii) On May 1, 2013, the Company granted 500,000 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 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%.
- (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 fair value of \$5,400 was estimated using the Black-Scholes option pricing model based on the following weighted average expected assumptions: expected dividend yield of 0%; risk free interest rate of 1.66%; expected life of 5 years; and an expected volatility of 155%.

Share-based payment expense for the three and six months ended December 31, 2013 is \$12,239 and \$59,806, respectively (three and six months ended December 31, 2012 - \$16,544 and \$149,658, respectively). For the three and six months ended December 31, 2013, \$1,650 and \$7,425, respectively, of share-based payments were capitalized to deferred exploration and exploration expenditures (three and six months ended December 31, 2012 - \$Nil).

(d) Share Purchase Warrants

A summary of changes in warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2012	7,000,000	\$ 0.20
Issued (Note 3(b)(i))	100,000	0.25
Expired	(1,043,332)	0.20
Exercised	(4,256,668)	0.20
Balance, December 31, 2012	1,800,000	0.21
Expired	(602,000)	0.20
Exercised	(1,098,000)	0.20
Balance, June 30, 2013 and December 31, 2013	100,000	\$ 0.25

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5. CAPITAL STOCK, SHARE-BASED PAYMENT RESERVE AND WARRANTS (Continued)

(d) Share Purchase Warrants (Continued)

The warrants outstanding as at December 31, 2013 are as follows:

Black-Scholes Valuation	Number of Warrants	Exercise Price	Expiry Date
\$ 8,600	100,000	\$0.25 - \$0.50	July 27, 2014

6. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the three and six months ended December 31, 2013 was based on the net loss attributable to common shareholders of \$96,117 and \$212,313, respectively (three and six months ended December 31, 2012 - \$90,797 and \$264,670, respectively), and the weighted average number of common shares outstanding of 82,856,381 (three and six months ended December 31, 2012 - 77,925,349 and 77,385,312, respectively).

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.

(a) Canstar entered into the following transactions with related parties:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Probe Mines Ltd. ⁽¹⁾	\$ 5,209	\$ -	\$ 10,419	\$ -
Geocanex Ltd. ⁽²⁾	\$ -	\$ 1,500	\$ -	\$ 4,000

⁽¹⁾ During the three and six months ended December 31, 2013, the Company incurred \$5,209 and \$10,419, respectively (three and six months ended December 31, 2012 - \$Nil) for rent charged by a corporation of which the Chairman of the Board and President are directors of the Company. Included in accounts payable as at December 31, 2013 is \$Nil (June 30, 2013 - \$3,925) owed to this corporation. These amounts are non-interest bearing, unsecured, with no fixed terms of repayment.

⁽²⁾ During the three and six months ended December 31, 2013, the Company incurred \$Nil (three and six months ended December 31, 2012 - \$1,500 and \$4,000, respectively) for rent charged by corporations of which the principal shareholder is a former director of the Company.

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7. RELATED PARTY TRANSACTIONS (Continued)

(b) Remuneration of directors and key management personnel of the Company was as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Short-term benefits	\$ 25,517	\$ -	\$ 52,369	\$ -
Share-based payments	\$ 9,495	\$ 43,000	\$ 31,303	\$ 114,095

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.

The above noted transactions are in the normal course of business and are approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

8. COMMITMENTS AND CONTINGENCIES

a) 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.

b) Flow-through Expenditures

From time to time, the Company issues flow-through shares and indemnifies the subscribers for any tax related amounts that become payable by the subscriber as a result of the Company not meeting its expenditure commitments.