

CANSTAR RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2013

INTRODUCTION

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited financial statements of Canstar Resources Inc. (the "Company" or "Canstar") for the six months ended December 31, 2013, and the audited financial statements for the year ended June 30, 2013 and related notes. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. This MD&A is made as of February 28, 2014.

Additional information relating to the Company is on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and on the Company's website at www.canstarresources.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's properties; the future prices of base and precious metals; success of exploration activities; cost and timing of future exploration and development; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; requirements for additional capital; and other statements relating to the financial and business prospects of the Company. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during permitting; the possibility that future exploration results will not be consistent with the Company's expectations; timing and availability of external financing on acceptable terms and in light of the current decline in global liquidity and credit availability; uncertainty of inferred mineral resources; future prices of base and precious metals; currency exchange rates; government regulation of mining operations; failure of equipment or processes to operate as anticipated; risks inherent in base and precious metals exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations; and uncertain political and economic environments. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

DESCRIPTION OF THE BUSINESS

The Company is a junior resource company focused primarily on the acquisition, exploration and development of mineral properties located in Canada. The shares of the Company began trading on the TSX Venture Exchange under the symbol "ROX" on April 8, 2005. The Company is a reporting issuer in the provinces of Ontario, Alberta and British Columbia.

The following table contains a brief description of the Companies core properties held in fiscal 2013, which are or were the primary focus of the Companies exploration initiatives. Further details with respect to the core properties are also provided in this document under the section entitled "Overall Performance".

Description of Core Property	Target Mineralization	Ownership Interest
<p>The McFauld's Property 3 is located in the McFauld's Lake area of northwestern Ontario and is contiguous with Spider Resources' high-grade copper-zinc massive sulphide discoveries and also proximal to Noront Resources' recent high-grade nickel-copper-PGE discovery. The property is comprised of 6 contiguous claim units in three mineral licenses.</p>	<p>Copper-zinc-silver-gold</p>	<p>Pursuant to an agreement with New Klondike Exploration Ltd. (formerly United Reef Ltd.), a corporation listed on the TSX Venture Exchange, and Geocanex Limited, a private Corporation owned by a Director of the Company, New Klondike has vested an undivided 45% interest in the property. Canstar owns the remaining 55% interest. In December 2012, two claims comprising 32 units were allowed to lapse.</p>
<p>The Mary March Property, comprised of 18 staked claims, 2 licenses, 1 lease and 2 patented lots, totaling 1,616 hectares, located approximately 20 kilometres east of the past producing Buchans mine, near Buchans Junction, Newfoundland.</p>	<p>Zinc-silver-lead-copper-gold</p>	<p>A 50% interest and right of first refusal on the remaining 50% interest held by Xstrata plc, the company's Joint Venture partner. The 50% interest was acquired from Freeport-McMoran of Canada Limited. ("FMCL") ⁽¹⁾. The Company is the operator.</p>
<p>The Mary March Extension Property (formerly the XMET Option Property) was acquired on April 7, 2009 and is comprised of 34 claims staked in two contiguous blocks. The property is located immediately west and north of the Mary March property and may cover the extension of the geological horizon hosting the Mary March base and precious metal mineralization.</p>	<p>Zinc-silver-lead-copper-gold</p>	<p>The 34 claims acquired by staking on April 7, 2009 are 100% owned by the Company, and not part of the Xstrata J.V. On February 16, 2010 The Company entered into an agreement with XMET Inc ("XMET") (formerly On-Strike Gold Inc), whereby XMET has the right to earn a 50% interest in the 34 claims. XMET terminated the option on May 31, 2011.</p>
<p>The Slate Bay Property, comprised of 8 contiguous patented claims covering 128 hectares, located approximately 10 kilometres north of the town of Red Lake, Ontario, within the Red Lake greenstone belt.</p>	<p>Copper-gold-silver</p>	<p>A 75% earned interest in the property pursuant to an option and joint venture participation agreement entered into with Luxor Enterprises Inc. (Luxor) on February 4, 2002.</p>

Notes:

- (1) The Company is required to make a cash payment of \$2,000,000 to FMCL within six months of commercial production. The Company's interest is also subject to a 1% NSR royalty due upon commencement of commercial production.

The Company also has two non-core properties, identified in the table below.

Description of Property	Target	Ownership Interest
The Miminiska Property, comprised of three contiguous, unpatented mineral claims totaling 44 claim units, located approximately 100 kilometres east of Pickle Lake, Ontario.	Gold	100% owned
The Shrimp Lake Property is comprised of seven contiguous, unpatented mineral claims totaling 91 claim units, covering 1,456 hectares approximately 165 kilometres north-northeast of Red Lake.	Gold and base metals	100% owned

An investment in the securities of the Company is highly speculative and involves numerous and significant risks and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors described below.

OVERALL PERFORMANCE

The Company is currently engaged in mineral exploration in Canada. The Company's exploration activities are at an early stage, and it has not yet been determined whether its properties contain recoverable ore. As a result, the Company has no current sources of revenue other than interest earned on cash, short-term investments and money market instruments, all of which were derived from issuances of share capital. There are no known deposits of minerals on any of the mineral exploration properties of the Company and any activities of the Company thereon will constitute exploratory searches for minerals.

Trends

- Although the economic crisis which faced the financial sector in 2008 and 2009 has improved, the Company remains cautious in case the economic factors that have impacted the mining industry deteriorate even further.
- There are significant uncertainties regarding the prices of precious and base metals and other minerals and the limited availability of equity financing for the purposes of mineral exploration and development;
- The Company's future performance is largely tied to the outcome of future drilling results and the overall financial markets; and
- Current financial markets are likely to be volatile in Canada for the remainder of calendar 2013 and in 2014, reflecting ongoing concerns about the stability of the global economy. As well, concern about global growth may lead to further drops in the commodity markets. Uncertainty in the credit markets has also led to increased difficulties in borrowing/raising funds. Companies worldwide have been negatively affected by these trends. As a result, the Company may have difficulties raising equity financing for the purposes of base and precious metals exploration and development, particularly without excessively diluting the interest of current shareholders of the Company.

These trends may limit the Company's ability to discover and develop an economically viable mineral deposit.

The Mary March Property

The Company earned a 50% interest in the property held by Phelps Dodge Company of Canada Limited ("Phelps"), (now part of Freeport-McMoran Canada Ltd.). The Company has earned this 50% interest in the Mary March property by incurring \$755,000 of property expenditures and issuing 100,000 common shares valued at \$16,000 and 100,000 warrants valued at \$8,600. The warrants could be exercised at a price of \$0.25 per share by July 27, 2013 and \$0.50 per share by July 27, 2014. The Company is also required to make a cash payment of \$2,000,000 to Phelps within six months of commercial production. The Company's interest is also subject to a 1% NSR royalty due upon commencement of commercial production. The remaining 50% interest in the property is held by Xstrata Zinc Canada (Xstrata), on which the Company maintains a right of first refusal.

The Mary March Property is comprised of 100 staked claims, 8 licenses, 1 lease and 2 patented lots totaling 3,987 hectares and is located approximately 20 kilometres east of the past producing Buchans mine, near Buchans Junction, Newfoundland. High grade Cu-Pb-Zn-Ag-Au massive sulphides of economic significance were discovered on the Mary March Property by Phelps in 1999, but the core discovery areas of the property had been dormant since August 2000.

The Company resumed exploration on the property in 2012, completing a 2,320 meter drilling program, where semi-massive and massive sulphides were intersected in four holes MM-12-21, MM-12-23, MM-13-27, and MM-13-28. These results were followed up in Fall of 2013 by completing a 1,146 meter drilling program, where additional massive sulphides and stockwork mineralization was encountered in all three completed drillholes.

The header information of these drillholes is shown below:

Hole ID	Easting	Northing	Elevation	Length (m)	Azimuth	Dip
MM13-29	534371	5408938	203	367	133.5	-45
MM13-30	534370.8	5408938	203	442	133.5	-50
MM13-31	533887	5408757	214	337	129.5	-46

Mary March Property can be divided into two primary areas of exploration based on historic exploration as defined by areas where mineralization occurs and is separated by geological formations. To date, the Company defines the Mary March target and the Nancy April target as distinct areas and are separated by 400 meter distance between rock formations. MM13-29 and MM13-30 were designed to target the Mary March targets, and MM13-31 was designed to test the Nancy April target. Each area is described in the following sections.

Mary March Zone

Hole MM13-29 was designed intercept the same horizon as the the Phelps Dodge Discovery Hole MM-294-7, which had intersected high grade massive sulphides over 9.63m with an average grade of 10.1% Zn, 1.68% Pb, 0.64% Cu, 122.1 g/T Ag and 4.2 g/T Au. The hole was collared about one meter from the drill casing of MM-294-7 but was drilled of +9 degrees azimuth. Massive sulphides were encountered in MM13-29 from 341.56 meters to 346.60 meters for a core length interval of 5.04 meters. The zone was bounded uphole by a diabase dike which may occlude mineralization in that direction. The downhole contact of the mineralized zone is defined by a shear zone indicating that the mineralization is truncated by faulting in this area. Medium to strong sericite alteration occurs in rocks hosting the zone .

Hole MM-13-30 was drilled on the same section as MM13-29 to test for the existence of a down-dip extension. It encountered an 11.6 meter intersection of massive and semi-massive sulphides containing 3.6% Zn, 0.1% Cu, 0.8% Pb, 25 g/t Ag, and 1.5 g/t Au, including a 3.6-meter high-grade zone containing 7.5% Zn, 0.04% Cu, 1.37% Pb, 26.1 g/t Ag, and 1.7 g/t Au. This hole successfully extended the Mary March Zone to depth by at least 30 meters.

The following tables summarizes significant results found at the Mary March target area:

BHID	From	To	Length	Zn%	Cu%	Pb%	Ag ppm	Au ppm
MM13-29	341.56	346.60	5.04	4.82	0.38	1.04	71.3	1.8
<i>including...</i>	343.00	346.45	3.45	6.21	0.13	1.42	82.8	1.9
MM13-30	354.78	366.35	11.57	3.56	0.12	0.81	24.6	1.5
<i>including...</i>	362.71	366.35	3.64	7.54	0.04	1.37	26.1	1.7

Nancy April Zone

A single drill hole, MM13-31, was designed to test the continuity of a previously recognized mineralized stockwork zone in the Nancy April area, located 500 meters southwest of the Mary March zone. Stockwork zones are important indicators of VMS systems and represent the lower root zones of these types of orebodies through which metal-bearing fluids percolate to an upper main zone. Stockworks are also important sources of copper mineralization in many VMS systems.

Drill hole MM13-31 was collared 30 meters from previous drilling and encountered the stockwork zone at approximately 150 meters vertical depth. Results indicate a widening of the zone from previous intercepts, increasing from 7.1 meters to 18.9 meters with an attendant rise in metal grades (cf. MM294-3, 1.00% Zn, 0.04% Cu, 0.50% Pb), which bodes well for further exploration in the Nancy April area.

In addition to the stockwork zone intercepts, MM13-31 encountered a shallow zone of anomalous to low-grade mineralization interpreted to be a near surface component of the Nancy April mineralized zone. It is known that this zone occurs at depth of approximately 150 metres in holes located to the northeast of MM13-31 (MM294-4; 6.75 meters @ 1.00% Zn, 0.80% Cu, 0.59% Pb). The anomalous zone in MM13-31 was encountered only 51 meters from surface, indicating potential for the Nancy April area to host shallow mineralization and represents a significant geological target for future programs. Results for the Nancy April drilling are presented in the following table:

BHID	From	To	Length	Zn%	Cu%	Pb%	Ag ppm	Au ppm
MM13-31	208.10	226.64	18.54	1.59	0.13	0.21	2.4	0.0
MM13-31	259.32	278.18	18.86	1.64	0.08	0.45	3.8	0.0
MM13-31	73.00	84.48	11.48	0.23	0.50	0.06	1.3	0.1
<i>including...</i>	82.54	82.87	0.33	0.64	15.30	0.13	23.2	0.6

PROPERTY ACQUISITION COSTS

Balance, June 30, 2012	\$	41,284
Incurring		24,600
Balance, December 31, 2012, June 30, 2013 and December 31, 2013		65,884

DEFERRED EXPLORATION COSTS

Balance, June 30, 2012		1,044,990
Access costs		33,407
Administrative		(8,185)
Drilling		187,970
Field costs		1,524
Field supplies		17,124
Project management and geological consulting		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)

Balance, December 31, 2012		1,384,830
Access costs		52,946
Administrative		19,077
Assays		2,398
Drilling		117,127
Field supplies		501
Project management and geological consulting		52,521
Geophysics and exploration		14,853
Legal		1,686
Travel		4,347
Government junior exploration assistance		(100,000)

Balance, June 30, 2013		1,514,286
Access costs		2,610
Administrative		1,391
Assays		23,242
Drilling		119,078
Field costs		835
Field supplies		4,131
Project management and geological consulting		5,514
Geophysics and exploration		3,720
Labour and supervision		3,391
Travel		6,342

Balance, December 31, 2013		1,684,540
Total		\$ 1,750,424

Mary March Extension Project (formerly XMET Option)

This 100% owned property was acquired on April 7, 2009 and is comprised of 34 claims staked in two contiguous blocks 100%-owned by the Company. The property is located immediately west and north of the Mary March property and may cover the extension of the geological horizon hosting the Mary March base and precious metal mineralization.

On February 16, 2010, The Company signed an option to joint venture with XMET Inc (formerly On-Strike Gold Inc), granting XMET the right to earn a 50% interest in the property. Terms of the option are: cash payments of \$25,000 upon signing (paid); \$50,000 on 1st anniversary; \$100,000 on 2nd anniversary; the issuance of 500,000 common shares of XMET upon signing (paid); and exploration expenditures of \$850,000 over 3 years. At the completion of the above a 50/50 joint venture would be formed under industry standard terms. After the 2011 exploration program executed by XMET failed to provide positive results, the Company was advised that XMET decided to discontinue the option agreement on May 30, 2011. Canstar now holds a 100% interest in the property.

The Slate Bay Property

The Slate Bay property is comprised of 8 contiguous, patented claims covering 128 hectares and located about 10 kilometres north of the town of Red Lake, Ontario, within the productive Red Lake greenstone belt. In November 2005, the Company met all of the expenditure requirements to earn its 75% interest in the property and advised Luxor that it wished to establish a joint venture to further explore and develop the property. Under the terms of the agreement, the Company will act as manager of the joint venture.

In 2001 the Company completed detailed ground magnetic and IP surveys over the property and a 5-hole drill program testing a number of IP anomalies. The first hole intersected a 69.33 metre interval of Cu-Au-Ag mineralized breccia. Additional IP surveying in 2003 identified the faulted extension of the chargeability anomaly related to the mineralized zone and extended its total length to 1,000 metres. On September 20, 2005, a program of follow-up drilling consisting of four holes totaling 641 metres intersected a large copper-gold-silver mineralized skarn system, which is believed to have potential for continuity both laterally and to depth, with grades running to a high of 7.2 g/t gold, 5.81% copper and 183 g/t silver over narrow intervals within considerably longer sections of lower grade material. In September 2008, the Company completed a further six holes on the property testing the skarn system at depth and along strike. The mineralized zone was intersected at an additional 50 metres depth and 100m along strike to the northeast of previous drilling. Analytical results confirm that the mineralization extends to depth and along strike, and is similar to previous results. \$214,971 in expenditures was written down on the property during the year ended June 30, 2009. The Slate Bay property is currently being reviewed, and the company is open to potential joint venture or option.

The McFauld's Lake Properties

The Company held a 55% interest in a single claim totaling 6 claim units (96 hectares) in the McFauld's Lake area of northwestern Ontario, approximately 540 kilometres north-northeast of Thunder Bay, Ontario. The property is contiguous to the high-grade copper-zinc (minor silver and gold) massive sulphide discoveries of Spider Resources, and proximal to Noront Resources high-grade nickel-copper-PGE discovery. On December 8, 2013 these claims were allowed to lapse and is no longer a strategic holding for the Company.

SELECTED ANNUAL FINANCIAL INFORMATION

Fiscal Year	2013	2012	2011
Operating expenses	\$442,096	\$421,431	\$152,955
Loss from operations	442,096	421,431	152,955
Net loss for the year	442,096	343,318	263,241
Loss per share – basic and diluted	0.01	0.00	0.00
Total assets	3,173,157	2,026,826	1,235,524
Total liabilities	155,787	70,282	367,810

RESULTS OF OPERATIONS

Three months ended December 31, 2013 compared to December 31, 2012

The comprehensive loss for the three months ended December 31, 2013 was \$96,117 compared to a comprehensive loss of \$90,797 in 2012. The major increase was in general office expenses which had increased by \$29,288 in 2013. This was due to the increased activity and the renting of new office space in 2013. The other major difference for expenses was the decrease in transfer agent filing fees by \$6,437 due to the fact that there were no shares issued in the current quarter.

Six months ended December 31, 2013 compared to December 31, 2012

The comprehensive loss for the six months ended December 31, 2013 was \$212,313 compared to a comprehensive loss of \$264,670 in 2012, a decrease of \$52,357. General office expenses increased by \$64,917 in 2013 due to the increased activity and the renting of new office space in 2013. Share-based payments decreased by \$89,852 due to the decrease in the number of stock options vesting in the current period compared to the six months ended December 31, 2012.

SUMMARY OF QUARTERLY RESULTS ⁽¹⁾

The following table sets out selected quarterly results of the Company for the eight quarters prior to the effective date of this report. The information contained herein is drawn from the audited annual financial statements and unaudited interim financial statements of the Company.

Fiscal Year	2013	2013	2013	2012
Quarter	Dec 31	Sept 30,	June 30,	March 31,
Revenue	\$nil	\$nil	\$nil	\$nil
Working Capital	1,121,346	1,364,552	1,436,624	1,483,396
Interest in Mineral Properties and Deferred Exploration and Evaluation Expenditures	1,750,424	1,589,417	1,580,170	1,591,751
Expenses	96,117	116,196	89,706	87,720
Net (Loss)	(96,117)	(116,196)	(89,706)	(87,720)
Net (Loss) per share ⁽¹⁾	(0.00)	(0.00)	(0.00)	(0.00)

Fiscal Year	2012	2012	2012	2011
Quarter	Dec 31,	Sept 30,	June 30,	March 31,
Revenue	\$nil	\$nil	\$nil	\$nil
Working Capital	1,468,628	780,173	869,550	965,249
Interest in Mineral Properties and Deferred Exploration and Evaluation Expenditures	1,414,714	1,209,527	1,086,274	823,013
Expenses	90,797	173,873	248,757	68,833
Net (Loss)	(90,797)	(173,873)	(120,875)	(67,911)
Net (Loss) per share ⁽¹⁾	(0.00)	(0.00)	(0.00)	(0.00)

Notes:

- (1) Net loss per share on a diluted basis is the same as basic net loss per share, as all factors which were considered in the calculation are anti-dilutive.

RELATED PARTY TRANSACTIONS

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.

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.

The remuneration of directors and key management during the three and six months ended December 31, 2013 and 2012 were 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
	35,012	43,000	83,672	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.

LIQUIDITY

As at December 31, 2013, the Company had working capital of \$1,121,346 compared to a working capital of \$1,436,624 at June 30, 2013. Working capital decreased during the six months by \$315,278. The Company has no revenue from operations and is dependent on financings for working capital.

The Company's operating costs are expected to remain approximately the same during the remainder of fiscal 2014, while exploration costs will depend on the budget for the next drill program of the Mary March drill program as approved by the Company and its joint venture partner.

WORKING CAPITAL RESOURCES

As a result of the warrant exercise and stock option exercise in the amount of \$1,170,934 during the year ended 2013 the Company has adequate funds to carry out all of its next phase of exploration activities in fiscal year 2014. Additional financings will be required for future exploration and working capital.

Most of the Company's requirements for capital to maintain its ownership level in its properties, as well as pay for exploration expenditures and administrative expenses have been met through the completion of private placements and the exercise of stock options and warrants. Typically, these monies have come from institutional and high net worth investors and the amounts raised have been a function of the level of market interest in the junior resource industry as well as the general level of interest in the equity and mineral commodity markets. The Company will have to rely on further equity financings in order to maintain an adequate liquidity base with which to support its general operations and exploration and development mandate.

The mineral exploration business is risky and most exploration projects will not become mines. The Company may offer other mining companies the opportunity to acquire interests in any of its properties in return for funding by such companies of all or part of the exploration and development of such properties. For the funding of any property acquisitions or exploration conducted by the Company, the Company depends on the issue of shares from treasury to investors. Such financing will depend, in turn, on various factors, such as a positive mineral exploration climate, positive stock market conditions, the Company's track record and the experience of management. If such financing is unavailable for any reason, the Company may become unable to retain its mineral interests and carry out its business plan.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

SUBSEQUENT EVENTS

The Company did not have any subsequent events.

PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of the recoverable value of its mineral properties and related deferred exploration and evaluation expenditures, as well as the value of stock-based compensation. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and stock price volatility. The timing for exercise of options is out of the Company's control and will depend on a variety of factors, including the market value of the Company's shares and financial objectives of the share-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes option pricing model. However, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of its recorded value of its mineral properties and associated deferred exploration and evaluation expenses is based on current market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, and the ability of the Company to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

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 financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. 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 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 financial statements.

FUTURE ACCOUNTING CHANGES

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 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, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

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 financial statements.

COMMITMENTS AND CONTINGENCIES

a) Environmental Contingencies

The Company's mining and 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.

FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks: liquidity risk, market risk (including interest rate, foreign exchange rate and price risk) and credit risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(a) Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities and interest income earned on its cash and marketable securities. As at December 31, 2013, the Company has cash and cash equivalents of \$1,301,999 (June 30, 2013 – \$1,574,609) to settle current liabilities of \$226,310 (June 30, 2013 - \$155,787). Interest-bearing instruments in cash and short-term investments are held by two Canadian chartered banks. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(b) Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates and equity prices. In the normal course of business, the Company is exposed to market risks as a result of its investment in publicly-traded companies. During periods of significant broader market volatility or volatility experienced by the resource/commodity markets, the value of the Company's investment portfolio can be vulnerable to market fluctuations. Sensitivity to a plus or minus 1% change in the market value of the marketable securities would affect other comprehensive loss by approximately \$Nil since the Company has no marketable securities at December 31, 2013.

(c) Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal. The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

(d) Interest rate risk is the impact that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In the normal course of business, the Company is exposed to interest rate fluctuations as a result of cash and short-term investments being invested in interest-bearing instruments. Cash and short-term investments include guaranteed investment certificates which have variable interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect net loss by approximately \$13,020.

(e) Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, short-term investments and sundry receivables. The Company has no significant concentration of credit risk arising from operations. Cash and short-term investments are held with the Royal Bank of Canada, from which management believes the risk of loss to be minimal. Sundry receivables consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to sundry receivables is minimal. Sundry receivables are in good standing as of December 31, 2013.

(f) Fair value

As at December 31, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of its mineral 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 team to sustain the future development of the business. The Company considers its capital to be equity, which is comprised of capital stock, share purchase warrants, broker compensation warrants, contributed surplus and deficit.

The properties in which the Company currently has an interest are in the exploration stage. As such the Company is dependent on external financing to fund its activities. In order to carry out its planned exploration programs and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital in current economic conditions by:

- (i) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns;
- (ii) minimizing discretionary disbursements;
- (iii) reducing or eliminating exploration expenditures that are of limited strategic value; and
- (iv) exploring alternative sources of liquidity.

In light of the above, the Company will continue to assess new properties and seek to acquire an interest in additional properties if the Company believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

The Company is not subject to any capital requirements imposed by a regulator or lending institution. The Company expects that its current capital resources are sufficient to discharge its liabilities as at December 31, 2013. The Company will, in all likelihood, raise capital by public or private placements in fiscal 2014 for future exploration.

SHARE CAPITAL

During the year ended June 30, 2013, the Company issued 100,000 common shares valued at \$16,000 relating to the Mary March Property. The Company also received \$1,070,934 and \$100,000 from the exercise of 5,354,668 warrants and 700,000 stock options.

Pursuant to a resolution approved at the 2012 AGM and approved by the TSX, the Company's stock option plan limit is a maximum issuance 15,000,000 shares. The Company granted 100,000 stock options on July 17, 2013 to a consultant. 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 assumptions: expected dividend yield of 0%; risk free interest rate of 1.66%; expected life of 5 years; and 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 - \$26,675 and \$66,524, respectively).

Stock options outstanding for the Company at the date of this MD&A were as follows:

Options Granted	Exercisable Options	Exercise Price	Expiry Date
#	#	\$	
200,000	200,000	0.10	January 6, 2014 ⁽¹⁾
398,334	398,334	0.10	January 6, 2014 ⁽¹⁾
100,000	100,000	0.20	January 6, 2014 ⁽¹⁾
901,666	901,666	0.10	March 22, 2015
500,000	500,000	0.17	December 19, 2016
2,875,000	2,875,000	0.18	April 24, 2017
300,000	300,000	0.18	April 25, 2017
100,000	75,000	0.20	August 10, 2017
500,000	250,000	0.10	May 1, 2018
100,000	25,000	0.10	July 17, 2018
<u>5,975,000</u>	<u>5,625,000</u>		

⁽¹⁾ Subsequent to December 31, 2013, these stock options expired unexercised.

Risks and Uncertainties

An investment in the securities of the Company is highly speculative and involves numerous and significant risks and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors described below.

- *Exploration Stage Company and Exploration Risks*

The Company is a junior resource company focused primarily on the acquisition and exploration of mineral properties located in Canada. The properties of the Company have no established reserves. There is no assurance that any of the projects can be mined profitably. Accordingly, it is not assured that the Company will realize any profits in the short to medium term, if at all. Any profitability in the future from the business of the Company will be dependent upon developing and commercially mining an economic deposit of minerals, which in itself is subject to numerous risk factors. The exploration and development of mineral deposits involve a high degree of financial risk over a significant period of time that even a combination of management's careful evaluation, experience and knowledge may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration, development and production programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration and development programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves that are sufficient to commercially mine some of the Company's properties and to construct complete and install mining and processing facilities on those properties that are actually mined and developed.

- *No History of Profitability*

The Company is a development stage company with no history of profitability. There can be no assurance that the operations of the Company will be profitable in the future. The Company has limited financial resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Company may become unable to acquire and retain its mineral concessions and carry out its business plan.

- *Government Regulations*

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labor standards. In order for the Company to carry out its mining activities, its exploitation must be kept current. There is no guarantee that the Company's exploitation will be extended or that new exploitation will be granted. In addition, such exploitation could be changed and there can be no assurances that any application to renew any existing will be approved. The Company may be required to contribute to the cost of providing the required infrastructure to facilitate the

development of its properties. The Company will also have to obtain and comply with permits and that may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to comply with any such conditions.

- *Market Fluctuation and Commercial Quantities*

The market for minerals is influenced by many factors beyond the control of the Company such as changing production costs, the supply and demand for minerals, the rate of inflation, the inventory of mineral producing companies, the international economic and political environment, changes in international investment patterns, global or regional consumption patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with minerals, and increased production due to improved mining and production methods. The metals industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of metals are discovered, a market will exist for the profitable sale of such metals. Commercial viability of precious and base metals and other mineral deposits may be affected by other factors that are beyond the Company's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors that may affect commercial viability so that any adverse combination of such factors may result in the Company not receiving an adequate return on invested capital.

- *Mining Risks and Insurance*

The Company is subject to risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Company may become subject to liability for pollution, damage to life or property and other hazards of mineral exploration against which it or the operator if its exploration programs cannot insure or against which it or such operator may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and would have a material adverse effect on the financial position of the Company.

- *Environmental Protection*

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety, which may adversely affect the Company or require it to expend significant funds.

- *Capital Investment*

The ability of the Company to continue exploration and development of its property interests will be dependent upon its ability to raise significant additional financing. There is no assurance that adequate financing will be available to the Company or that the terms of such financing will be. Should the Company not be able to obtain such financing, its properties may be lost entirely.

- *Conflicts of Interest*

Certain of the directors and officers of the Company may also serve as directors and officers of other companies involved in base and precious metal exploration and development and consequently, the possibility of conflict exists. Any decisions made by such directors involving the Company will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matters in which they may have a conflict of interest.

- *Current Global Financial Conditions*

Current global financial conditions have been characterized by increased volatility, declining liquidity and the exit of a number of traditional investors from public markets. Access to public financing has been made more challenging by a global contraction of commercial and consumer credit markets. The ensuing decline in consumption has led to a marked erosion of investor confidence and risk tolerance. A major consequence/contributor to these factors may be seen in the unparalleled number of established financial

institutions facing involuntary corporate reorganization, insolvency, bankruptcy and/or governmental intervention. While the most sensational of the corporate casualties have occurred in the United States, the global nature of today's economic reality has left no interrelated public market unscathed. These factors may affect the ability of the Company to obtain equity or debt financing in the future on terms favorable to the Company or at all. Any or all of these economic factors, as well as other factors not specifically identified herein, may cause a decline in asset values that could be deemed to be other than temporary, resulting in impairment losses. If such conditions continue, the Company's operations could be negatively impacted, and the trading price of its common shares may be adversely affected.

Securities of mining and mineral exploration companies, including the common shares of the Company, have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in Canada and globally, and market perceptions of the attractiveness of particular industries. The price of the securities of the Company is also significantly affected by short-term changes in commodity prices, base and precious metal prices or other mineral prices, currency exchange fluctuation and the political environment in the countries in which the Company does business.

DISCLOSURE OF INTERNAL CONTROLS

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the audited annual 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 audited annual financial statements and (ii) the audited annual financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the years presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

DISCLOSURE OF OUTSTANDING SHARE DATA (AS AT FEBRUARY 28, 2014)

The Company's authorized capital consists of an unlimited number of common shares without par value, of which 82,856,381 are issued and outstanding as of the date of this MD&A. On a fully diluted basis the Company has 88,233,047 common shares outstanding assuming the exercise of 100,000 outstanding warrants and 5,276,666 outstanding stock options.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in the Management Discussion and Analysis. A copy of this report will be provided to anyone who requests it.

OTHER MATTERS

Additional information relating to the Company can be found on SEDAR at www.sedar.com and the Company's website at www.canstarresources.com.