

CANSTAR RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

INTRODUCTION

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements of Canstar Resources Inc. (the "Company" or "Canstar") for the three months ended September 30, 2012, and the audited consolidated financial statements for the year ended June 30, 2012 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 November 27, 2012.

Additional information relating to the Company is on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and on the Companies 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 2012, 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
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 38 contiguous claim units in three mineral licenses.	Copper-zinc-silver-gold	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.
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.	Zinc-silver-lead-copper-gold	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 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.	Zinc-silver-lead-copper-gold	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.
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.	Copper-gold-silver	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.

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, which the Company has chosen to joint venture to other corporations.

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 impact the mining industry deteriorate;
- There are significant uncertainties regarding the prices of precious and base metals and other minerals and the 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 2012 and in 2013, reflecting ongoing concerns about the stability of the global economy. As well, concern about global growth may lead to future 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 McFauld's Lake Properties

The Company has a 55% interest in a single claim block totaling 38 claim units (608 ha) 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.

The Company contracted an airborne geophysical survey in December 2007 covering the entire property.

On April 22, 2008 the Company entered into an option agreement with Geocanex and New Klondike Exploration Ltd. (formerly United Reef Ltd.) ("New Klondike"), whereby New Klondike became the operator of the McFauld's 1 and 3 properties.

A three-hole diamond drilling program was completed on the property by New Klondike during July 2008. Barren granite was intersected in all holes. After substantial completion of their earn-in commitment on the McFauld's Project, New Klondike was allowed to vest a 45% undivided interest in the property. The project is now under a joint-venture agreement, with the Company maintaining operatorship and a 55% undivided interest in the property.

On December 8, 2011, the two claims (32 claim units) comprising the McFaulds Property 1 were allowed to lapse as insufficient assessment credits were available to maintain the property in good standing.

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 in the first year and \$0.50 per share in the second year. 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 18 staked claims, 2 licenses, 1 lease and 2 patented lots totaling 1,616 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. A TDEM survey completed was completed by Candor, the Company's predecessor, on a non-core portion of the property during the first quarter of 2004 and four holes totaling 925.4 metres were drilled to test these targets during the three months ended July 31, 2004. In February 2006, an infiniTEM survey was completed over the eastern portion of the property. No significant anomalies were identified.

Exploration of this property has been held up for approximately 10 years due to a title dispute with Vinland Resources Limited ("Vinland") that was recently resolved in the Company's favor by the Newfoundland and Labrador Supreme Court. Vinland agreed to not proceed with an appeal of the court's decision. In consideration, Canstar agreed to waive their entitlement to costs.

During the period ended September 30, 2012, the Company completed an airborne geophysical survey over both the Joint Venture property and the 100% owned property. A report describing upcoming work was prepared and submitted to the Newfoundland and Labrador government in support of an application for flow through funding.

Now that the ownership issue is resolved and Canstar has acquired its 50% interest, Canstar and its joint venture partner are engaged in a comprehensive exploration program over the property, commencing in late 2012 or early 2013. The program consists of confirmatory drilling over the main Mary March mineralized zone to be followed by additional holes to trace the mineralization along strike and down dip. An up to date airborne geophysical survey, consisting of electromagnetics and magnetics, was completed over the Mary March Property as well as the additional Mary March Extension claims, to determine if similar mineralization occurs elsewhere on the properties. No such surveys have been flown over the property for more than 10 years, and, with changing technology, we expect better anomaly definition and depth penetration.

The first phase of the exploration, to be completed before 2013, will consist of eight holes designed to test the Mary March and Nancy April sulfide zones.

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.

XMET commenced a two-hole drilling program on April 21st, 2011 with hole BJ-11-01 targeting a coincident weak AEM conductor and polymetallic Cu-Pb-Zn-Ba basal till anomaly located proximal to the southwestern border of the property. The first hole was drilled to a depth of 275 meters. The volcanic sequence observed in the hole was extremely altered hematitic, epidotized, sericitized flow breccias, mafic fragmental units and numerous altered felsic intrusions which lacked massive sulphides. It was observed that the favorable Mary March stratigraphy was not present at this location, and that the more likely favorable Mary March horizon is located to the southeast. The second hole targeted the stratigraphy near the southeastern limit of the property, immediately outside of the Buchans Junction water reservoir protected zone. Sheared, highly altered felsic pyroclastic units intercalated with altered mafic volcanic were observed in core, but again the favorable key marker horizon was not present. The hole was stopped at 294.4 meters. On May 30th, 2011, XMET advised that they had decided to discontinue the option agreement after completing 569 meters with negligible results. Canstar now has 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.

The Company has completed detailed ground magnetic and IP surveys over the property and an initial 5-hole drill program conducted in 2001 tested 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.

SELECTED ANNUAL FINANCIAL INFORMATION

Fiscal Year	2012	2011	2010
Operating expenses	\$421,431	\$152,955	\$178,217
Loss from operations	421,431	152,955	178,217
Net loss for the year	343,318	263,241	203,217
Loss per share – basic and diluted	0.00	0.00	85,049
Total assets	2,026,826	1,235,524	1,073,496
Total liabilities	70,282	367,810	349,041

RESULTS OF OPERATIONS

Three months ended September 30, 2012 compared to September 30, 2011

The net loss for the three months ended September 30, 2012 was \$173,873 compared to a net loss of \$18,792 in 2011. The main reason for the increase in expenses compared to the prior year was that stock based compensation was higher by \$129,677 in 2012 as a result of the April 2012 grant of 3,175,000 stock options.

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	2012	2012	2012
Quarter	September 30,	June 30,	March 31,	December 31
Revenue	\$nil	\$nil	\$nil	\$nil
Working Capital	780,173	869,550	965,249	716,035
Interest in Mineral Properties and Deferred Exploration and Evaluation Expenditures	1,209,527	1,086,274	823,013	745,328
Expenses	173,873	248,757	68,833	85,049
Net (Loss)	(173,873)	(120,875)	(67,911)	(135,740)
Net (Loss) per share ⁽¹⁾	(0.00)	(0.00)	(0.00)	(0.00)

Fiscal Year	2012	2011	2011	2011
Quarter	September 30	June 30	March 31	December 31
Revenue	\$nil	\$nil	\$nil	\$nil
Working Capital	85,748	100,358	200,227	289,719
Interest in Mineral Properties and Deferred Exploration and Evaluation Expenditures	760,757	766,457	938,957	901,449
Expenses	18,792	18,698	41,228	30,766
Net (Loss)	(18,792)	(223,984)	(41,228)	(30,766)
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 months ended September 30, 2012, the Company incurred \$2,500 (2011 - \$Nil) for rent charged by a corporation of which the principal shareholder is a director of the Company.

During the three months ended September 30, 2012, the Company incurred \$Nil (2011 - \$4,625) for accounting and tax services included in professional fees by a firm of chartered accountants of which one of the directors and officers of the Company is a former partner and of which partners are shareholders of the Company. Included in accounts payable and accrued liabilities at September 30, 2012 is \$5,000 (June 30, 2012 - \$5,000) accrued for these services.

Also included in accounts payable as at September 30, 2012 is \$4,345 (June 30, 2012 - \$4,345) owed to a corporation controlled by a director of the Company. These amounts are non-interest bearing, unsecured, with no fixed terms of repayment.

LIQUIDITY

As at September 30, 2012, the Company had working capital of \$780,173 compared to a working capital of \$869,550 at June 30, 2012. Working capital decreased during the year by \$89,377. The exercise of warrants and stock options increased working capital by \$50,000. The Company has no revenue from operations and is dependent on financings for working capital.

The Company's operating costs are expected to increase during the remainder of fiscal 2013 and increase in fiscal 2014, while exploration costs should increase if proposed exploration programs are implemented as a result of the recent Mary March court decision, completion of the earn in, and J.V. formation with Xstrata.

WORKING CAPITAL RESOURCES

As a result of the private placement, the Company has adequate funds to carry out all of its initial planned exploration activities in 2012. 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

Subsequent to September 30, 2012, 406,668 warrants were exercised for gross proceeds of \$81,334.

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.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9 *Financial Instruments* (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

IFRS 13 *Fair Value Measurement* 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. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

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 intends to adopt IFRS 10 in its financial statements for the annual period beginning on July 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 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 intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on July 1, 2013. The Company has not yet determined the impact of IFRS 11 on its financial statements.

IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

COMMITMENTS AND CONTINGENCIES

a) Environmental Contingencies

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

b) Flow-through Expenditures

As at December 31, 2008, the Company was unable to complete the exploration expenditures within the required time periods to support flow-through deductions that were renounced to holders of flow-through shares. As a consequence of this shortfall in exploration expenditures, the Company will reimburse the investors for income taxes and interest owing as a result of the reduced tax deduction. As at September 30, 2012, the Company has accrued \$Nil (June 30, 2012 - \$Nil) as the estimated tax and interest amounts related to this commitment in accounts payable and accrued liabilities. The Company reversed the remainder of the accrual (\$127,881) in fiscal 2012 as no further amounts are expected to be paid as a result of the income taxes and interest owing.

During the year ended June 30, 2012, the Company issued a total of 2,000,000 flow-through shares for proceeds of \$300,000 that were renounced with an effective date of December 31, 2011. As of June 30, 2012, the Company had expended all of these flow-through funds.

The Company has indemnified 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 September 30, 2012, the Company has cash of \$820,955 (June 30, 2012 - \$930,715) to settle current liabilities of \$62,956 (June 30, 2012 - \$70,282). 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 September 30, 2012.

(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 at call which have variable interest rates. Sensitivity to a plus or minus 1% change in interest rates would affect net loss by approximately \$8,200.

(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 September 30, 2012.

(f) Fair value

As at September 30, 2012, 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 September 30, 2012. The Company will, in all likelihood, raise capital by public or private placements in fiscal 2013.

SHARE CAPITAL

During the year ended June 30, 2012, the Company completed a non-brokered private placement financing comprising 7,000,000 units at \$0.15 per unit for gross proceeds of \$1,050,000, of which 2,000,000 were issued on a flow-through basis. Each unit consists of one common share and one common share purchase warrant.

Each whole purchase warrant entitles the holder to acquire one common share at \$0.20 for a period of one year after closing (the "Warrant Term") provided, however, should the closing price of the common shares equal or exceed \$0.30 for 20 consecutive trading days following four months and one day after issuance, Canstar may accelerate the Warrant Term to the date which is 30 days following the date a press release is issued by Canstar announcing the Warrant Term.

The grant date fair value of the warrants was estimated to be \$243,834, net of share issue costs allocated to warrants of \$15,166. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 127%, risk-free interest rate of 0.98%, and expected life of 1 year.

Proceeds of the financings will be used to fund exploration of the Mary March Property and working capital.

During the three months ended September 30, 2012, the Company issued 100,000 common shares valued at \$16,000 relating to the Mary March Property. The Company also issued 100,000 common shares upon the exercise of stock options for cash proceeds of \$10,000 and 200,000 common shares upon the exercise of warrants for cash proceeds of \$40,000.

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

Options Granted	Exercisable Options	Exercise Price	Expiry Date
#	#	\$	
1,100,000	1,100,000	0.15	December 20, 2012
200,000	200,000	0.10	January 6, 2014
398,334	398,334	0.10	January 6, 2014
100,000	100,000	0.20	January 6, 2014
901,666	901,666	0.10	March 22, 2015
500,000	250,000	0.17	December 19, 2016
2,875,000	718,750	0.18	April 24, 2017
300,000	75,000	0.18	April 25, 2017
100,000	25,000	0.20	August 10, 2017
<u>6,475,000</u>	<u>3,768,750</u>		

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 52-1 09 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 NOVEMBER 27, 2012)

The Company's authorized capital consists of an unlimited number of common shares without par value, of which 77,508,381 are issued and outstanding as of the date of this MD&A. On a fully diluted basis the Company has 90,476,713 common shares outstanding assuming the exercise of 6,493,332 outstanding warrants and 6,475,000 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.