CANSTAR RESOURCES INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

NOTICE TO READER

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

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

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

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

As at		September 30, 2012		June 30, 2012
ASSETS				
Current				
Cash	**$**	**820,955**	$	930,715
Amounts receivable and prepaid expenses		**22,174**		9,117
Total current assets		**843,129**		939,832
Equipment (Note 4)		**684**		720
Interest in mineral properties and deferred exploration and evaluation expenditures (Note 3)		**1,209,527**		1,086,274
Total assets	**$**	**2,053,340**	$	2,026,826
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 7)	**$**	**62,955**	$	70,282
SHAREHOLDERS' EQUITY				
Capital stock (Note 5(b))		**9,390,119**		9,308,861
Warrants (Note 5(d))		**245,467**		243,834
Share-based payment reserve		**666,625**		545,750
Deficit		**(8,311,826)**		(8,141,901)
Total shareholders' equity		**1,990,385**		1,956,544
Total liabilities and shareholders' equity	**$**	**2,053,340**	$	2,026,826

Commitments and Contingencies (Note 8)
Subsequent Event (Note 9)

APPROVED ON BEHALF OF THE BOARD:

"W. Deluce", Director

"John E. Hurley", Director

See accompanying notes to the unaudited condensed interim financial statements.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Operating expenses		
Share-based payments (Note 5 (c))	**$ 133,114**	$ 3,437
Interest and bank charges	**86**	13
Transfer agent and filing fees	**5,725**	2,133
Professional fees	**30,417**	11,355
General and office expenses	**1,995**	659
Shareholder information	**-**	1,150
Amortization	**36**	45
Rent (Note 7)	**2,500**	-
Total operating expenses	**173,873**	18,792
Net loss for the period	**$ (173,873)**	$ (18,792)
Unrealized loss on marketable securities	**-**	(5,000)
Comprehensive loss for the period	**$ (173,873)**	$ (23,792)
Net loss per share		
- basic and diluted (Note 6)	**$ (0.00)**	$ (0.00)
Weighted average number of shares	**76,841,987**	68,826,713

See accompanying notes to the unaudited condensed interim financial statements.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	**$ (173,873)**	$ (18,792)
Charges not involving cash:		
Share-based payments	**133,114**	3,437
Amortization	**36**	45
	(40,723)	(15,310)
Changes in non-cash working capital items:		
(Increase) decrease in amounts receivable and prepaid expenses	**(13,057)**	18,769
(Decrease) in accounts payable and accrued liabilities	**(7,327)**	(11,441)
Cash flows from operating activities	**(61,107)**	(7,982)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of warrants	**40,000**	-
Proceeds from exercise of stock options	**10,000**	-
Cash flows from financing activities	**50,000**	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest in mineral properties and deferred exploration and evaluation expenditures	**(98,653)**	(6,800)
Refund from government relating to mineral properties	**-**	12,500
Cash flows from investing activities	**(98,653)**	5,700
Change in cash	**(109,760)**	(2,282)
Cash, beginning of period	**930,715**	389,045
Cash, end of period	**$ 820,955**	$ 386,763
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	**$ -**	$ -
Common shares issued for property interest	**16,000**	-
Warrants issued for property interest	**8,600**	-

See accompanying notes to the unaudited condensed interim financial statements.

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

	Capital Stock	Warrants	Share-based Payment Reserve	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, June 30, 2011	**$ 8,319,089**	**$ -**	**$ 542,259**	**$ (37,500)**	**$ (7,956,134)**	**$ 867,714**
Share-based payments	-	-	3,437	-	-	3,437
Unrealized loss on marketable securities	-	-	-	(5,000)	-	(5,000)
Net income for the period	-	-	-	-	(18,792)	(18,792)
Balance, September 30, 2011	**$ 8,319,089**	**$ -**	**$ 545,696**	**$ (42,500)**	**$ (7,974,926)**	**$ 847,359**
Share-based payments	-	-	273,329	-	-	273,329
Unrealized loss on marketable securities	-	-	-	(8,191)	-	(8,191)
Issuance of units in private placement	791,000	259,000	-	-	-	1,050,000
Share issue costs	(45,702)	(15,166)	-	-	-	(60,868)
Exercise of stock options	244,474	-	(115,724)	-	-	128,750
Expiry of stock options	-	-	(157,551)	-	157,551	-
Realized loss on marketable securities	-	-	-	50,691	-	50,691
Net loss for the period	-	-	-	-	(324,526)	(324,526)
Balance, June 30, 2012	**$ 9,308,861**	**$ 243,834**	**$ 545,750**	**$ -**	**$ (8,141,901)**	**$ 1,956,544**
Issuance of shares for property	16,000	-	-	-	-	16,000
Issuance of warrants for property	-	8,600	-	-	-	8,600
Exercise of stock options	18,291	-	(8,291)	-	-	10,000
Expiry of stock options	-	-	(3,948)	-	3,948	-
Exercise of warrants	46,967	(6,967)	-	-	-	40,000
Share-based payments	-	-	133,114	-	-	133,114
Net loss for the period	-	-	-	-	(173,873)	(173,873)
Balance, September 30, 2012	**$ 9,390,119**	**$ 245,467**	**$ 666,625**	**$ -**	**$ (8,311,826)**	**$ 1,990,385**

See accompanying notes to the unaudited condensed interim financial statements.

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

		Mary March Properties
PROPERTY ACQUISITION COSTS		
Balance, June 30, 2011, September 30, 2011 and June 30, 2012	$	41,284
Shares issued per joint venture option purchase agreement (Note 3(b)(i) and 5(b))		16,000
Warrants issued per joint venture option purchase agreement (Note 3(b)(i) and 5(b))		8,600
Balance, September 30, 2012		65,884
DEFERRED EXPLORATION COSTS		
Balance, June 30, 2011		725,173
Incurred		6,800
Recovered from government		(12,500)
Balance, September 30, 2011		719,473
Incurred		325,517
Balance, June 30, 2012		1,044,990
Incurred		98,653
Balance, September 30, 2012		1,143,643
Total	**$**	**1,209,527**

See accompanying notes to the unaudited condensed interim financial statements.

1. NATURE OF OPERATIONS

Canstar Resources Inc. (the "Company" or “Canstar”) was formed by amalgamation on April 5, 2005. The Company is publicly traded with its shares listed on the Toronto Stock Exchange for venture issuers. The Company’s registered and head office is located at 120 Adelaide Street West, Suite 2500, Toronto, Ontario M5H 1T1.

The financial statements were approved by the Board of Directors on November 27, 2012.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of mineral properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

As at September 30, 2012, the Company had a deficit of $8,311,826 and working capital of $780,174. The Company's ability to continue operations and fund its future exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty there is some doubt about the ability of the Company to continue as a going concern. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance:

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

The policies applied in these unaudited interim condensed financial statements are based on IFRSs issued and outstanding as of November 27, 2012, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited interim condensed financial statements as compared with the most recent annual financial statements as at and for the year ended June 30, 2012. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending June 30, 2013 could result in restatement of these unaudited interim condensed financial statements.

New standards not yet adopted and interpretations issued but not yet effective:

There are no relevant changes in accounting standards applicable to future periods other than as disclosed in the most recent annual financial statements as at and for the year ended June 30, 2012.

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

The Company has interests in mineral properties in the McFauld's Lake area, and McDonough Townships in Ontario, Canada, and in the Buchans area of Newfoundland, Canada.

a) Slate Bay Property

During the year ended January 31, 2003, the Company entered into an agreement with Luxor Explorations Inc. (“Luxor”) whereby it could earn a 75% interest in Luxor’s Slate Bay Property. The Slate Bay Property consists of eight patented mining claims in southern McDonough Township, Ontario within the Red Lake gold camp. The Company acquired the right to earn its interest by issuing 30,000 common shares to Luxor and by paying back taxes owed of approximately $18,000. The Company maintained its option by issuing an additional 90,000 common shares and spending an aggregate of $150,000 on the property over a three-year period. The Company must pay all property taxes during the earn-in period required to keep the property in good standing. Upon having vested its interest, a joint venture was formed with the Company acting as manager, to further explore and develop the property.

During the period ended June 30, 2005, the Company negotiated a one-year extension to the agreement with Luxor. In exchange for the one-year extension, the Company issued Luxor a further 90,000 common shares of the Company valued at $19,800. Upon completion of a drilling program in November 2005, the Company met all of the expenditure requirements to earn its 75% interest in the property and has advised Luxor that it wishes 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 attempted to joint venture this property without success. Accordingly, the property has been written off although the Company still retains its interest.

b) Mary March Properties

(i) Xstrata Joint Venture

The Company entered into an Option and Joint Venture Agreement with Phelps Dodge Mining Co. (“Phelps”) whereby the Company earned a 50% interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property is held by Xstrata Canada Corporation (“Xstrata”). The Company has a first right of refusal on Xstrata’s 50% interest, should they wish to sell. As at June 30, 2012, the Company, combined with the $750,000 spent by Phelps Dodge, had completed the necessary exploration expenditures to earn a 50% interest in the property. Exploration of the property was held up approximately 10 years due to a title dispute.

The property consists of 18 staked claims, 2 licenses, 1 lease and 2 patented lots. The Company earned its 50% interest in the property by delivering 100,000 common shares (issued and valued at $16,000) of the Company to Phelps and spending $755,000. As part of the agreement with Phelps, Phelps would be granted warrants (issued and valued at $8,600) for a further 100,000 shares of Canstar exercisable for a period not to exceed two years. These warrants could be exercised at a price of $0.25 per share in the first year and $0.50 per share in the second year.

The Company is the operator of the Xstrata Joint Venture. The Xstrata Joint Venture is currently conducting the first phase of drilling on the property.

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

b) Mary March Properties (Continued)

(ii) Mary March Extension Project (formerly XMET Option)

On February 16, 2010, Canstar signed a mining option agreement ("MOA") with On-Strike Gold Inc., a private company (now XMET Inc. – a TSX-V Company) ("XMET"), to explore Canstar's 100% owned mineral claims, adjacent to Canstar's Mary March Property described in Note 3(b)(i).

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. The MOA with Canstar allowed XMET to earn a 50% interest in the claims on the following terms:

- On signing the MOA, XMET will pay Canstar $25,000 (paid) and issue 500,000 shares (issued and valued at $95,000) of XMET to Canstar;
- On or before the first anniversary, XMET will pay $50,000 in cash to Canstar (not paid);
- On or before the second anniversary, XMET will pay $100,000 in cash to Canstar; and
- XMET will incur exploration expenditures on the claims as follows:
  - In the first year - $100,000
  - In the second year - $250,000
  - In the third year - $500,000

Upon earning a 50% interest, XMET would enter into an industry standard 50/50 joint venture agreement with Canstar on the claims.

On May 30, 2011, XMET advised the Company that they had completed two drill holes on the property and decided to discontinue the MOA. Canstar holds a 100% interest in the property.

c) McFauld's Lake Properties

(i) McFaulds One

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in 32 contiguous claim units located in the McFauld's Lake area of the James Bay Lowlands, Northern Ontario.

(ii) McFaulds Three

In September 2004, an option and joint venture agreement was signed with Geocanex Ltd. ("Geocanex") of Toronto, whereby the Company can earn an undivided 50% interest in seven claims totaling 1,504 hectares that comprise the McFaulds Three Property. To earn its 50% interest, the Company must:

a) Spend $50,000 in Year One of the Agreement (paid), $100,000 in Year Two (paid), and a further $100,000 in Year Four (no longer payable), for a total of $250,000; and

b) Issue 500,000 shares - 250,000 on signing (issued) and 250,000 (issued) at the first anniversary date of the agreement.

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

c) McFauld's Lake Properties (Continued)

(ii) McFaulds Three (Continued)

In addition to the above commitments, having earned its 50%, the Company must then make a one-time cash payment of $25,000 to Geocanex. A 50% Canstar / 50% Geocanex join venture will then be established along standard industry norms, including provision for dilution whereby a delinquent partner would convert to a 2% Net Smelter Return Royalty.

Four of the claims were allowed to lapse by mutual consent of the Company and Geocanex, with the three remaining claims, representing 38 contiguous units, remaining under the agreement.

A director of the Company is the principal shareholder of Geocanex.

In fiscal 2006, both McFaulds properties were written off for financial statement purposes due to disappointing exploration results. In fiscal 2008, the Company entered into an option agreement with New Klondike Exploration Ltd. (formerly United Reef Ltd.) ("New Klondike") and Geocanex covering the McFaulds One and Three properties. The agreement allowed New Klondike and the Company to each earn a 50% interest in the properties. Geocanex has waived the one time $25,000 payment and approximately $100,000 in expenditures that were remaining to be paid as per the agreement entered into in September 2004. The Company received a cash payment of $50,000 and 2,500,000 New Klondike common shares (valued at $200,000) from New Klondike. New Klondike is required to incur exploration expenditures of $150,000 on the properties before December 31, 2008. The Company will maintain a 0.5% net smelter royalty on the properties, 0.25% of which can be purchased by New Klondike for $250,000.

(EXPRESSED IN CANADIAN DOLLARS)

4. Equipment

Cost		Office and field equipment
Balance, June 30, 2011, September 30, 2011, June 30, 2012 and September 30, 2012	$	8,261

Accumulated Amortization		Office and field equipment
Balance, June 30, 2011	$	7,362
Amortization		45
Balance, September 30, 2011		7,407
Amortization		134
Balance, June 30, 2012		7,541
Amortization		36
Balance, September 30, 2012	$	7,577

Carrying Value		Office and field equipment
Balance, June 30, 2011	$	899
Balance, September 30, 2011	$	854
Balance, June 30, 2012	$	720
Balance, September 30, 2012	$	684

(EXPRESSED IN CANADIAN DOLLARS)

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

(a) Authorized

Unlimited number of common shares

(b) Issued

77,101,713 common shares

Summary of changes in capital stock:

	Shares	Amount
Balance, June 30, 2011	**64,826,713**	**$ 7,879,089**
Exercise of warrants	4,000,000	400,000
Exercise of warrants - valuation allocation	-	40,000
Balance, September 30, 2011	**68,826,713**	**$ 8,319,089**
Private placement - common shares (i)(ii)	5,000,000	750,000
Private placement - flow-through shares (i)(ii)	2,000,000	300,000
Warrant valuation	-	(259,000)
Exercise of stock options	875,000	244,474
Cost of issue	-	(45,702)
Balance, June 30, 2012	**76,701,713**	**$ 9,308,861**
Issuance of common shares for property (Note 3(b)(i))	100,000	16,000
Exercise of stock options	100,000	18,291
Exercise of warrants	200,000	46,967
Balance, September 30, 2012	**77,101,713**	**$ 9,390,119**

(i) On December 22, 2011, the Company closed the sale of 4,693,332 units under the terms of the first tranche of a non-brokered private placement for gross proceeds of $704,000. Each unit consisted of one common share and one common share purchase warrant exercisable at $0.20 for a period of one year from closing. Of the 4,693,332 units, 1,000,000 units, representing gross proceeds of $300,000, were sold on a flow-through basis. Finders were paid a cash commission of $17,625. Of the net amount raised, $173,600 in gross proceeds, less $4,345 in costs of issue have been allocated to the the underlying warrants issued in connection with the private placement.

The 4,693,332 purchase warrants issued under the terms of this private placement were assigned an aggregate fair value of $173,600 using the Black-Scholes valuation model with the following assumptions: expected dividend yield 0%, expected volatility 127%, risk-free rate of return 0.95% and expected life of 1 year.

(ii) On January 10, 2012, the Company closed the sale of 2,306,668 units under the terms of the final tranche of a non-brokered private placement for gross proceeds of $346,000. Each unit consisted of one common share and one common share purchase warrant exercisable at $0.20 for a period of one year from closing. Of the 2,306,668 units, 1,000,000 units, representing gross proceeds of $300,000, were sold on a flow-through basis. Finders were paid a cash commission of $23,233 and additional costs of $20,625 were incurred with respect to the private placement. Of the net amount raised, $120,900 in gross proceeds, less $15,358 in costs of issue have been allocated to the the underlying warrants issued in connection with the private placement.

The 2,306,668 purchase warrants issued under the terms of this private placement were assigned an aggregate fair value of $120,900 using the Black-Scholes valuation model with the following assumptions: expected dividend yield 0%, expected volatility 127%, risk-free rate of return 0.98% and expected life of 1 year.

(EXPRESSED IN CANADIAN DOLLARS)

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

(c) Stock Options

The Company has granted options for the purchase of common shares to its directors, officers, and consultants. The aggregate number of common shares which may be issued under the stock option plan is 9,030,000. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company at the time of grant at the market price of the common shares, subject to all applicable regulatory requirements. As at September 30, 2012, the following stock options were outstanding:

Number of Options	Exercisable Options	Exercise Price	Weighted Average Remaining Contractual Life (years) of Number of Options	Expiry Date
1,100,000	1,100,000	$0.15	0.22	December 20, 2012
200,000	200,000	$0.10	1.27	January 6, 2014
398,334	398,334	$0.10	1.27	January 6, 2014
100,000	100,000	$0.20	1.27	January 6, 2014
901,666	901,666	$0.10	2.47	March 22, 2015
500,000	250,000	$0.17	4.22	December 19, 2016
2,875,000	718,750	$0.18	4.57	April 24, 2017
300,000	75,000	$0.18	4.57	April 25, 2017
100,000	25,000	$0.20	4.86	August 10, 2017
6,475,000	**3,768,750**	**$0.16**	**3.16**	

A summary of changes in stock options is as follows:

	Number of Options		Weighted Average Exercise Price
Balance, June 30, 2011 and September 30, 2011	**4,875,000**	**$**	**0.13**
Granted (i)(ii)(iii)	3,675,000		0.16
Exercised	(875,000)		0.15
Expired	(1,150,000)		0.15
Balance, June 30, 2012	**6,525,000**	**$**	**0.16**
Granted (iv)	100,000		0.16
Exercised	(100,000)		0.15
Expired	(50,000)		0.15
Balance, September 30, 2012	**6,475,000**	**$**	**0.16**

(i) On December 19, 2011, the Company granted 500,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.17 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. A fair value of $77,400 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 1.25%; expected life of 5 years; and a volatility of 151%.

(EXPRESSED IN CANADIAN DOLLARS)

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

(c) Stock Options (Continued)

(ii) On April 24, 2011, the Company granted 2,875,000 stock options to directors, officers, employees, and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.18 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 $471,500 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 1.25%; expected life of 5 years; and a volatility of 150%.

(iii) On April 25, 2011, the Company granted 300,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.18 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 $48,905 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 1.25%; expected life of 5 years; and a volatility of 150%.

(iv) On August 10, 2012, the Company granted 100,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.20 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A fair value of $16,600 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.36%; expected life of 5 years; and a volatility of 137%.

Included in share-based payment expense for the three months ended September 30, 2012 is $133,114 (three months ended September 30, 2011 - $3,437).

(d) Share Purchase Warrants

A summary of changes in warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2011 and September 30, 2011	**-**	**$ -**
Granted (Note 5(b)(i)(ii))	7,000,000	0.20
Balance, June 30, 2012	**7,000,000**	**$ 0.20**
Granted (Note 3(b)(i))	100,000	0.25
Exercised	(200,000)	(0.20)
Balance, September 30, 2012	**6,900,000**	**$ 0.20**

6. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the three months ended September 30, 2012 and 2011 was based on the net loss attributable to common shareholders of $173,873 and $18,792, respectively, and the weighted average number of common shares outstanding of 76,841,987 and 68,826,713, respectively.

(EXPRESSED IN CANADIAN DOLLARS)

7. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Related party transactions conducted in the normal course of operations are measured at the amount established and agreed to by the related parties.

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

	Three Months Ended September 30, 2012	2011
Geocanex Ltd. (1)	**$ 2,500**	$ -

(1) During the three months ended September 30, 2012, the Company incurred $2,500 (three months ended September 30, 2011 - $Nil) for rent charged by a corporation of which the principal shareholder is a director of the Company.

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 as well as $5,000 (June 30, 2012 - $5,000) owed to 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. These amounts are non-interest bearing, unsecured, with no fixed terms of repayment.

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

	Three Months Ended September 30, 2012	2011
Salaries and benefits (1)	**$ -**	$ -
Share-based payments	**$ 71,095**	$ 3,108

(1) Salaries and benefits include director fees. The board of directors and select officers do not have employment or services contracts with the Company. Directors are entitled to director fees and stock options for their services and officers are currently entitled to stock options for their services.

8. COMMITMENTS AND CONTINGENCIES

a) Environmental Contingencies

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

8. COMMITMENTS AND CONTINGENCIES (Continued)

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 remainder of the accrual ($127,881) was reversed 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.

9. SUBSEQUENT EVENT

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