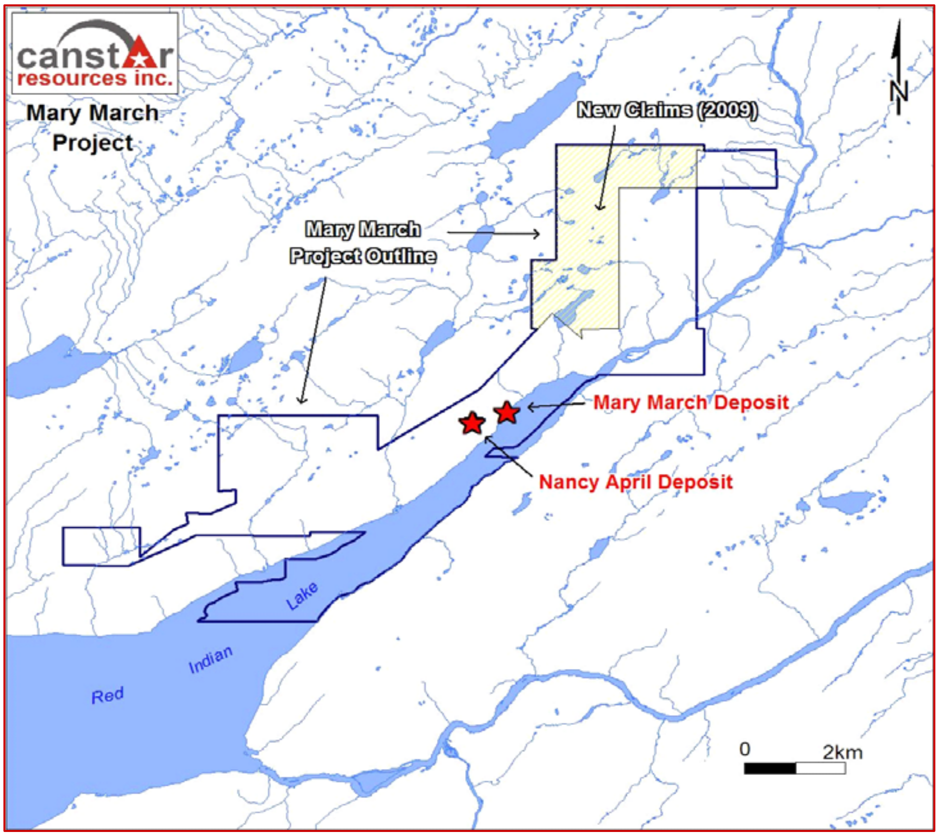
canstar resources inc.

annual report 2009

HIGHLIGHTS

- Unanimous ruling favours Canstar in Mary March dispute
- Acquired 100% interest, through staking, in mineral claims totaling 850 hectares adjoining the corporation's Mary March property
- Recent advances in the price of gold has increased the value of Mary March significantly – assay results include up to 4.1g/t Au over 9.2m



Mary March
(Demasduit)
1796 - 1820

Portrait of Demasduit (Mary March), by Lady Henrietta Hamilton, Library and Archives Canada

Mary March was one of the last surviving Beouthuks, the aboriginals of Newfoundland.

Their last encampment in 1800 was on the North Shore of Red Indian Lake, probably near the current location of Canstar's Mary March Property.

LOOKING AHEAD

- Resumption of exploration of main zone and newly acquired claims
- Continue to seek J.V. partners for Slate Bay, etc.
- Continued project generation, acquisition and exploration

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The Mineral Rights Adjudication Board rendered a unanimous decision recognizing Phelps Dodge Canada/Canstar, as the owner of the Mary March Property.

DEAR SHAREHOLDERS,

During the past year the Company's primary focus has continued to be the Mary March property in the Buchans' area of Newfoundland and Labrador.

On October 23, 2009, Canstar was very pleased to receive notice that the Mineral Rights Adjudication Board rendered a unanimous decision recognizing Phelps Dodge Canada/Canstar, as the owner of the Mary March Property.

We continue to believe that previous exploration including limited drilling demonstrates that the Mary March property has excellent potential to host commercial ore deposits similar to the high grade Buchans Mine.

Canstar will resume comprehensive exploration on the property as soon as the government issues the necessary work permits and work contracts are signed. This work will consist of detailed drilling over the Mary March mineralized zones and airborne geophysical surveys over the newly acquired claims to establish additional targets for drilling.

During late 2008 and early 2009, we completed a drilling program on the CBS properties on the Avalon Peninsula of Newfoundland and Labrador. Although base/precious metal mineralization was encountered in several drill holes, the grades and continuity were not sufficient to merit further exploration.

We have continued to seek out new projects and properties of merit. However, none of these projects measured up to the potential of the Mary March property and acquisition of any of these properties would result in further dilution of shareholder value.

We are very excited about resuming exploration on the highly prospective Mary March property. We are also encouraged by the increasingly higher metal prices, particularly gold, which adds substantial value to the mineralization.

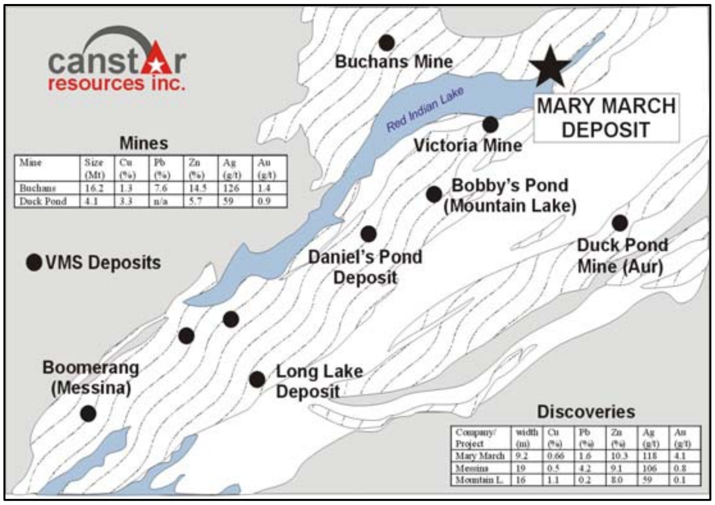
We would like to take this opportunity to thank all of our shareholders for their patience and support during this long standing property dispute. We believe that this patience will be amply rewarded in the coming months.

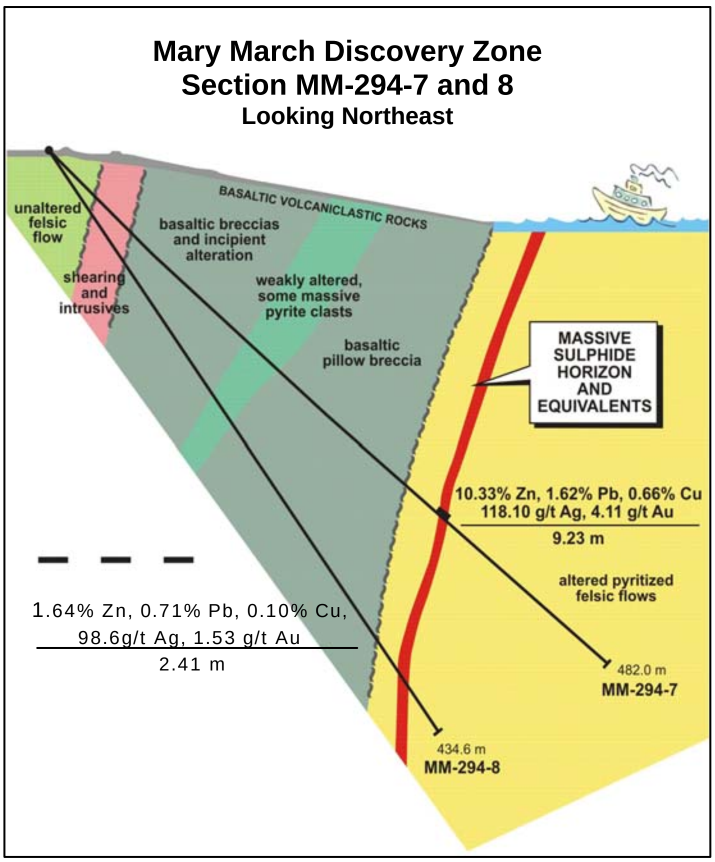
On Behalf of the Board of Directors,

Harry J. Hodge, P.Eng.,
Chairman
Canstar Resources Inc.

October 30, 2009

Mary March Project, Newfoundland





Located in central Newfoundland, 20 kilometers northeast of, and within the same geological group that hosts the prolific former producing *Buchans* mine, discovery holes drilled by Phelps Dodge in 1999 and 2000 produced some of the highest grade base and precious metal intersections (9.2m @ 10.33% Zn, 1.62% Pb, 0.66% Cu, 118.1g/t Ag and 4.1 g/t Au) ever achieved outside of the *Buchans* mine.

In addition to the past-producing *Buchans* mine (16.2 Mt @ 14.50% Zn, 7.56 % Pb, 1.33 % Cu, 126 g/t Ag and 1.37 g/t Au), Teck Corporation's Duck Pond deposit (4.1 Mt @ 5.7% Zn, 3.3% Cu, 59 g/t Ag and 0.9 g/t Au) began production in 2007.

In April 2009, the Company acquired by staking, 100 % interest in mineral claims totaling 850 hectares adjoining the corporation's Mary March property in the Buchans area, Newfoundland and Labrador. The new claims are located to the north and east of the property and may cover a portion of the eastward extension of the volcanic stratigraphy which hosts the high grade base and precious metals deposits.

The core portion of the Mary March property was subject to litigation between the Newfoundland and Labrador Mineral Recorders' office and Vinland Resources, a private company controlled by Albert Chislett.

After a long history of hearings, on October 23, 2009, the Mineral Rights Adjudication Board handed down a unanimous decision recognizing the current title holder, Phelps Dodge Canada, as the owner of the Mary March property. This positive decision in favour of Phelps Dodge, and therefore Canstar, is expected to signify the end of this long dispute, however, under the Mineral Act an appeal on a point of law could be taken to the Trial Division of the Supreme Court of Newfoundland and Labrador. It should be noted that the matter has already been considered by the Court of Appeal and the re-hearing by the Board followed the direction of that Court. A comprehensive drilling program has been planned to commence on the property pending receipt of necessary permits and equity financing.

Other Properties

The Company owns a diverse property portfolio in Northern Ontario, including the Slate Bay property (Cu-Au) in Red Lake, McFauld's Lake Project (Cu-Pb-Zn-Ag-Au), Shrimp Lake and Tahoe Lake projects (Cu-Pb-Zn-Ag-Au) and the Miminiska property east of Pickle Lake (Au). The properties are all located in areas of historic and currently producing mines and represent areas of good grass roots potential.

CANSTAR RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2009 (AUDITED)

AND

THE YEAR ENDED JUNE 30, 2008 (AUDITED)

INTRODUCTION

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements of the Corporation for the year ended June 30, 2009 (audited) and the year ended June 30, 2008 (audited) and related notes. The Corporation's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Corporation reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). This MD&A is made as of October 28, 2009.

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

Canstar Resources Inc. (the "Corporation" or "Company") is a junior resource company focused primarily on the acquisition, exploration and development of mineral properties located in Canada. The Corporation was formed upon the amalgamation, effective April 5, 2005, of Nustar Resources Inc. ("Nustar") and Candor Ventures Corp. ("Candor"). The amalgamation was approved by shareholders of Nustar and Candor on March 24, 2005 and final approval of the amalgamation by the TSX Venture Exchange was granted on April 5, 2005. In accordance with the terms of the amalgamation, shares of the Corporation were issued to shareholders of Nustar and Candor on a 1:1 basis. The first year-end of Canstar, subsequent to the effective date of the amalgamation, was June 30, 2005. The financial statements discussed herein are for the year ended June 30, 2009 (audited) and the year ended June 30, 2008 (audited). The shares of the Corporation began trading on the TSX Venture Exchange under the symbol "ROX" on April 8, 2005. The Corporation is a reporting issuer in the provinces of Ontario, Alberta and British Columbia.

As a result of the amalgamation, the Corporation wholly-owns or has interests in all of the mineral properties formerly held by Nustar and Candor. The following table contains a brief description of the Corporation's core properties, which are the primary focus of the Corporation's 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 Conception Bay South (CBS) Project is comprised of 192 claim units in seven mineral licenses located in the conception Bay South area of the Avalon Peninsula on the Island of Newfoundland. The properties cover a belt of volcanic rocks which are known to host Volcanogenic Massive Sulphide (VMS) type mineralization containing economically significant values in copper, zinc, lead, gold and silver.	Copper-lead-zinc-silver-gold	Right to acquire a 100% interest in two properties (1), totaling 148 and 15 claims, respectively, from two separate vendors. The Company terminated the option agreement but still retains 100%-interest in 27 additional claims
The McFauld's Lake Properties, comprised of the following properties located in the McFauld's Lake area of northwestern Ontario, contiguous with the Spider Resources/KWG Resources high-grade copper-zinc massive sulphide discoveries and in the area of Noront Resources' recent high-grade nickel-copper-PGE discovery: (i) a 32-claim unit property totaling 502 hectares ("McFauld's Lake Property 1"); and (ii) a 38-claim unit property immediately east of the 32-claim unit property ("McFauld's Lake Property 3").	Copper-zinc-silver-gold	McFauld's Lake Property 1 is 100% owned (2). Pursuant to an agreement with United Reef Limited, a Corporation listed on the TSX Venture exchange, and Geocanex, a private company owned by a Director of Canstar, United Reef has vested an undivided 45% interest in both properties. (3) Canstar owns the remaining 55% interest. This agreement supersedes an earlier agreement with Geocanex Limited signed on September 22, 2004 and as amended on August 26, 2005. (4)
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	Right to earn a 100% interest in an underlying 50% interest held by Phelps Dodge Corporation of Canada, Limited ("Phelps"), pursuant to a letter of intent entered into with Phelps and first right of refusal on the remaining 50% interest held by Xstrata plc. (2) (5)
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% interest in the property pursuant to an option and joint venture participation agreement entered into with Luxor Enterprises Inc. (Luxor) on February 4, 2002. (6)

Notes:

(1) The Company held a right to acquire a 100% interest in two separate properties, totaling 148 and 15 claims, respectively, by making combined cash payments of $30,000 on signing (paid); $35,000 on the first anniversary of the agreement and $45,000 on the second anniversary of the agreement, and combined share payments of 100,000 common shares of Canstar on signing (paid); 175,000 shares on the first anniversary of the agreement; and 275,000 shares on the second anniversary of signing. Both properties were subject to net smelter royalties of 2% and 2.5%, while the Company reserved the option to buy back 1% and 1.5%, respectively, for $2,750,000. The Company terminated both option agreements before first anniversary payments were due.

(2) Interest was held by Candor prior to the effective date of the amalgamation on April 5, 2005.

(3) On April 22, 2008 Canstar and Geocanex entered into an agreement whereby United Reef, A TSX Venture-listed company could earn a 50% interest in both the McFauld's 1 and 3 properties by making a payment of 5,000,000 shares (paid), divided equally between Canstar and Geocanex, and a cash payment of $50,000 to Canstar (paid) on signing of the formal agreement. In addition, United Reef would be committed to making exploration expenditures on the property totaling $150,000 before December 31, 2008. Canstar and Geocanex individually hold 0.5% net smelter royalties on both properties. This agreement supersedes an earlier agreement between Canstar and Geocanex on the McFauld's 3 property, with Canstar owning a 50% undivided interest in the McFauld's 3 property upon vesting by United Reef. Subsequent to the period ending December 31, 2008, United Reef informed the Company that it had substantially completed its earn in commitments and Canstar and Geocanex agreed to allow United Reef to vest on a pro-rata basis at 45%. Canstar now owns the remaining 55% interest in the joint venture.

(4) Interest was held by Nustar prior to the effective date of the amalgamation on April 5, 2005. The Company has not met its expenditure commitment and the agreement was renegotiated on August 26, 2005 and amended with the following term replacing section 2a: "The Optionee shall fund exploration work on the Claims in the total amount of $250,000 during the four year period commencing on the date of execution of this agreement, with the sum of $50,000 to be spent in the first year, the sum of $100,000 to be spent in the third year and the sum of $100,000 to be spent in the fourth year". The property was written off in 2006; however, the Corporation maintains 55% ownership of the McFauld's properties pursuant to the United Reef-Canstar-Geocanex agreement (see note (3)).

(5) By virtue of an underlying agreement, Phelps may earn a 50% interest in the property from Xstrata plc by incurring expenditures of $1,500,000 over five years. Under the terms of the letter of intent, the Corporation will assume the remaining exploration expenditures of approximately $755,000 and will issue 100,000 common shares to Phelps, together with 100,000 common share purchase warrants exercisable at a price of $0.50 for a period of twenty-four months. The Corporation is also required to make a cash payment of $2,000,000 to Phelps within six months of commercial production. The Corporation's interest is also subject to a 1% NSR royalty due upon commencement of commercial production. The property is currently subject to a title dispute (see page 7).

(6) In accordance with the terms of the agreement, to earn its interest in the property, Candor, the Corporation's predecessor, issued 30,000 common shares to Luxor and paid back taxes of approximately $18,000, with the requirement to pay all property taxes during the earn-in period. The Corporation may maintain its option by issuing an additional 90,000 common shares and spending a total of $150,000 on the property (which has already been spent) over a three-year period. In February 2005, a one-year extension of the agreement to February 4, 2006 was negotiated. In consideration for such extension, the Corporation has issued an additional 90,000 common shares valued at $19,800. Canstar vested its 75% interest in November 2005 and indicated its intention to form a joint venture.

The Corporation also has three non-core properties, identified in the table below, which the Corporation has chosen to joint venture to other exploration companies.

Description of Property	Target Mineralization	Ownership Interest
The Miminiska Property, comprised of 3 contiguous claims totalling 44-claim units, located approximately 100 kilometres east of Pickle Lake, Ontario.	Gold	100% owned. (1) (2)

The Tahoe Lake property is comprised of three unpatented and unsurveyed mineral claims totaling 48 contiguous claim units covering 768 hectares approximately 170 kilometres north-northeast of Red Lake, Ontario.	Gold and base metals	100% owned. (3)
The Shrimp Lake Property is comprised of seven unpatented mineral claims totalling 91-claim units over 1,456 hectares approximately 165 kilometres north-northeast of Red Lake.	Gold and base metals	100% owned. (3)

Notes:

(1) Interest was held by Nustar prior to the effective date of the amalgamation on April 5, 2005.
(2) These claims were staked in 2002. A seven-hole drill program was undertaken in February and March 2005 to test chargeability anomalies and the proposed down plunge projection of a gold-mineralized zone known from previous drilling. No intersections of economic significance were achieved.
(3) Interest was held by Candor prior to the effective date of the amalgamation on April 5, 2005.

An investment in the securities of the Corporation 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.

Development Stage Corporation and Exploration Risks

The Corporation is a junior resource company focused primarily on the acquisition and exploration of mineral properties located in Canada. The properties of the Corporation have no established reserves. There is no assurance that any of the projects can be mined profitably. Accordingly, it is not assured that the Corporation will realize any profits in the short to medium term, if at all. Any profitability in the future from the business of the Corporation 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 involves a high degree of financial risk over a significant period of time of which even a combination of careful evaluation, experience and knowledge of management 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 Corporation will result in profitable commercial mining operations. The profitability of the Corporation’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 which are sufficient to commercially mine the Corporation’s properties and to construct, complete and install mining and processing facilities in those properties that are actually mined and developed.

No History of Profitability

The Corporation is a development stage company with no history of profitability. There can be no assurance that the operations of the Corporation will be profitable in the future. The Corporation 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 Corporation may become unable to acquire or retain its mineral concessions and carry out its business plan.

Government Regulations

The Corporation's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Corporation to carry out its mining activities, the Corporation's exploitation licences must be kept current. There is no guarantee that the Corporation's exploitation licences will be extended or that new exploitation licences will be granted. In addition, such exploitation licences could be changed and there can be no assurance that any application to renew any existing licences will be approved. The Corporation may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Corporation will also have to obtain and comply with permits and licences which 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 Corporation will be able to comply with any of such conditions.

Market Fluctuation and Commercial Quantities

The market for minerals is influenced by many factors beyond the control of the Corporation such as changing production costs, the supply and demand for minerals, the rate of inflation, the inventory of mineral producing corporations, 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 Corporation'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 which may affect commercial viability so that any adverse combination of such factors may result in the Corporation not receiving an adequate return on invested capital.

Mining Risks and Insurance

The Corporation is subject to risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Corporation 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 affect on the financial position of the Corporation.

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 Corporation or require it to expend significant funds.

Capital Investment

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

Conflicts of Interest

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

OVERALL PERFORMANCE

The Corporation is currently engaged in mineral exploration in Canada. The Corporation'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 Corporation 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 Corporation and any activities of the Corporation thereon will constitute exploratory searches for minerals. The following is a description of the Corporation's core projects and recent or proposed exploration initiatives.

Trends

- The economic crisis that started in the financial sector has continued to worsen and we are now in the midst of a global recession. The mining industry is undergoing massive scaling down. Capital investment in mining has dramatically declined with major new projects cancelled or delayed, and producing properties are subject to shutdowns and reduced production. Credit markets have become increasingly inaccessible and many mining companies that, just one year ago, had large cash resources to invest in mining operations are now struggling to finance day-to-day operations;
- 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 prices of precious and base metals and other minerals have fallen substantially over the past several months and financial markets have deteriorated to the point where it has become extremely difficult for companies to raise new capital.
- 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 the calendar year and potentially into 2010, reflecting ongoing concerns about the stability of the global economy and weakening global growth prospects. As well, concern about global growth has led to sustained drops in the commodity markets. Unprecedented 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 CBS Properties

The CBS project is comprised of 192 contiguous claim units covering an under-explored volcanic belt on the Island of Newfoundland's Avalon Peninsula, situated approximately 30 kilometres from the Capital City of St. John's.

During September 2008 a VTEM airborne electromagnetic and magnetic survey, comprising 1,181 line kilometers covering a 25 kilometre strike length of the volcanic belt was flown in the project area.

Between November 25 and December 13, 2008, a diamond drilling program was completed on the property testing airborne and geological targets. The program comprised 12 drill holes totaling 1196m. Seven holes were drilled to test the strike and depth extension of the historic Pastureland base and precious metal showing. Highlights include a 26m zone of thin, intermittent, copper-lead-zinc sulphide mineralized bands in a pervasively altered mafic volcanic horizon. A 14 metre interval within this zone returned assay results of 1% zinc; 0.6% lead; 0.2% copper and 8 g/t silver, including 2.2 metres grading 2.6% zinc, 1.7% lead, 0.2% copper, 26 g/t silver. The last five holes tested selected VTEM airborne anomalies along the Pastureland horizon and intersected thick sequences of altered volcanics interlayered with altered metasedimentary rocks. No significant assays were returned from these holes. $391,291 in expenditures was written down on the property during the year ended June 30, 2009.

Prior to the required first anniversary payments the option agreements were terminated and the properties returned to the owners. Canstar still retains a 100%-interest in 27 claims staked by the Company.

The McFauld's Lake Properties

The Corporation has a 55% interest in a single claim block totaling 70 claim units (502 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 by Spider Resources/KWG 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 United Reef, whereby United Reef became the operator of the McFauld's 1 and 3 properties.

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

The Mary March Property

The Corporation has the right to earn a 100% interest in an underlying interest in the property held by Phelps Dodge Corporation of Canada Limited ("Phelps"), pursuant to a letter of intent entered into with Phelps. By virtue of an underlying agreement, Phelps may earn a 50% interest in the property from Falconbridge Limited by incurring expenditures of $1,500,000 over five years. Under the terms of the letter of intent, the Corporation will assume the remaining exploration expenditures of approximately $755,000 and will issue 100,000 common shares to Phelps, together with 100,000 common share purchase warrants exercisable at a price of $0.50 for a period of twenty-four months. The Corporation is also required to make a cash payment of $2,000,000 to Phelps within six months of commercial production. The Corporation'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 plc, on which the Corporation 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 Corporation'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.

Title to the core discovery areas of the Mary March Property is currently being contested. In September and October 2000, Vinland Resources Limited, a privately held Newfoundland company filed applications with the Mineral Claims Recorder for the Government of Newfoundland and Labrador (the "Mineral Claims Recorder") seeking Map Staking Licenses over the core Mary March discovery areas. On the basis of evidence demonstrating that the lands in question were not open for staking, the applications were rejected by the Mineral Claims Recorder. On December 20, 2000, the party in question filed a grievance with the Mineral Rights Adjudication Board (the "Board"), asking that the Mineral Claims Recorder's decision be overturned. In a ruling handed down December 17, 2003, the Board ruled against the Province and titleholders. On January 8, 2004, the Province filed an appeal on behalf of the Mineral Claims Recorder before the Supreme Court of Newfoundland and Labrador, Trial Division. The Supreme Court hearing on the matter commenced on January 23, 2006 and concluded on January 27, 2006. On July 26, 2006, the Supreme Court of Newfoundland and Labrador set aside the decision of the Mineral Rights Adjudication Board and referred the matter back to a re-hearing.

Following an appeal by Vinland Resources of this ruling, The Mineral Claims Recorder, in conjunction with Canstar-Phelps Dodge and Xstrata filed a cross appeal to overturn the decision by Newfoundland and Labrador Supreme Court. The cross-appeal asked that the dispute be finally settled during the appeal, as the matter rests on points of law which are best decided by the courts.

The appeal and cross appeal hearing were completed on November 9th^{h}, 2007 and a decision was handed down on February 18th, 2008 dismissing Vinland's appeal and Canstar-Xstrata-Phelps' cross appeal. The decision upheld the Supreme Court of Newfoundland's ruling overturning the Mineral Right's Board decision, favouring Vinland, and called for a re-hearing. The Supreme Court ruling favours Canstar, as does the Appeal Courts decision. The second adjudication hearing ended on January 25th, 2009 and final summations were completed on May 29, 2009. On October 23rd, 2009 the Adjudication Board handed down a unanimous decision recognizing the current title holder, Phelps Dodge Canada, as the owner of the Mary March property. This positive decision in favour of Phelps Dodge, and therefore Canstar, is expected to signify the end of this long dispute, however, under the Mineral Act an appeal on a point of law could be taken to the Trial Division of the Supreme Court of Newfoundland and Labrador. It should be noted that the matter has already been considered by the Court of Appeal and the re-hearing by the Board followed the direction of that Court. A comprehensive drilling program has been planned to commence on the property pending receipt of necessary permits and equity financing.

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 Corporation 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 Corporation will act as manager of the joint venture.

The Corporation 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.

RESULTS OF OPERATIONS

Year Ended June 30, 2009 Compared to June 30, 2009

During the year ended June 30, 2009, the Company had a net loss of $1,604,932 compared to a net loss of $29,610 at June 30, 2008. The higher net loss was mainly due to mineral property writedowns ($1,097,990 vs $8,285) and the flow-through repayment estimated at $150,000 in 2009 compared to $Nil in 2008. The 2009 loss was also increased due to the unrealized loss on short-term investments ($112,500 vs $12,500). Operating expenses are less in 2009 by $143,110 mainly due to a reduction of stock-based compensation by $137,078.

As at June 30, 2009, the interest in mineral properties and deferred exploration expenditures were $853,809 compared to $1,435,250 on June 30, 2008. There were no significant funds spent on exploration in the 4th quarter of 2009. The decrease is due to property writedowns in 2009.

SUMMARY OF QUARTERLY RESULTS (1)

The following table sets out selected quarterly results of the Corporation 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 Corporation.

Year	2009	2009	2008	2008
Quarter	June	March 31	December 31	September 30
Revenue	$nil	$nil	$nil	$nil
Working Capital	3,457	21,902	87,719	115,029
Interest in Mineral Properties and Deferred Exploration Expenditures	853,809	882,555	1,440,308	1,900,406
Expenses	57,685	101,408	46,993	38,356
Net (Loss) Income	(16,212)	(693,560)	(744,304)	(150,856)
Net (Loss) (per share) (1)	(0.01)	(0.01)	(0.01)	0.00

Year	2008	2008	2007	2007
Quarter	June 30	March 31	December 31	September 30
Revenue	$nil	$nil	$nil	$nil
Working Capital	700,787	580,084	618,218	816,048
Interest in Mineral Properties and Deferred Exploration Expenditures	1,435,250	1,428,990	1,434,100	1,122,112
Expenses	82,418	96,818	143,027	65,289
Net (Loss) Income	(88,659)	96,286	(143,027)	(71,528)
Net (Loss) (per share) (1)	0.00	0.00	(0.00)	(0.00)

Notes:

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

LIQUIDITY

As at June 30, 2009, the Company had working capital of $3,457 compared to $700,787 at June 30, 2008. Working capital was lower at June 30, 2009 compared to June 30, 2008 by $697,330 mainly due to the cash flow from financing activities were higher by $714,666 in fiscal 2008. During the year, the Company completed a private placement of 5,000,000 shares for gross proceeds of $250,000. The Company has no revenue from operations and is dependent on financings for working capital.

The Company's administrative costs are expected to remain at the current level during the next year, while exploration costs should increase if proposed exploration programs are implemented.

WORKING CAPITAL RESOURCES

The Company does not currently have adequate funds to carry out all of its planned exploration activities or finance operations in fiscal 2010. Additional financings will be required.

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. 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 Corporation 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 Corporation does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Year Ended June 30, 2009

During the year ended June 30, 2009 the Company incurred a total of $45,000 (2008 - $65,000) for consulting and administrative fees charged by a corporation controlled by an officer and director of the Company. $45,000 (2008 - $61,208) of this amount was capitalized in interest in mineral properties and deferred exploration expenditures.

During the year ended June 30, 2009, the Company (recovered) incurred a total of $(3,214) (2008 - $17,667) for rent and operating expenses charged by corporations controlled by an officer and director of the Company. Included in amounts receivable at June 30, 2009 is $Nil (2008 - $15,733) owing from this corporation. This amount is non-interest bearing, unsecured, with no fixed terms of repayment.

The Company incurred $10,500 (2008 - $11,500), for accounting and tax services rendered during the year by a firm of chartered accountants of which one of the directors is a partner. Included in accounts payable and accrued liabilities at June 30, 2009 is $10,000 (2008 - $10,000) accrued for accounting services. This amount is non-interest bearing, unsecured, with no fixed terms of repayment.

Included in accounts payable and accrued liabilities at June 30, 2009 is $Nil (2008 - $7,940) owing to a corporation controlled by a director of the Company.

The above transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties and does not exceed the arm's length equivalent value for these services. Amounts owing to or from related parties are subject to normal trade payment terms.

PROPOSED TRANSACTIONS

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

SUBSEQUENT EVENTS

Subsequent to the year ended June 30th, 2009 the company received notification from the Mineral Rights Adjudication Board of Newfoundland and Labrador of a final decision on the Mary March property dispute. On October 23rd, 2009 the Adjudication Board handed down a unanimous decision recognizing the current title holder, Phelps Dodge Canada, as the owner of the Mary March property. Phelp's Dodge 50% interest in the property is under option to Canstar Resources. Xstrata Inc owns the remaining 50% interest, on which Canstar maintains a first right of refusal.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the financial statements include the Corporation's estimate of the recoverable value of its mineral properties and related deferred exploration expenditures, amounts owing to flow-through investors for income tax reassessments 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 Corporation'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 Corporation's control and will depend on a variety of factors, including the market value of the Corporation's shares and financial objectives of the stock-based instrument holders. The Corporation 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 Corporation's recoverability of its recorded value of its mineral properties and associated deferred exploration 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 Corporation operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Corporation and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

Amounts owing to flow-through investors are dependent on the number of investors that make claims and their respective income tax rates.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New Standards and Accounting Policy Changes

International Financial Reporting Standards ("IFRS") Implementation Plan

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for public companies in Canada (IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements (with comparatives) in accordance with IFRS beginning with the quarter ended September 30, 2011.

The Company has commenced the development of an IFRS implementation plan to prepare for this transition, and is in the process of analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all accounting policies, the initial key areas of assessment will include:

- Exploration and development expenditures;
- Stock-based compensation;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures on information technology; internal controls; contractual arrangements; and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required	In progress, expected to be completed by December 31, 2009
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	Throughout fiscal 2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives	Throughout fiscal 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q4 (June 30, 2010) – Q1 (July 31, 2010)
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Q4 (April 30, 2010) – Q2 (September 30, 2010)
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout fiscal 2010

Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"), results in withdrawal of CICA 3450, Research and Developmental Costs, and amendments to Accounting Guideline 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. The standard intends to reduce the differences with IFRS in the accounting for intangible assets and results. Under current Canadian standards, more items are recognized as assets than under IFRS. The objectives of CICA 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition, and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The new standard takes effect for fiscal years beginning on or after October 1, 2008, with early adoption encouraged. Canstar is evaluating the effects of adopting this standard.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Sections 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

FINANCIAL INSTRUMENTS

Sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosures and Presentation”, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity’s financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Company has included the required disclosures in Note 11 of the financial statements.

CAPITAL DISCLOSURES

Section 1535 on capital disclosures requires the disclosure of information about an entity’s objectives, policies and processes for managing capital. This new standard became effective for the Company on July 1, 2008. The Company has included the required disclosures in Note 3 of the financial statements.

GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION

In June 2007, the CICA amended Handbook Section 1400, “General Standards for Financial Statement Presentation”. This standard became effective for interim and annual financial statements for the Company’s reporting periods beginning on July 1, 2008. The adoption of this standard did not have an impact on the financial statements.

MINING EXPLORATION COSTS

On March 27, 2009, the AcSB issued EIC-174 “Mining Exploration Costs”. In this EIC the Committee provided additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174 in its financial statements.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In January 2009, the CICA approved EIC 173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

FINANCIAL INSTRUMENTS

Fair Value
Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, amounts receivable, and accounts payable and accrued liabilities on the consolidated balance sheet approximate fair value because of the limited term of these instruments.

Foreign Exchange Risk
The Company currently is not subject to foreign exchange risk in the resource exploration business.

Commodity Price Risk
The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

DISCLOSURE CONTROLS

The Corporation's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Corporation. They are assisted in this responsibility by the Chairperson of the Audit Committee who serves as an independent director of the Corporation. All three individuals sit on the Corporation's Disclosure Policy Committee ("DPC"). The Disclosure Policy requires all staff to keep the DPC fully apprised of all material information affecting the Corporation so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. Access to such material information by the DPC is facilitated by the small size of the Company's senior management and the location of all senior management staff in two corporate offices.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of June 30, 2009, have concluded that the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely information.

OUTSTANDING SHARE DATA

The authorized share capital consists of an unlimited number of common shares. As of June 30, 2009, an aggregate of 64,826,713 common shares were issued and outstanding.

APPROVAL

The Board of Directors of Canstar 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.

Management's Responsibility for Financial Statements

October 28, 2009

The accompanying financial statements of Canstar Resources Inc. (A development stage enterprise as defined by the Canadian Institute of Chartered Accountants Accounting Guideline 11) were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 to the financial statements.

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 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 years presented by, the financial statements and (ii) the 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 years presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the 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 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 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.

(signed)

Harry Hodge
Chairman
Toronto, Canada

(signed)

J. E. Hurley
Chief Financial Officer

MSCM LLP
Accountants & Advisors for a Complex World™

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AUDITORS' REPORT

To the Shareholders of
Canstar Resources Inc.
(A Development Stage Enterprise)

We have audited the balance sheets of Canstar Resources Inc. as at June 30, 2009 and 2008 and the statements of operations, comprehensive loss and deficit, cash flows, and interest in mineral properties and deferred exploration expenditures for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: **"MSCM LLP"**

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
October 23, 2009

	2009 $	2008 $
ASSETS		
CURRENT		
Cash	229,719	548,944
Short-term investment	75,000	187
Amounts receivable and prepaid expenses (Note 9)	29,612	18,621
	334,331	755,065
EQUIPMENT (Note 4)	1,323	
INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Notes 5, 9 and Statement)	853,809	1,435,250
	1,189,463	2,191,969
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 9 and 10(b))	330,874	54,278
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6(b))	6,897,919	6,694,960
WARRANTS (Note 6(d))	50,000	205,240
CONTRIBUTED SURPLUS (Note 7)	2,027,034	1,748,923
DEFICIT	(8,116,364)	(6,511,432)
	858,589	2,137,691
	1,189,463	2,191,969

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 10)

APPROVED ON BEHALF OF THE BOARD:

"W. Deluce", Director

"J. E. Hurley", Director

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009 $	2008 $
OPERATING EXPENSES		
Stock-based compensation (Note 6(c))	72,871	209,949
Interest and bank charges	49,810	16,222
Transfer agent and filing fees	42,846	41,350
Accounting	25,643	9,310
Professional fees (Note 9)	41,453	72,965
General and office expenses	10,043	10,879
Shareholder information	4,659	4,734
Amortization	331	292
Rent (Note 9)	(3,214)	17,667
Consulting fees (Note 9)	-	3,792
Travel	-	392
	244,442	387,552
Loss before the under-noted	244,442	387,552
Flow-through repayment	150,000	-
Write-off of interest in mineral properties and general exploration	1,097,990	8,285
Unrealized loss on short-term investment	112,500	12,500
Option payments received on interest in mineral properties in excess of carrying value		(185,627)
Loss before income taxes	1,604,932	222,710
Future income tax (recovery) (Note 8(a))	-	(193,100)
NET LOSS AND COMPREHENSIVE LOSS for the year	1,604,932	29,610
DEFICIT, beginning of year	6,511,432	6,481,822
DEFICIT, end of year	8,116,364	6,511,432
NET LOSS PER SHARE – Basic and diluted	0.03	0.00
WEIGHTED AVERAGE NUMBER OF SHARES	62,955,754	58,182,510

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(1,604,932)	(29,610)
Charges not involving cash:		
Write-off of interest in mineral properties and general exploration	1,097,990	8,285
Future income tax recovery	-	(193,100)
Stock-based compensation cost	72,871	209,949
Option payments received on interest in mineral properties in excess of carrying value	-	(185,627)
Unrealized loss on short-term investment	12,500	12,500
Amortization	331	292
	(321,240)	(177,311)
Changes in non-cash working capital balances:		
(Increase) in amounts receivable and prepaid expenses	(10,991)	(2,440)
Increase (decrease) in accounts payable and accrued liabilities	166,965	(35,561)
Cash flows used in operating activities	(165,266)	(215,312)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of warrants	-	957,625
Issuance of units for cash, net of costs	242,959	-
Cash flows from financing activities	242,959	957,625
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(968)
Interest in mineral properties and deferred exploration expenditures	(396,918)	(452,792)
Cash flows used in investing activities	(396,918)	(453,760)
(Decrease) increase in cash	(319,225)	288,553
Cash, beginning of year	548,944	260,391
Cash, end of year	229,719	548,944
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Issuance of common shares for interest in mineral property	10,000	-
Change in accrued mineral property and deferred exploration expenditures	109,631	(2,548)
Shares received for interest in mineral property	-	200,000

STATEMENT OF INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Slate Bay Property $	Conception Bay Project Property $	Mary March Property $	McFauld's Lake $	Shrimp Lake $	Tahoe Lake $	Sunday Lake and Other $	Total $
PROPERTY ACQUISITION COSTS								
Balance, June 30, 2007	62,234	-	47,045	-	6,370	3,360	-	119,009
Incurred	-	-	19,239	-	-	-	-	19,239
Balance, June 30, 2008	62,234	-	66,284	-	6,370	3,360	-	138,248
Incurred	-	40,000		-	-	-	-	40,000
Written down	-	(40,000)		-	(6,370)	(3,360)	-	(49,730)
Balance, June 30, 2009	62,234	-	66,284	-	-	-	-	128,518
DEFERRED EXPLORATION COSTS								
Balance, June 30, 2007	167,445	-	304,827	-	352,258	64,125	-	888,655
Incurred	-	-	88,390	64,373	55,623	264,334	8,285	481,005
Written down	-	-	-	-	-	-	(8,285)	(8,285)
Option payments received	-	-	-	(64,373)	-	-	-	(64,373)
Balance, June 30, 2008	167,445	-	393,217	-	407,881	328,459	-	1,297,002
Cost recovery	-	-	-	-	-	(223,610)	-	(223,610)
Incurred	185,292	391,291	191,583	2,725	40	1,199	-	772,130
Government grant	-	(71,971)	-	-	-	-	-	(71,971)
Written down	(214,971)	(319,320)	-	-	(407,921)	(106,048)	-	(1,048,260)
Balance, June 30, 2009	137,766	-	584,800	2,725	-	-	-	725,291
Totals	200,000	-	651,084	2,725	-	-	-	853,809

1. NATURE OF OPERATIONS AND GOING CONCERN

Canstar Resources Inc. (the "Company") is in the development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 "Enterprises in the Development Stage", as it 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 June 30, 2009, the Company had a deficit of $8,116,364 and working capital of $3,457. 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

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year except as discussed under New Standards and Accounting Policy Changes. Outlined below are those policies considered particularly significant.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its inactive wholly owned subsidiary, 1480377 Ontario Inc. up to February 18, 2009. Effective February 18, 2009, the Company signed Articles of Dissolution for its subsidiary. All significant intercompany transactions and balances have been eliminated on consolidation.

Equipment and Amortization

Equipment is stated at acquisition cost. Amortization is provided over the assets' estimated useful lives at the following rates:

Office and field equipment	20%	Declining balance

Stock-based Compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus is credited to capital stock. The Company's option plan is described in Note 6(c).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in Mineral Properties and Deferred Exploration Expenditures

Interest in mineral properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of–production method based on proven and probable reserves. If a property is determined to be significantly impaired in value, the property and related deferred costs are written down to their fair value. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

Asset Retirement Obligations

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The Company did not have any significant asset retirement obligations as at June 30, 2009 and 2008.

Flow-Through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares and warrants, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interest in mineral properties and deferred exploration expenditures.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital. The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under the flow-through subscription agreements.

Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. As the Company had a loss in each of the years presented, basic and diluted loss per share are the same, as the exercise of all options and warrants would be anti-dilutive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenue and expense during the reporting period. The most significant estimates and assumptions include the determination of any impairment of the mineral properties and stock based compensation. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

New Standards and Accounting Policy Changes

(i) Financial Instruments

Sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosures and Presentation”, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity’s financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Company has included the required disclosures in Note 11 to these financial statements.

(ii) Capital Disclosures

Section 1535 on capital disclosures requires the disclosure of information about an entity’s objectives, policies and processes for managing capital. This new standard became effective for the Company on July 1, 2008. The Company has included the required disclosures in Note 3 of these financial statements.

(iii) General Standards of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400, “General Standards for Financial Statement Presentation”. This standard became effective for interim and annual financial statements for the Company’s reporting periods beginning on July 1, 2008. The adoption of this standard did not have an impact on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Standards and Accounting Policy Changes (Continued)

(iv) Mining Exploration Costs
On March 27, 2009, the AcSB issued EIC-174 "Mining Exploration Costs". In this EIC the Committee provided additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174 in these financial statements.

(v) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA approved EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

Future Accounting Changes

(i) International Financial Reporting Standards ("IFRS")
In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS by 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

(ii) Goodwill and Intangible Assets
In February 2008, the CICA issued a new accounting standard: Handbook Section 3064, "Goodwill and Intangible Assets". This standard become effective for interim and annual financial statements for the Company's reporting periods beginning on July 1, 2009. The Company has reviewed the new pronouncement and assessed that it will not have a significant impact on the Company's financial statements for reporting periods beginning on July 1, 2009.

(iii) Business Combinations
CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to IFRS 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on July 1, 2011. The Company is currently evaluating the impact on its financial statements.

(iv) Consolidations and Non-Controlling Interests
CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on July 1, 2011. The Company is currently evaluating the impact on its financial statements.

3. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of capital stock, stock options, and warrants. 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 properties in which the Company currently has an interest is in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration program 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 within current economic conditions by:

i) minimizing discretionary disbursements;
ii) reducing or eliminating exploration expenditures which are of limited strategic value;
iii) exploring alternate 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 it feels 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 reasonable.

There were no changes in the Company's approach to capital management during year ended June 30, 2009. The Company is not subject to externally imposed capital requirements.

4. EQUIPMENT

	2009		
	Cost $	Accumulated Amortization $	Net 2009 $
Office and field equipment	8,261	6,938	1,323

	2008		
	Cost $	Accumulated Amortization $	Net 2008 $
Office and field equipment	8,261	6,607	1,654

5. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company has interests in mineral properties in the Madoc, Adrian, and McDonough Townships in Ontario, Canada, the Buchans area of central Newfoundland, Canada, and near the village of Riversdale, Nova Scotia, 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. In fiscal 2009, the Company incurred approximately $185,000 of exploration costs and is currently attempting to joint venture the property. In fiscal 2009, the property was written down to $200,000.

b) Miminiska Property, Pickle Lake

The Company wholly-owns three contiguous claims totaling 44 claim units on the Miminiska Lake Peninsula located about 100 km east of Pickle Lake, Ontario. The claims were staked in 2002. A seven-hole drilling program was undertaken in February-March 2005, designed to test chargeability anomalies and the proposed plunge projection of a mineralized zone known from previous drilling. No intersections of economic significance were achieved.

Due to disappointing drilling results, the Company decided to write-off the exploration expenditures at June 30, 2007. The claims remain in good standing until February 2011. The Company has no immediate exploration plans for this property.

c) Tahoe Lake Property

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in three mineral claims comprised of 48 contiguous units located in the southern portion of the North Spirit Lake greenstone belt, north of Red Lake, Ontario. The property is located within five kilometers of the Shrimp Lake property, to the northwest. As a result of poor exploration results, management decided to write-off all costs related to the Shrimp and Tahoe Lake properties during the year ended June 30, 2009. The Company has no immediate exploration plans for the property.

d) Shrimp Lake Property

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in seven mineral claims comprising 91 contiguous units located in the southern portion of the North Spirit Lake greenstone belt, north of Red Lake, Ontario. The property is located within five kilometers of the Tahoe Lake property, to the southeast. As a result of poor exploration results, management has decided to write-off all costs related to the Shrimp and Tahoe Lake properties during the year ended June 30, 2009. The Company has no immediate exploration plans for the property.

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

e) McFaulds 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 McFaulds 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 fifty percent (50%) interest in seven claims, totaling 1,504 hectares, that comprise the McFaulds Lake Three property. To earn its fifty percent (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;
b) Issue 500,000 shares - 250,000 on signing (issued) and 250,000 (issued) at the first anniversary date of the agreement.

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

Subsequently, 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 due to disappointing exploration results.

In fiscal 2008, the Company entered into an option agreement with United Reef Ltd. (“United Reef”) and Geocanex covering the McFaulds one and three properties. The agreement allows United Reef 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 United Reef common shares (valued at $200,000) from United Reef. United Reef 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 United Reef for $250,000.

United Reef has earned its interest in the property and is considering its plan for future work.

f) Mary March Property
The Company holds an Option and Joint Venture Agreement with Phelps Dodge Mining Co. (“Phelps”) whereby it can earn a fifty percent interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property is held by Xstrata. The Company has a first right of refusal on Xstrata’s 50% interest, should they wish to sell.

The property consists of 18 staked claims, 2 licenses, 1 lease and 2 patented lots aggregating 4.5 sq km (1,616 ha). The Company can earn its 50% interest in the property by delivering 100,000

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

f) Mary March Property (Continued)

common shares of the Company to Phelps and spending $755,000. Phelps would be granted warrants 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 50 cents per share.

Should the Joint Venture thus established proceed to production, the Company would make a one-time cash payment to Phelps of $2 million within six months of the commencement of commercial production. Canstar's share of production would be subject to a one percent (1%) Net Smelter Return Royalty payable to Phelps.

Title to the core discovery areas of the Mary March Property is currently being contested. In September and October 2000, Vinland Resources Limited ("Vinland"), a privately held Newfoundland company filed applications with the Mineral Claims Recorder for the Government of Newfoundland and Labrador (the "Mineral Claims Recorder") seeking Map Staking Licenses over the core Mary March discovery areas. On the basis of evidence demonstrating that the lands in question were not open for staking, the applications were rejected by the Mineral Claims Recorder. On December 20, 2000, the party in question filed a grievance with the Mineral Rights Adjudication Board (the "Board"), asking that the Mineral Claims Recorder's decision be overturned.

In a ruling handed down December 17, 2003, the Board ruled against the Province and titleholders. On January 8, 2004, the Province filed an appeal on behalf of the Mineral Claims Recorder before the Supreme Court of Newfoundland and Labrador, Trial Division. The Supreme Court hearing on the matter commenced on January 23, 2006 and concluded on January 27, 2006. On July 26, 2006, the Supreme Court of Newfoundland and Labrador set aside the decision of the Mineral Rights Adjudication Board and referred the matter back to a re-hearing.

Following an appeal by Vinland of this ruling, The Mineral Claims Recorder, in conjunction with Canstar-Phelps Dodge and Xstrata filed a cross appeal to overturn the decision by Newfoundland and Labrador Supreme Court. The cross appeal asks that the dispute be finally settled during the appeal, as the matter rests on points of law which are best decided by the courts.

The appeal and cross appeal hearing were heard on October 16 and 17, 2007 however, an additional day was required and the hearing was completed on November 9, 2007. The Judges reserved decision. The court of appeal met with both sides on January 24, 2008 to clarify some of the evidence given during the hearing held between October 16 and November 9, 2007. A decision was handed down on February 18, 2008 dismissing Vinland's appeal and Canstar-Xstrata-Phelps' cross appeal. The decision upheld the Supreme Court of Newfoundland's ruling overturning the Mineral Right's Board decision, favouring Vinland, and called for a re-hearing. The Supreme Court ruling favours the Company, as does the Appeal Courts decision.

The second adjudication hearing ended on January 25, 2009 and final summations were completed on May 29, 2009. On October 23, 2009 the Adjudication Board handed down a unanimous decision recognizing the current title holder, Phelps Dodge Canada, as the owner of the Mary March property. This positive decision in favour of Phelps Dodge, and therefore Canstar, is expected to signify the end of this long dispute, however, under the Mineral Act an appeal on a point of law could be taken to the Trial Division of the Supreme Court of Newfoundland and Labrador. It should be noted that the matter has already been considered by the Court of Appeal and the re-hearing by the Board followed the direction of that Court. A comprehensive drilling program has been planned to commence on the property pending receipt of necessary permits and equity financing.

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

g) Conception Bay South

The Company has entered into agreements to acquire 100% interests in two mineral properties in the area of Conception Bay South on the Avalon Peninsula, Province of Newfoundland and Labrador.

To acquire a 100% interest in the two properties, the Company must make combined cash payments of $30,000 on signing (paid); $35,000 on the first anniversary of the agreement and $45,000 on the second anniversary of the agreement, and combined share payments of 100,000 common shares of the Company on signing (issued September 17, 2008 and assigned a fair value of $10,000; 175,000 shares on the first anniversary of the agreement; and 275,000 shares on the second anniversary of signing. Properties are subject to net smelter royalties of 2% and 2.5%, while the Company reserves the option to buy back 1% and 1.5%, respectively, for $2,750,000.

Subsequent to the year end, the agreement was terminated and all claims, except 27 owned by the Company, were returned to the vendor.

6. CAPITAL STOCK, OPTIONS AND WARRANTS

The capital stock is as follows:

a) Authorized

Unlimited number of common shares

b) Issued

64,826,713 common shares

Summary of changes in capital stock:

	Common Shares #	Amount $
Common shares		
Balance, June 30, 2007	53,302,547	5,713,760
Warrants exercised	6,424,166	1,174,300
Renunciation of flow-through expenditures		(193,100)
Balance, June 30, 2008	59,726,713	6,694,960
Private placement	5,000,000	192,959
Issued for property (Note 5(g))	100,000	10,000
Balance, June 30, 2009	64,826,713	6,897,919

During the year ended June 30, 2009, the Company completed a $250,000 private placement financing comprising of 5,000,000 units at a price of $0.05 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of $0.10 per share for a two-year period. The common share purchase warrants were valued at $50,000. The fair value of these warrants at the date of grant 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 1.84%; expected life of 2 years; and expected volatility of 106%. The Company incurred $7,041 in issue costs as part of this private placement.

6. CAPITAL STOCK, OPTIONS 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 June 30, 2009, the following stock options were outstanding:

Options Granted	Exercisable Options	Exercise Price	Expiry Date
#	#	$	
951,666	951,666	0.30	April 26, 2010
500,000	500,000	0.15	November 10, 2010
1,875,000	1,875,000	0.15	January 26, 2012
1,200,000	1,200,000	0.15	December 20, 2012
200,000	50,000	0.10	January 6, 2014
398,334	99,583	0.10	January 6, 2014
100,000	25,000	0.20	January 6, 2014
5,225,000	4,701,249		

The weighted average exercise price of the options granted and exercisable is $0.17 and $0.17 respectively. The weighted average contractual life of options granted and exercisable is 2.61 and 2.39 respectively.

A summary of changes in stock options is as follows:

	Number of Options #	Weighted Average Exercise Price $
Balance, June 30, 2007	5,575,000	0.23
Granted	1,200,000	0.15
Expired	(1,300,000)	(0.23)
Balance, June 30, 2008	5,475,000	0.19
Granted	698,334	0.11
Expired	(948,334)	(0.24)
Balance, June 30, 2009	5,225,000	0.17

During the year ended June 30, 2009, the Company granted 698,334 (2008 – 1,200,000) stock options valued at $44,883 to directors, officers and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at a weighted average exercise price of $0.11 (2008 - $0.15) per common share until January 6, 2014 (2008 – December 20, 2012 and January 26, 2009). The stock options vest 1/4 on the date of grant and at the conclusion of each six-month period subsequent to the date of grant. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; (2008 – 0%) risk-free interest rate of 1.65% (2008 – 3.9%); expected life of 5 years (2008 – 5 years); and expected volatility of 121% (2008 – 118%).

6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

d) Share Purchase Warrants

A summary of the changes in stock warrants is as follows:

	Number of Warrants #	Weighted Average Exercise Price $	Value $
Balance, June 30, 2007	14,282,500	0.16	610,911
Exercised	(6,424,166)	(0.15)	(216,675)
Expired	(3,062,500)	(0.20)	(188,996)
Balance, June 30, 2008	4,795,834	0.14	205,240
Issued	5,000,000	0.10	50,000
Expired	(4,795,834)	(0.14)	(205,240)
Balance, June 30, 2009	5,000,000	0.10	50,000

As at June 30, 2009, the following warrants were issued and outstanding:

Number of Warrants #	Exercise Price $	Expiry Date
5,000,000	0.10	November 12, 2010

7. CONTRIBUTED SURPLUS

A summary of the changes in contributed surplus during the year is as follows:

	Amount $
Balance, June 30, 2007	1,349,978
Stock-based compensation	209,949
Warrants expired	188,996
Balance, June 30, 2008	1,748,923
Stock-based compensation	72,871
Warrants expired	205,240
Balance, June 30, 2009	2,027,034

8. INCOME TAXES

The Company utilizes the asset and liability method of accounting for incomes taxes.

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 33% (2008 – 34.5%) were as follows:

8. INCOME TAXES (Continued)

a) Provision for Income Taxes (Continued)

	2009 $	2008 $
(Loss) before taxes:	(1,604,932)	(222,710)
Expected income tax recovery based on statutory rate	(529,600)	(76,800)
Adjustments to benefit resulting from:		
Stock-based compensation	24,000	72,400
Share issue costs	(2,300)	-
Expiry of losses	14,100	223,700
Change in substantively enacted tax rate	94,500	343,900
Change in valuation allowance	399,300	(756,300)
Income tax (recovery)	-	(193,100)

In February 2009 the Company renounced $Nil (2008 - $665,875) in Canadian exploration expenditures related to proceeds from the exercise of flow-through warrants (2008 – proceeds from the exercise of flow-through warrants) with an effective date of December 31, 2008 (2008 – December 31, 2007).

b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities are as follows:

	2009 $	2008 $
Future income tax assets		
Non-capital losses	118,000	120,900
Share issue costs	37,000	64,900
Resource properties	1,422,000	1,010,700
Other	23,000	4,200
Valuation allowance	(1,600,000)	(1,200,700)
	-	-

As at June 30, 2009, the Company had available for deduction against future taxable income, non-capital losses of approximately $465,500 which expire as follows:

Year of Expiry	Amount
2013	$ 47,300
2014	7,600
2015	11,400
2016	95,100
2027	100,900
2028	100,900
2029	102,300
	$ 465,500

8. INCOME TAXES (Continued)

b) Future tax balances (Continued)

The Company has approximately $516,800 and $4,965,000 of Canadian development expenses and Canadian exploration expenditures, respectively, as at June 30, 2009 which, under certain circumstances, may be utilized to reduce taxable income of future years. Management believes that it is not considered more likely than not that it will create sufficient taxable income to realize its future tax assets. As a result, a full valuation allowance has been recognized.

9. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended June 30, 2009 the Company incurred a total of $45,000 (2008 - $65,000) for consulting and administrative fees charged by a corporation controlled by an officer and director of the Company. $45,000 (2008 - $61,208) of this amount was capitalized in interest in mineral properties and deferred exploration expenditures.

During the year ended June 30, 2009, the Company (recovered) incurred a total of $(3,214) (2008 - $17,667) for rent and operating expenses charged by corporations controlled by an officer and director of the Company. Included in amounts receivable at June 30, 2009 is $Nil (2008 - $15,733) owing from this corporation. This amount is non-interest bearing, unsecured, with no fixed terms of repayment.

The Company incurred $10,500 (2008 - $11,500), for accounting and tax services rendered during the year by a firm of chartered accountants of which one of the directors is a partner. Included in accounts payable and accrued liabilities at June 30, 2009 is $10,000 (2008 - $10,000) accrued for accounting services. This amount is non-interest bearing, unsecured, with no fixed terms of repayment.

Included in accounts payable and accrued liabilities at June 30, 2009 is $Nil (2008 - $7,940) owing to a corporation controlled by a director of the Company.

The above transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties and does not exceed the arm's length equivalent value for these services. Amounts owing to or from related parties are subject to normal trade payment terms.

10. 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. The Company has accrued $150,000 as the estimated tax and interest amounts related to this commitment in accounts payable and accrued liabilities.

10. COMMITMENTS AND CONTINGENCIES (Continued)

b) Flow-through Expenditures (Continued)

The actual amount the Company will pay investors is dependent upon the number of investors who make claims and their individual tax rates. Management estimates the maximum amount to be approximately $200,000.

c) Mary March Property

See Note 5(f).

11. FINANCIAL INSTRUMENTS

a) Fair Value of Financial Instruments:

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for amounts receivable and accounts payable and accrued liabilities on the balance sheets, approximate fair market value because of the limited term of these instruments.

b) Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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

(ii) Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2009, the Company had a cash balance of $229,719 (2008 - $548,944) to settle current liabilities of $330,874 (2008 - $54,278). The Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is continuing to pursue various financing initiatives in order to provide sufficient cash flow to finance operations as well as funding its exploration expenditures. $180,874 of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The remaining $150,000 relates to the accrual in relation to the exploration expenditures discussed in Note 10(b). The Company is uncertain when these funds will need to be paid.

(iii) Interest rate risk
The Company has cash balances subject to interest rate. Management does not believe the Company is exposed to significant interest rate risk.

11. FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

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

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

(b) Sensitivity Analysis

The Company has designated its cash and short-term investments as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivables and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at June 30, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

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

(i) Cash is invested in a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank. Sensitivity to a plus or minus 1% change in rates, based on the current balance of cash, would affect the net loss by plus or minus $2,300 during a twelve-month period.

(ii) The Company's short-term investment consists of an equity investment in a publicly listed entity. A +/- 10% movement in the market value of the Company's short-term investment would affect net loss and comprehensive loss by $7,500.

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

Corporate Data

DIRECTORS	SHARES LISTED	LEGAL COUNSEL
Harry J. Hodge David Palmer William S. Deluce T. Patrick Reid John E. Hurley **OFFICERS** Harry J. Hodge, P.Eng. *Chairman of the Board* John E. Hurley *Chief Financial Officer* **QUALIFIED PERSON** Harry J. Hodge, P.Eng. **INVESTOR RELATIONS** Karen Willoughby Manager, Corporate Affairs Tel: 416-287-9554 TF: 1-866-365-4724	ROX – TSX Venture Exchange **CAPITALIZATION** Issued: 64,826,713 Common Shares (as at June 30, 2009) **HEAD OFFICE** 150 Adelaide St, West, Suite 2500 Toronto, ON M5H 1T1 Tel: 416-363-4376 Fax: 416-367-1954	Dennis H. Peterson 150 Adelaide St. West Suite 2500 **Toronto, ON** Irwin Professional Corporation 512-120 Adelaide St. West **Toronto, ON** **REGISTRAR & TRANSFER AGENT** Equity Transfer & Trust Company 200 University Avenue, Suite 400 Toronto, ON, M5H 4H1 **AUDITOR** **MSCM LLP** 701 Evans Avenue 8th Floor Toronto, ON, Canada M9C 1A3

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders will be held at the Toronto Board of Trade, Third Floor, 1 First Canadian Place (77 Adelaide Street West Entrance), Toronto, Ontario M5X 1C1, on Tuesday, December 9, 2009 at 10:30 a.m. (Eastern Standard time).

Disclaimer

This report presents a review of The Company's projects in Canada, including the Mary March project. Readers are cautioned that the projects are at an early stage of exploration and that estimates and projections contained herein are based on limited and incomplete data. More work is required before the mineralization on the projects and their economic aspects can be confidentially modeled. Therefore, the work results and estimates herein may be considered to be generally indicative only of the nature and quality of the projects. No representation or prediction is intended as to the results of future work, nor can there be any promise that the estimates herein will be confirmed by future exploration or analysis, or that the projects will otherwise prove to be economic.

Forward-Looking Statements

This report contains forward-looking statements including, but not limited to, comments regarding predictions and projections. One can identify these forward-looking statements by use of words such as "expects", "plans", "anticipates", "intends" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements address future events and conditions and therefore involve inherent risks, uncertainties and other factors, which may cause the actual results, performance or achievements of The Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to the integration of acquisitions, risks related to joint venture operations, actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future metal prices, variation in grade or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes and other risks of the mining industry, as well as delays in obtaining government approvals or financings or in the completion in development or construction activities. Although The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking 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 statements.

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