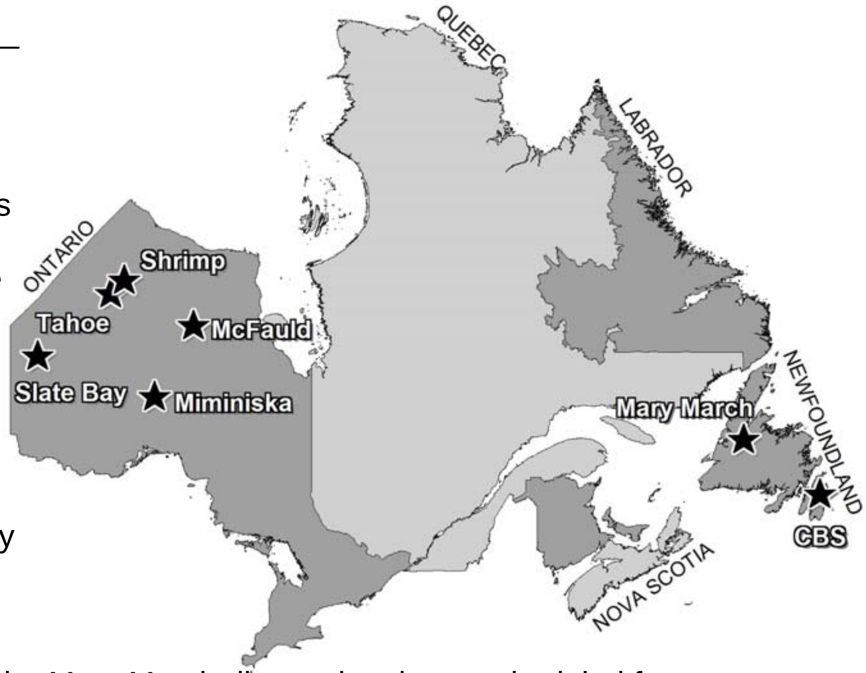
canstar resources inc.

ANNUAL REPORT 2008

Highlights



- Acquisition of the CBS (Conception Bay South) base and precious metal project on Newfoundland's Avalon Peninsula. This property covers a virtually unexplored greenstone belt hosting numerous base and precious metal showings.

- Two drill programs completed on the Slate Bay and McFauld's Lake properties, the latter under United Reef Limited, which has optioned the property (50%) from Canstar.

- The adjudication hearing for the Mary March dispute has been scheduled for November 24, 2008 and management is confident that the property will soon rejoin the active project list. A drill program has been designed and will be implemented shortly after a favourable decision.

Looking Ahead

- Completion of a helicopter-borne geophysical survey on the CBS Project, followed by drilling before the end of 2008

- Focus on resolving the Mary March property dispute and commencing exploration on this valuable asset

- Continued project generation, acquisition and exploration

Table of Contents

Letter to Shareholders

October 31, 2008

Dear Shareholders,

During the past year Canstar has focused primarily on the restoration of the Mary March property to the Company's portfolio. The legal process of reclamation has been unreasonably long but we expect a positive resolution by year end or early 2009 following the upcoming hearing by the Adjudication Board on November 24th. Although the dispute is between Vinland Resources and the Newfoundland and Labrador Claim Recorder's office, and Canstar is not actually a direct disputant, we have been very proactive in trying to accelerate the process and preserve this potentially highly valuable asset for our shareholders.

We believe that the Mary March property provides an excellent stepping stone for Canstar to move to a new level as a successful mining exploration company. To that end we have acquired a new base-precious metals project, The Conception Bay South (CBS) property, which, though at an earlier exploration stage than Mary March, also has excellent potential for discovery of a number of commercial copper, lead, zinc, gold and silver mineral deposits. Following a recent airborne geophysical survey over this property and adjacent areas, which was successful in defining a number of highly prospective anomalies, we are planning a diamond drilling program to test selected targets before year end.

During the year we have also been active in exploration on other properties. We completed a third phase drilling program on our Slate Bay copper-gold property in the Red Lake area of Ontario. The wide skarn type mineralization encountered in previous drilling was shown to continue at depth and along strike. On our McFauld's Lake property joint venture partner United Reef Limited, completed a three-hole drill program to test geophysical targets, with minimal results.

Recent and continuing turmoil in financial markets has had an extremely negative effect on mineral resource companies as evidenced by depressed share prices, but also on their ability to raise much needed exploration funds. Fortunately, Canstar is well established in the industry in terms of funding and, with high quality projects such as Mary March and CBS, well positioned to not only weather the storm until financial markets stabilize, but also to generate more value for shareholders in our exploration efforts.

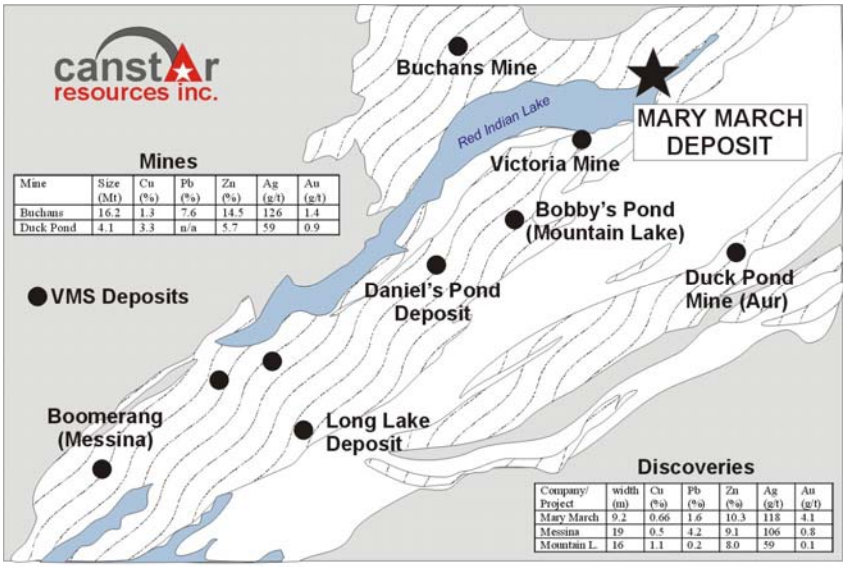
On behalf of the Board of Directors I would like to thank shareholders for their support and patience. We look forward to a much more productive and successful year in 2009 as we continue to advance our properties and add value for our shareholders.

Sincerely,

David Palmer, Ph.D., P.Geo

President & CEO
CANSTAR RESOURCES INC.

Mary March Project, Newfoundland



Mine	Size (Mt)	Cu (%)	Pb (%)	Zn (%)	Ag (g/t)	Au (g/t)
Buchans	16.2	1.3	7.6	14.5	126	1.4
Duck Pond	4.1	3.3	n/a	5.7	59	0.9

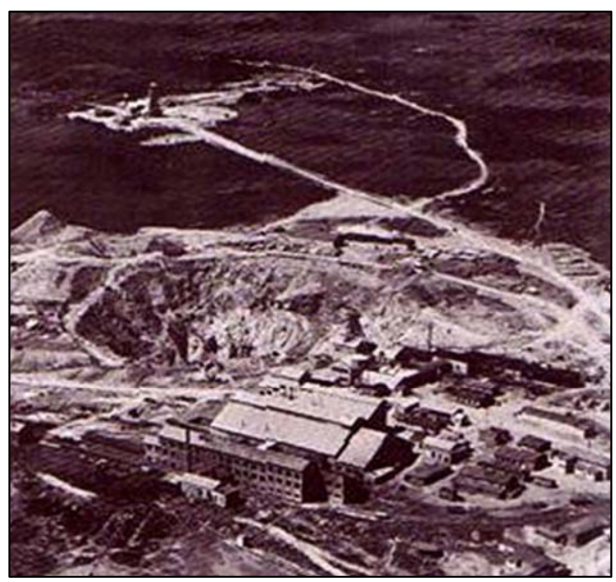
Company/ Project	width (m)	Cu (%)	Pb (%)	Zn (%)	Ag (g/t)	Au (g/t)
Mary March	9.2	0.66	1.6	10.3	118	4.1
Messina	19	0.5	4.2	9.1	106	0.8
Mountain L.	16	1.1	0.2	8.0	59	0.1

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), the area has seen recent discoveries by Messina Minerals **(**19.0 meters @ 9.1% Zn, 4.2% Pb, 0.5% Cu, 106 g/t Ag and 0.8 g/t Au) and Mountain Lake Resources (16.0m @, 8.0% Zn, 0.19% Pb, 1.11% Cu, 11 g/t Ag, and 0.14 g/t Au), while Aur Resources' 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.

A crucial portion of the *Mary March* property is encumbered by litigation presently entering what will hopefully be the end of this long dispute. On November 24th, 2008 the second adjudication hearing will begin and should be decisive in awarding ownership of this property. Canstar is confident that the evidence being presented will support the historic ownership of the property. The Supreme Court of Newfoundland and Labrador ruled that the disputing party, Vinland Resources, bears the burden of proof, which provides Canstar with a distinct advantage in this hearing. Presuming a favourable resolution is reached; Canstar will begin mobilizing to resume exploration on this valuable asset.

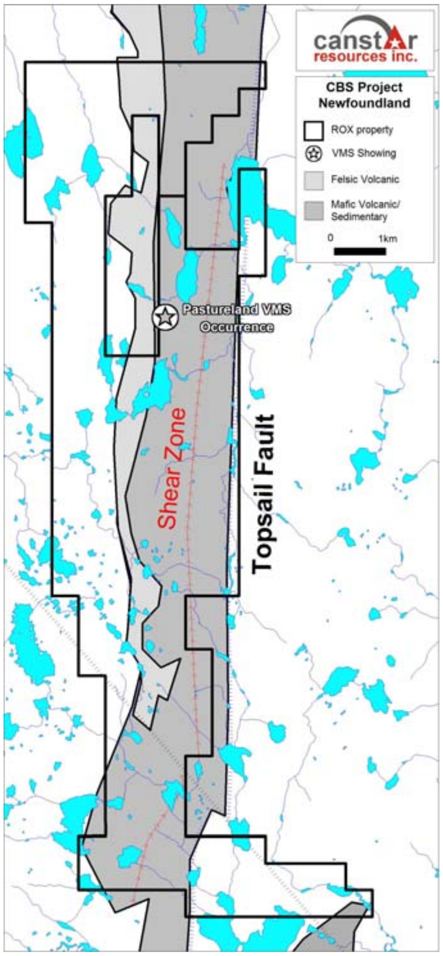
The Mary March dispute began in 2000, when a privately held Newfoundland company, Vinland Resources Limited, filed applications seeking Map Staking Licenses over the core Mary March discovery areas. The Mineral Claims Recorder (Newfoundland), on the basis of evidence that the lands in question had been privately held since 1905, rejected the applications, however, on December 20, 2000, Vinland filed a grievance with the Mineral Rights Adjudication Board, asking that the Mineral Claims Recorder's decision be overturned.



In July 2006 the Supreme Court overturned the decision of the Mineral Rights Adjudication Board, which had previously favoured Vinland Resources, after determining that the original Board decision improperly placed the burden of proof on the Mineral Claims Recorder, had applied an incorrect standard of proof and had failed to address the evidence before it. The matter was ordered to be reheard by a different panel, in accordance with the guidelines in the judgment.

CBS (Conception Bay South) Project, Newfoundland

In September 2008 the Company optioned two mineral properties totaling 163 claims (4075 hectares), in the area of Conception Bay South on the Avalon Peninsula, Newfoundland and Labrador.



The properties adjoin each other and cover a belt of volcanic-sedimentary rocks of Proterozoic age that are known to host Volcanogenic Massive Sulphide (VMS) mineralization containing economically significant values in copper, zinc, lead, silver and gold. The area has very sparse bedrock exposure and hence very little exploration has ever been carried out on the properties. Several sulphide showings have been found in recent years, primarily in road cut exposures. Grab samples from one such exposure assayed up to 8.9 % zinc, 5.2 % lead, 0.8 % copper, 0.3 grams/ton gold and 1.4 grams/ton silver.

The properties are crossed by the Trans Canada Highway, approximately 20 kilometres south west of the provincial capital, St John's. The property is easily accessible by a number of secondary roads.

A high-resolution, helicopter-borne VTEM magnetic and electromagnetic survey was flown by Canstar in October. The survey, comprising 1,181 line kilometres covering a 25 kilometre strike length of the volcanic belt, was successful in identifying at least 25 electromagnetic conductors considered to have potential bedrock sources. An additional 27 mineral claims were recorded to cover conductors falling outside of the original property boundaries, bringing Canstar's total land package to 45 square kilometres. A drill program is being planned for November-December 2008.

Other Properties

The Company owns a diverse property portfolio with several other mineral assets 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 distinguished by being located in the area 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, 2008 (AUDITED)

AND

THE YEAR ENDED JUNE 30, 2007 (AUDITED)

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, 2008(audited) and the year ended June 30, 2007 (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 23, 2008.

The following MD&A may contain forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected herein. Forward-looking statements are based on the estimates and opinions of management of the Corporation at the time the statements were made.

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.

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, 2008 (audited) and the year ended June 30, 2007 (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 190 claim units in six 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 acquired a 100% interest in 27 additional claims through staking.
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]. The Corporation has entered into 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, whereby United Reef can earn an undivided 50% interest in both properties. [3] Canstar will own the remaining 50% 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]
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. [2]
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. [2]

Notes:

(1) The Company can 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 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.

(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. If United Reef terminates the option before vesting, the McFauld's 3 property will revert to the original agreement between Canstar and Geocanex.

(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 still maintains 100% ownership of McFauld's 1and the McFauld's 3 JV agreement is still in effect.

(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 11).

(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 one non-core property, 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)

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.

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.

The CBS Properties

Subsequent to the year ended June 30, 2008, the Corporation entered into agreements to earn a 100% interest in two mineral properties located in the Conception Bay South (CBS) area of Newfoundland. The properties are comprised of 148 and 15 claim units, respectively, 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. The terms of the agreements require 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 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.

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. The survey was successful in delineating at least 25 electromagnetic conductors considered to have potential bedrock sources. An additional 27 mineral claims were recorded to cover conductors falling outside of the original property boundaries, bringing Canstar’s total land package to 45 square kilometres.

The McFauld's Lake Properties

The Corporation has interests in a total of two properties in the McFauld's Lake area of northwestern Ontario, approximately 540 kilometres north-northeast of Thunder Bay, Ontario, on the fringes of the James Bay lowlands. Both properties are contiguous to the high-grade copper-zinc (minor silver and gold) massive sulphide discoveries by Spider Resources/KWG Resources, and in the area of Noront Resources high-grade nickel-copper-PGE discovery. The properties, McFauld's 1 and McFauld's 3, were staked in 2003 and consist of contiguous 32 and 38 claim unit blocks, respectively, covering 502 hectares.

A director of Canstar owns an interest in the McFauld's Lake 3 property, through his ownership of Geocanex.

The Company is currently reassessing the results of previous exploration programs in light of the recent high-grade nickel-copper-PGE discovery of Noront Resources approximately 19km to the West of the McFauld's 1 and 3 properties. The Company contracted an airborne geophysical survey in December 2007. Both the McFauld's 1 and 3 properties were covered by the survey and results are pending.

On April 22, 2008 the Company entered into an option agreement with Geocanex and United Reef, whereby United Reef becomes 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. United Reef is now considering its plans for 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 by Candor, the Corporation's predecessor, on a non-core portion of the property during the first quarter of 2004 identified significant conductors within the prospective Buchans Group felsic volcanics. Four holes totaling 925.4 metres were drilled to test these targets during the three months ended July 31, 2004. Although no intersections of economic significance were returned, anomalous base metals were identified. The holes were lined with PVC pipe to facilitate down hole geophysical surveying at a later date. The drilling was completed under the terms of a Junior Exploration Assistance Contribution Agreement, pursuant to which 50% of allowable exploration expenditures related to the drilling were reimbursed to the Corporation by the Government of Newfoundland and Labrador. 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 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 where heard on October 16thand 17th, 2007 however, an additional day was required and the hearing was completed on November 9thh, 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 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 adjudication hearing has been set for November 24, 2008. A comprehensive drilling program has been planned to commence on the property presuming a favourable decision is handed down.

The Slate Bay Property

On February 4, 2002, Candor, the Corporation's predecessor, entered into an option and joint venture participation agreement with Luxor Enterprises Inc. ("Luxor") to earn a 75% interest in the Slate Bay Property. The 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 accordance with the terms of the agreement, the right to earn an interest in the property was acquired by issuing 30,000 common shares to Luxor and paying back taxes of approximately $18,000. The Corporation is also required to pay all property taxes during the earn-in period. In addition, under the terms of the agreement, the Corporation may maintain its option by issuing an additional 90,000 common shares and spending a total of $150,000 on the property over a three-year period ending February 4, 2005. In February 2005, a one-year extension of the agreement, to February 4, 2006, was negotiated. In consideration for such extension, the Corporation issued an additional 90,000 common shares valued at $19,800. Upon completion of a drilling program in November 2005, the Corporation 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 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 was launched. The drilling program 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 an additional 50 metres depth and 100m along strike to the northeast of previous drilling. Over 290 metres of sampling was completed, with assay results pending at the writing of this MD&A.

Tahoe Lake and Shrimp Lake Properties

The Tahoe Lake Property and nearby Shrimp Lake Property are gold and base metal prospects in northwestern Ontario and are wholly-owned by the Corporation. The Tahoe Lake Property consists of three unpatented and unsurveyed mineral claims totaling 48 units (768 hectares) located approximately 170 kilometres northeast of the town of Red Lake, Ontario. The property is underlain by altered felsic volcanics, including coarse-grained pyroclastics and deformed grunerite-rich iron formations and is considered to be highly prospective for both volcanogenic massive sulphide-related base metals and iron formation hosted mineralization. The nearby Shrimp Lake Property consists of seven unpatented mineral claims totaling 91 units (1,456 hectares). The Shrimp Lake Property is underlain by an altered volcano-sedimentary assemblage, including fragmental volcanics and a coarse, sulphide-rich, cordierite-bearing unit interpreted to be a possible debris flow, and is considered to be highly prospective for volcanogenic massive sulphide base metal mineralization.

A program of airborne geophysics to recover known anomalies previously identified by Noranda (but never drilled) on the Shrimp Lake Property and define potential drill targets on both properties was completed in December 2005. Following completion of this program, eight first priority conductors have been identified on the Shrimp Lake Property. These conductors are either associated with the target horizon or are located along strike in areas of poor exposure. The conductors have coincident or flanking magnetic correlations. With respect to the Tahoe Lake Property, a structurally complex magnetic feature interpreted to be iron formation related with locally strong conductivity has been identified. Elsewhere on the property, as isolated conductor has been identified in an area thought to be underlain by felsic fragmentals.

In October 2006 a program of ground geophysics, comprising horizontal loop electromagnetics (HLEM) and magnetics was completed on selected airborne conductors in preparation for drilling. A total of five, 800m-long, lines were surveyed on the Tahoe Lake property and ten, 800m-long, lines on the Shrimp Lake property. The surveys successfully located the airborne conductors. As a result preparations were made for drilling, and consisted of establishing a camp in the project area. Owing to technical difficulties and time constraints, results were inconclusive and a second program was planned for 2007.

During July 2007 a diamond drilling program was completed on the Shrimp Lake and Tahoe Lake projects. A total of ten holes, totaling over 1100m, were completed, with nine holes drilled on the Shrimp Lake property and one hole in the Tahoe Lake property area. Results were encouraging with both gold and base metal environments intersected during drilling on the Shrimp Lake property. Numerous base and precious metal anomalous samples were identified in the drill core, with individual highs of 0.6g/t gold and 0.87% zinc. The results indicate potential for economic-grade mineralization within the volcanic package.

Sunday Lake Property

In October 2006, the Company signed a Letter of Intent to acquire 100% interest in the Sunday Lake property from The Sunday Lake Syndicate. The property is located approximately 30 Kilometers north of Thunder Bay in Northwestern Ontario. The agreement gave Canstar the right to earn 100% interest over 3 years by paying $150,000 and issuing 450,000 shares of Canstar, 50,000 of which were issued on signing of the formal agreement. The Syndicate retains 2% Net Smelter Royalty (“NSR”) interest. Canstar had right of first refusal to buy back 1% for $1 million. The Syndicate would receive $1 million on the commencement of commercial production.

Owing to disappointing results from a diamond drilling program completed in March 2007, the Company decided to terminate the Sunday Lake option. Formal notice was given on October 25, 2007. A director of Canstar holds a minority interest in the Sunday Lake Syndicate.

RESULTS OF OPERATIONS

Year Ended June 30, 2008 *Compared to* June 30, 2007

*D*uring the year ended June 30, 2008, the Company had a net loss of $29,610 compared to a net loss of $926,971 at June 30, 2007. The lower net loss was due mainly to an increase in option payments made for the McFauld’s Lake properties ($185,627 v. $nil), a reduction in operating expenses ($387,552 v. $442,128) and a reduction in write-off of interest in mineral properties ($8,285 v. $666,289), compared to the previous fiscal year.

As at June 30, 2008, the Corporation had property and cumulative deferred exploration costs for all properties of $1,435,250, compared to property and cumulative deferred exploration costs of $1,007,664 for the year ended June 30, 2007.

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	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)

Year	2007	2007	2006	2006
Quarter	**June 30**	**March 31**	**December 31**	**September 30**
Revenue	$nil	$nil	$nil	$nil
Working Capital	184,186	305,970	443,679	318,163
Interest in Mineral Properties and Deferred Exploration Expenditures	1,007,664	1,600,446	1,502,300	1,178,171
Expenses	129,401	184,085	99,318	29,324
Net (Loss) Income	(788,778)	(2,645)	(99,318)	(36,230)
Net (Loss) (per share) (1)	(0.02)	(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, 2008, the Company had working capital of $700,787 compared to $184,186 at June 30, 2007. Working capital was higher at the year end, as compared to the year ended June 30, 2008, due to the exercise of 6,424,166 warrants during the period for gross proceeds of $957,625.

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. The Company does have sufficient funds to cover overhead expenses for the next twelve months.

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, 2008

During the year ended June 30, 2008 the Company incurred a total of $65,000 (2007 - $29,767) for consulting and administrative fees to a corporation controlled by an officer and director of the Company. $61,208 (2007 - $29,767) of this amount was capitalized in interest in mineral properties and deferred exploration expenditures. Included in accounts payable and accrued liabilities at June 30, 2008 is $Nil (2006 - $5,742) owing to this corporation.

During the year ended June 30, 2008, the Company incurred a total of $17,667 (2007 - $15,119) for rent and operating expenses charged by a corporation controlled by an officer and director of the Company. Included in accounts receivable at June 30, 2008 is $15,733 (2007 - $Nil) owing from this corporation. Included in accounts payable and accrued liabilities at June 30, 2008 is $Nil (2007 - $9,530) owing to this corporation.

The Company incurred $11,500 (2007 - $20,700), for accounting 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, 2008 is $10,000 (2007 - $5,000) accrued for accounting services.

Included in accounts payable and accrued liabilities at June 30, 2008 is $7,940 (2007 - $Nil) 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.

PROPOSED TRANSACTIONS

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

SUBSEQUENT EVENTS

a) CBS Project Acquisition.

b) Subsequent to the year end, the Mineral Rights Board of Newfoundland and Labrador set the date of the Mary March adjudication hearing for November 24, 2008. The hearing is scheduled to take place over two weeks.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the financial statements include the Corporation's estimate of recoverable value of its mineral properties and related deferred exploration expenditures as well as the value of stock-based compensation. Both of 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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New Standards and Accounting Policy Changes

Effective July 1, 2007, the Company adopted the following new accounting standards issued by the ("CICA"). The new standards and accounting policy changes are as follows:

Financial instruments - recognition and measurement (Section 3855)

This standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is de-recognized or impaired at which time the amounts would be recorded in net earnings.
Short-term investments are recognized as held-for-trading and are valued at their fair market value as of the date of the balance sheet. This has resulted in an unrealized loss of $12,500 during the year ended June 30, 2008.

Comprehensive income (Section 1530)

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income.

For the year ended June 30, 2008, the Company did not have other comprehensive income or loss and therefore no consolidated statement of other comprehensive income or loss has been presented.

(iii) Hedges (Section 3865)
This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered in this standard.

(iv) Accounting Changes (Section 1506)
In July 2006, the CICA issued changes to the CICA Handbook section 1506 entitled "Accounting Changes". The changes to this section particularly affect the following items; an entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements; changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical); expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements and; disclosure of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. Changes to this section are effective for interim and annual periods beginning on or after April 1, 2007.

The Company has determined that the adoption of these new policies had no material impact on its consolidated financial statements and determined that no adjustments are required for the year ended June 30, 2008.

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, 2008, 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 October 23, 2008, an aggregate of 59,726,713 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.

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

MSCM LLP

Chartered Accountants • Business Advisors

701 Evans Avenue
8th Floor
Toronto, Ontario Canada
M9C 1A3

telephone:(416) 626-6000
facsimile:(416) 626-8650
email:info@mscm.ca
website:www.mscm.ca

AUDITORS' REPORT

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

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

We conducted our audit 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were reported on by another firm of Chartered Accountants who issued an audit report without reservation dated September 19, 2007, except for Note 10(b) which is dated October 25, 2007.

Signed: *"MSCM LLP"*

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
September 23, 2008

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30,

	2008 $	2007 $
ASSETS		
CURRENT		
Cash	548,944	260,391
Short-term investments	187,500	4,500
Amounts receivable and prepaid expenses (Note 8)	18,621	11,682
	755,065	276,573
EQUIPMENT (Note 3)	1,654	978
INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Notes 4, 8 and Statement)	1,435,250	1,007,664
	2,191,969	1,285,215
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 8)	54,278	92,387
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5(b))	6,694,960	5,713,760
WARRANTS (Note 5(d))	205,240	610,911
CONTRIBUTED SURPLUS (Note 6)	1,748,923	1,349,978
DEFICIT	(6,511,432)	(6,481,822)
	2,137,691	1,192,828
	2,191,969	1,285,215

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 9)

APPROVED ON BEHALF OF THE BOARD:

"W. Deluce", Director

"J. E. Hurley", Director

 See accompanying notes to the consolidated financial statements

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICITS
FOR THE YEARS ENDED JUNE 30,

	2008 $	2007 $
OPERATING EXPENSES		
Stock-based compensation (Note 5(c))	209,949	245,081
Professional fees (Note 8)	72,965	67,616
Transfer agent and filing fees	41,350	40,483
Rent (Note 8)	17,667	12,971
Interest and bank charges	16,222	13,666
General and office expenses	10,879	7,086
Accounting	9,310	33,785
Shareholder information	4,734	14,736
Consulting fees (Note 8)	3,792	6,321
Travel	392	139
Amortization	292	244
	387,552	442,128
(Loss) before the under-noted	(387,552)	(442,128)
Interest income	-	6
Write-off of interest in mineral properties and general exploration	(8,285)	(666,289)
Unrealized (loss) on short term investment	(12,500)	
Option payments received on interest in mineral properties in	185,627	-
(Loss) before income taxes	(222,710)	(1,108,411)
Future income tax recovery (Note 7(a))	193,100	181,440
NET (LOSS) for the year	(29,610)	(926,971)
(DEFICIT), beginning of year	(6,481,822)	(5,554,851)
(DEFICIT), end of year	(6,511,432)	(6,481,822)
NET (LOSS) PER SHARE – Basic and diluted	(0.00)	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES	58,182,510	50,749,889

See accompanying notes to the consolidated financial statements

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

	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(29,610)	(926,971)
Charges not involving cash:		
Write-off of interest in mineral properties and general exploration	8,285	666,289
Future income tax recovery	(193,100)	(181,440)
Stock-based compensation cost	209,949	245,081
Option payments received on interest in mineral properties in excess of carrying value		-
Unrealized loss on short-term investment	12,500	-
Amortization	292	244
	(177,311)	(196,797)
Changes in non-cash working capital balances:		
(Increase) decrease in amounts receivable and prepaid expenses	(2,440)	15,787
(Decrease) in accounts payable and accrued liabilities	(35,561)	(7,836)
Cash flows used in operating activities	(215,312)	(188,846)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of warrants	957,625	22,800
Issuance of warrants for cash, net of costs	-	199,590
Issuance of shares for cash, net of costs	-	333,310
Cash flows from financing activities	957,625	555,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(968)	-
Interest in mineral properties and deferred exploration expenditures	(452,792)	(497,040)
Cash flows used in investing activities	(453,760)	(497,040)
Increase (decrease) in cash	288,553	(130,186)
Cash, beginning of year	260,391	390,577
Cash, end of year	548,944	260,391
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Issuance of common shares for interest in mineral property		7,500
Warrants issued for services rendered		94,213
Change in accrued mineral property and deferred exploration expenditures	(2,548)	3,062
Shares received for interest in mineral property	200,000	-

 See accompanying notes to the consolidated financial statements

CANSTAR RESOURCES INC.
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Slate Bay Property $	Miminiska Property $	Mary March Property $	McFauld's Lake $	Shrimp Lake $	Tahoe Lake $	Sunday Lake and Other $	Total $
PROPERTY ACQUISITION COSTS								
Balance, June 30, 2006	62,234	3,288	44,045	-	6,370	3,360	-	119,297
Incurred	-		3,000	-	-	-	7,500	10,500
Written down	-	(3,288)	-	-	-	-	(7,500)	(10,788)
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
DEFERRED EXPLORATION COSTS								
Balance, June 30, 2006	166,945	536,460	271,429	-	40,593	31,627	119,041	1,166,095
Incurred	500	-	33,398	-	311,665	32,498	(119,041)	259,020
Written down	-	(536,460)	-	-	-	-	-	(536,460)
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
Totals	229,679	-	459,501	-	414,251	331,819	-	1,435,250

 See accompanying notes to the consolidated financial statements

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, 2008, the Company had a deficit of $6,511,432 and working capital of $700,787. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due. 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 consolidated 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. Outlined below are those policies considered particularly significant.

Principles of Consolidation:
The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 1480377 Ontario Inc. All significant intercompany transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiary.

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

Continued...

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 asset retirement obligations as at June 30, 2008 and 2007.

Flow-Through Financing
The Company has financed a portion of its exploration activities through the issue of flow-through shares, 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.

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, will be credited to capital stock. The Company's stock-based compensation plan is described in Note 5(c).

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

Continued…

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Per Share (continued)

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.

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 and no net asset is recognized.

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
Effective July 1, 2007, the Company adopted the following new accounting standards issued by the CICA. The new standards and accounting policy changes are as follows:

(i) Financial instruments - recognition and measurement (Section 3855)

This standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is de-recognized or impaired at which time the amounts would be recorded in net earnings.

Short-term investments are recognized as held-for-trading and are valued at their quoted fair market value as of the date of the balance sheet. This has resulted in an unrealized loss of $12,500 during the year ended June 30, 2008.

Continued…

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Standards and Accounting Policy Changes (continued)

(ii) Comprehensive income (Section 1530)

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income.

For the year ended June 30, 2008, the Company did not have other comprehensive income or loss and therefore no consolidated statement of other comprehensive income or loss has been presented.

(iii) Hedges (Section 3865)

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered in this standard.

(iv) Accounting Changes (Section 1506)

In July 2006, the CICA issued changes to the CICA Handbook section 1506 entitled “Accounting Changes”. The changes to this section particularly affect the following items; an entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements; changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical); expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements and; disclosure of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. Changes to this section were effective for interim and annual periods beginning on or after April 1, 2007.

The Company has determined that the adoption of these new policies had no material impact on its consolidated financial statements and determined that no adjustments are required for the year ended June 30, 2008.

Future Accounting Changes

(i) General standards of financial statement presentation

In June 2007, the CICA amended Handbook Section 1400, General standards for financial statement presentation. These standards become effective for interim and annual financial statements for the Company’s reporting periods beginning on July 1, 2008.

Continued…

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Changes (continued)

(ii) Capital disclosures

On December 1, 2006, the CICA issued Handbook Section 1535 - Capital Disclosures, for interim and annual financial statements for the Company's reporting period beginning on July 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

(iii) Financial instruments - disclosures and presentation

On December 1, 2006, the CICA issued two new accounting standards: Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These standards become effective for interim and annual financial statements for the Company's reporting period beginning on July 1, 2008.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged 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.

(iv) 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 will converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canada GAAP and IFRS.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

3. EQUIPMENT

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

	2007		
	Cost $	Accumulated Amortization $	Net 2007 $
Office and field equipment	7,293	6,315	978

Continued...

4. 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) Sunday Lake

On October 3, 2006, the Company signed a letter agreement to acquire a 100% interest in the Sunday Lake mineral property from the Sunday Lake Syndicate located 30km north of Thunder Bay, Ontario. The Sunday Lake property comprises one mineral claim (8 units) and one patented claim, totaling approximately 190 hectares.

In order to earn this 100% interest, the Company must pay the Optionor $150,000 and issue 450,000 common shares to the Optionor over a three year period (50,000 common shares have been issued, valued at $7,500). The Company's interest would be subject to a 2% Net Smelter Royalty, half of which could be bought out at any time for $1,000,000. The Optionor would also receive $1,000,000 on the commencement of commercial production.

A director of Canstar holds a minority interest in the Sunday Lake Syndicate.

Due to poor exploration results, the Company does not intend to further pursue the option agreement. Accordingly, the property was written off during the year ended June 30, 2007.

b) 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, Canstar 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

c) 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.

Continued…

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

d) 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.

e) 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.

f) 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 Canstar 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, Canstar 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 (unpaid), 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%), Canstar 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 Canstar and Geocanex, with the three remaining claims, representing 38 contiguous units, remaining under the agreement.

A director of Canstar 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. Canstar will maintain a 0.5% net smelter royalty on the properties, 0.25% of which can be purchased by United Reef for $250,000.

 Continued…

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

g) 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 common shares of Canstar 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, Canstar 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 where heard on October 16thand 17th, 2007 however, an additional day was required and the hearing was completed on November 9th, 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 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 adjudication hearing has been set for November 24, 2008. A comprehensive drilling program has been planned to commence on the property presuming a favourable decision is handed down.

5. CAPITAL STOCK, OPTIONS AND WARRANTS

The capital stock is as follows:

a) Authorized

Unlimited number of common shares

5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

b) Issued
59,726,713 common shares

Summary of changes in capital stock:

	Common Shares #	Amount $
Common shares		
Balance, June 30, 2006	48,012,547	5,584,508
Common shares issued for cash (i)	5,050,000	379,030
Warrants exercised	190,000	28,817
Common shares issued for interest in mineral properties (Note 4(a))	50,000	7,500
Renunciation of flow-through expenditures	-	(181,440)
Share issue costs	-	(104,655)
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

(i) During the year ended June 30, 2007, the Company completed a $606,000 private placement financing comprising of 5,050,000 units at a price of $0.12 per unit of which 4,200,000 units consisted of flow-through units. Each unit consists 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 $0.15 per share for a two-year period. The common share purchase warrants were valued at $164,311, net of issue costs of $62,658. Broker fees consisted of $73,100 in cash and 1,010,000 common share purchase warrants entitling the holder to purchase one common share of the Company at a price of $0.12 per share for a two year period valued at $94,213.

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, 2008, the following stock options were outstanding:

Options Granted #	Exercisable Options #	Exercise Price $	Expiry Date
350,000	262,500	0.15	January 26, 2009
598,334	598,334	0.30	March 4, 2009
951,666	951,666	0.30	April 26, 2010
500,000	500,000	0.15	November 10, 2010
1,875,000	1,406,250	0.15	January 26, 2012
1,200,000	600,000	0.15	December 20, 2012
5,475,000	4,318,750		

The weighted average exercise price of the options granted and exercisable is $0.19 and $0.20 respectively. The weighted average contractual life of options granted and exercisable is 2.85 and 2.59 respectively.

5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

c) Stock Options (continued)

A summary of changes in stock options is as follows:

	Number of Options #	Weighted Average Exercise Price $
Balance, June 30, 2006	4,200,000	0.27
Granted	2,225,000	0.15
Exercised	(850,000)	(0.23)
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

During the year ended June 30, 2008, the Company granted 1,200,000 (2007 – 1,800,000 and 425,000) stock options to directors, officers and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.15 (2007 - $0.15) per common share until December 20, 2012 (2007 – January 26, 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 assumptions: expected dividend yield of 0%; (2007 – 0%) risk-free interest rate of 3.9% (2007 – 4.1%); expected life of 5 years (2007 – 2 and 5 years); and expected volatility of 118% (2007 – 188% and 150%).

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, 2006	12,987,250	0.33	816,239
Exercised	(190,000)	(0.12)	(6,017)
Issued for services (Note 5(b)(i))	1,010,000	0.12	94,213
Issued, net of issue costs of $62,658 (Note 5(b)(i))	5,050,000	0.15	164,311
Expired	(4,574,750)	(0.67)	(457,835)
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

5. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

d) Share Purchase Warrants (continued)

As at June 30, 2008, the following warrants were issued and outstanding:

Number of warrants	Exercise Price	Expiry date
#	$	
3,985,834	0.15	December 28, 2008
810,000	0.12	December 28, 2008
4,795,834		

6. CONTRIBUTED SURPLUS

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

	Amount $
Balance, June 30, 2006	647,062
Stock-based compensation	245,081
Warrants expired	457,835
Balance, June 30, 2007	1,349,978
Stock-based compensation	209,949
Warrants expired	188,996
Balance, June 30, 2008	1,748,923

7. 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 34.5% (2007 – 36%) were as follows:	2008 $	2007 $
(Loss) before taxes:	(222,710)	(1,108,411)
Expected income tax recovery based on statutory rate	(76,800)	(399,000)
Adjustments to benefit resulting from:		
Stock-based compensation	72,400	88,260
Share issue costs	-	(26,300)
Expiry of losses	223,700	319,800
Change in substantively enacted tax rate	343,900	-
Change in valuation allowance	(756,300)	(164,200)
Income tax (recovery)	(193,100)	(181,440)

7. INCOME TAXES (Continued)

a) Provision for Income Taxes (continued)

In February 2008, the Company renounced $665,875 (2007 - $504,000) of Canadian exploration expenditures related to proceeds from the exercise of flow-through warrants (2007 – proceeds from the issuance of flow-through shares) with an effective date of December 31, 2007 (2007 – December 31, 2006).

b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at June 30, 2008 are as follows:

	2008 $	2007 $
Future income tax assets (liabilities):		
Non-capital losses	120,900	343,200
Share issue costs	64,900	116,900
Resource properties	1,010,700	1,494,400
Other	4,200	2,500
Valuation allowance	(1,200,700)	(1,957,000)
	-	-

As at June 30, 2008, the Company had available for deduction against future taxable income, non-capital losses of approximately $405,900 which expire as follows:

Year of Expiry	Amount
2009	$ 42,700
2013	47,300
2014	7,600
2015	11,400
2016	95,100
2027	100,900
2028	100,900
	$ 405,900

The Company has approximately $726,800 and $3,917,100 of Canadian development expenses and Canadian exploration expenditures, respectively, as at June 30, 2008 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.

8. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended June 30, 2008 the Company incurred a total of $65,000 (2007 - $29,767) for consulting and administrative fees charged by a corporation controlled by an officer and director of the Company. $61,208 (2007 - $29,767) of this amount was capitalized in interest in mineral properties and deferred exploration expenditures. Included in accounts payable and accrued liabilities at June 30, 2008 is $Nil (2006 - $5,742) owing to this corporation.

During the year ended June 30, 2008, the Company incurred a total of $17,667 (2007 - $15,119) for rent and operating expenses charged by a corporation controlled by an officer and director of the Company. Included in accounts receivable at June 30, 2008 is $15,733 (2007 - $Nil) owing from this corporation. Included in accounts payable and accrued liabilities at June 30, 2008 is $Nil (2007 - $9,530) owing to this corporation.

8. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The Company incurred $11,500 (2007 - $20,700), 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, 2008 is $10,000 (2007 - $5,000) accrued for accounting services.

Included in accounts payable and accrued liabilities at June 30, 2008 is $7,940 (2007 - $Nil) 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.

9. 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 June 30, 2008, the Company is committed to incur prior to December 31, 2008, on a best efforts basis $600,000 in qualifying Canadian exploration expenditures pursuant to the exercise of warrants for flow-through shares for which flow-through proceeds had been received prior to December 31, 2007 and renounced to the subscribers effective as at that date.

c) Mary March Property

See Note 4(g).

10. 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, short-term investments, amounts receivable, and accounts payable and accrued liabilities on the consolidated balance sheet approximate fair value due to the limited term of these instruments.

Foreign Exchange Risk

The Company currently is not subject to foreign exchange risk.

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.

11. SUBSEQUENT EVENT

Subsequent to the year end, the Company entered into agreements with arm's length parties to acquire a 100% interest in two mineral properties in the area of Conception Bay South on the Avalon Peninsula, Province of Newfoundland and Labrador.

In order to acquire a 100% interest in the two properties, the Company must make combined cash payments of $30,000 on signing; $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; 175,000 shares on the first anniversary of the agreement; and 275,000 shares on the second anniversary of signing. Both 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. The agreements are subject to regulatory approval.

CORPORATE DATA

DIRECTORS	SHARES LISTED	REGISTRAR & TRANSFER AGENT
Harry J. Hodge David Palmer William S. Deluce T. Patrick Reid John E. Hurley	ROX – TSX Venture Exchange	Equity Transfer & Trust 400-200 University Avenue Toronto, ON, M5H 4H1
OFFICERS Harry J. Hodge, P.Eng. *Chairman of the Board* David Palmer, Ph.D., P.Geo. *President & CEO* John E. Hurley *Chief Financial Officer*	**CAPITALIZATION** Issued: 59,726,713 Common Shares (as at June 30, 2008) **HEAD OFFICE** 2 Toronto Street, Suite 306 Toronto, ON , Canada M5C 2B6 Tel: 416-777-6703 Fax: 416-777-6705	**AUDITOR** MSCM LLP 8th Floor 701 Evans Avenue Toronto, ON, Canada M9C 1A3 **LEGAL COUNSEL** Irwin Professional Corporation 512-120 Adelaide St. West Toronto, ON
QUALIFIED PERSON David Palmer, Ph.D., P.Geo		

ANNUAL GENERAL MEETING

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, 2008 at 10:30 a.m. (Eastern Standard time).

Disclaimer

This report presents a review of The Company's projects in Canada, including the McFauld's Lake and Victory projects. 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.

www.canstarresources.com