
CANSTAR RESOURCES INC.
(A Development Stage Enterprise)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
MARCH 31, 2008

(UNAUDITED)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of Canstar Resources Inc. (A Development Stage Enterprise) were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the June 30, 2007 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

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

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

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

NOTICE TO READER

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

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

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

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Balance Sheets
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | March 31, 2008 | June 30, 2007 |
|---|---------------------|------------------|
| ASSETS | | |
| Current | | |
| Cash (Note 6) | \$ 516,317 | \$ 260,391 |
| Short-term investments | 4,500 | 4,500 |
| Amounts receivable and prepaid expenses | 86,983 | 11,682 |
| | 607,800 | 276,573 |
| Equipment | 831 | 978 |
| Interest in mineral properties and deferred exploration expenditures | 1,428,990 | 1,007,664 |
| | \$ 2,037,621 | \$ 1,285,215 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 5) | \$ 27,716 | \$ 92,388 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (Note 3(b)) | 7,202,950 | 6,171,595 |
| Warrants (Note 3(d)) | 155,081 | 610,911 |
| Contributed surplus | 1,251,965 | 892,143 |
| Deficit | (6,600,091) | (6,481,822) |
| | 2,009,905 | 1,192,827 |
| | \$ 2,037,621 | \$ 1,285,215 |

Nature of Operations and Going Concern (Note 1)

Commitments (Note 6)

Subsequent Events (Note 8)

APPROVED ON BEHALF OF THE BOARD:

"W. Deluce", Director

"John E. Hurley", Director

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Statements of Operations and Comprehensive Loss
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|-------------------|--------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Operating Expenses | | | | |
| Stock-based compensation (Note 3(c)) | \$ 53,525 | \$ 136,961 | \$ 170,826 | \$ 170,929 |
| Professional fees | 788 | 15,700 | 11,672 | 36,918 |
| Transfer agent and filing fees | 9,577 | 8,132 | 34,744 | 32,572 |
| Accounting | 13,734 | 9,801 | 32,586 | 26,061 |
| Shareholder information | 21 | 6,384 | 12,332 | 17,355 |
| Interest and bank charges | 16,086 | 69 | 16,193 | 13,636 |
| General and office expenses | 3,038 | 6,095 | 22,842 | 12,402 |
| Consulting fees | - | 882 | 3,792 | 2,671 |
| Amortization | 49 | 61 | 147 | 183 |
| | 96,818 | 184,085 | 305,134 | 312,727 |
| (Loss) before the under-noted | (96,818) | (184,085) | (305,134) | (312,727) |
| Interest income | - | - | - | 2 |
| General exploration | - | - | (947) | (6,908) |
| Write-off of interest in mineral properties | - | - | (5,292) | - |
| Net (loss) for the period before the following | (96,818) | (184,085) | (311,373) | (319,633) |
| Future income tax recovery (Note 3(b)(i)) | 193,104 | 181,440 | 193,104 | 181,440 |
| Net income (loss) and other comprehensive (loss) | 96,286 | (2,645) | (118,269) | (138,193) |
| Net income (loss) per share | | | | |
| - basic and diluted (Note 4) | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Weighted average number of shares | 59,726,713 | 53,273,917 | 57,673,642 | 49,903,835 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Statements of Cash Flows
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|-------------------|--------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | \$ 96,286 | \$ (2,645) | \$ (118,269) | \$ (138,193) |
| Charges not involving cash | | | | |
| Stock-based compensation (Note 3(c)) | 53,525 | 136,961 | 170,826 | 170,929 |
| Amortization | 49 | 61 | 147 | 183 |
| Future income tax recovery (Note 3(b)(i)) | (193,104) | (181,440) | (193,104) | (181,440) |
| | (43,244) | (47,063) | (140,400) | (148,521) |
| Changes in non-cash working capital items | | | | |
| (Increase) decrease in amounts receivable and prepaid expenses | (9,424) | 24,246 | (75,301) | 14,254 |
| (Decrease) increase in accounts payable and accrued liabilities | (320,397) | (165,430) | (64,672) | 37,014 |
| | (373,065) | (188,247) | (280,373) | (97,253) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Exercise of warrants | - | - | 957,625 | 22,800 |
| Issuance of shares and warrants for cash, net of costs | - | - | - | 532,900 |
| | - | - | 957,625 | 555,700 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest in mineral properties and deferred exploration expenditures | 5,111 | (90,646) | (421,326) | (426,595) |
| (Decrease) increase in cash | (367,954) | (278,893) | 255,926 | 31,852 |
| Cash, beginning of period | 884,271 | 701,322 | 260,391 | 390,577 |
| Cash, end of period | \$ 516,317 | \$ 422,429 | \$ 516,317 | \$ 422,429 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|-----------------------|--------------------------------|-----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Capital Stock | | | | |
| Balance at beginning of period | \$ 7,396,054 | \$ 5,905,125 | \$ 6,171,595 | \$ 5,584,508 |
| Issued on private placement | - | - | - | 606,000 |
| Issued for interest in mineral properties | - | 7,500 | - | 7,500 |
| Issuance of warrants - valuation | - | - | - | (155,400) |
| Issuance of broker warrants - valuation | - | - | - | (85,700) |
| Exercise of warrants - cash | - | - | 957,625 | 22,800 |
| Exercise of warrants - valuation | - | - | 266,834 | 6,017 |
| Cost of Issue | - | - | - | (73,100) |
| Renunciation of flow-through expenditures | (193,104) | (181,440) | (193,104) | (181,440) |
| Balance at end of period | \$ 7,202,950 | \$ 5,731,185 | \$ 7,202,950 | \$ 5,731,185 |
| Warrants | | | | |
| Balance at beginning of period | \$ 155,081 | \$ 1,051,323 | \$ 610,911 | \$ 816,240 |
| Exercise of warrants - valuation | - | - | (266,834) | (6,017) |
| Issuance of warrants - valuation | - | - | - | 155,400 |
| Issuance of broker warrants - valuation | - | - | - | 85,700 |
| Expiration of warrants - valuation | - | - | (188,996) | - |
| Balance at end of period | \$ 155,081 | \$ 1,051,323 | \$ 155,081 | \$ 1,051,323 |
| Contributed Surplus | | | | |
| Balance at beginning of period | \$ 1,198,440 | \$ 681,030 | \$ 892,143 | \$ 647,062 |
| Stock-based compensation | 53,525 | 136,961 | 170,826 | 170,929 |
| Warrants expired | - | - | 188,996 | - |
| Balance at end of period | \$ 1,251,965 | \$ 817,991 | \$ 1,251,965 | \$ 817,991 |
| Deficit | | | | |
| Balance at beginning of period | \$ (6,696,377) | \$ (5,690,399) | \$ (6,481,822) | \$ (5,554,851) |
| Net income (loss) for the period | 96,286 | (2,645) | (118,269) | (138,193) |
| Balance at end of period | \$ (6,600,091) | \$ (5,693,044) | \$ (6,600,091) | \$ (5,693,044) |
| Total shareholders' equity, end of period | \$ 2,009,905 | \$ 1,907,455 | \$ 2,009,905 | \$ 1,907,455 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Statements of Interest in Mineral Properties
and Deferred Exploration Expenditures
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|-------------------|--------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| <u>Slate Bay Property, McDonough Township**</u> | | | | |
| Balance, beginning of period | \$ 229,679 | \$ 229,679 | \$ 229,679 | \$ 229,179 |
| Geophysical | - | - | - | 500 |
| Balance, end of period | \$ 229,679 | \$ 229,679 | \$ 229,679 | \$ 229,679 |
| <u>Miminiska Property, Pickle Lake**</u> | | | | |
| Balance, beginning and end of period | \$ - | \$ 539,748 | \$ - | \$ 539,748 |
| <u>McFauld's Lake Property**</u> | | | | |
| Balance, beginning of period | \$ 34,208 | \$ - | \$ - | \$ - |
| Property acquisition costs (Note 8(c)) | (25,000) | - | - | - |
| Geological | 8,125 | - | 17,333 | - |
| | (16,875) | - | 17,333 | - |
| Balance, end of period | \$ 17,333 | \$ - | \$ 17,333 | \$ - |
| <u>Mary March Property** (Note 8(b))</u> | | | | |
| Balance, beginning of period | \$ 412,951 | \$ 334,365 | \$ 351,872 | \$ 315,474 |
| Agreement costs | 9,973 | 26 | 46,985 | 10,380 |
| Drilling | - | 2,800 | 2,100 | 4,900 |
| Geological | 8,125 | - | 14,625 | - |
| General and administrative | - | - | - | 1,305 |
| Supplies and equipment | - | - | - | 2,100 |
| Claim staking, maintenance fees | 3,000 | - | 16,800 | - |
| General exploration | 1,859 | 165 | 3,526 | 165 |
| Option costs | - | 3,000 | - | 3,000 |
| Travel | - | - | - | 3,032 |
| | 22,957 | 5,991 | 84,036 | 24,882 |
| Balance, end of period | \$ 435,908 | \$ 340,356 | \$ 435,908 | \$ 340,356 |

** For a description of these properties, please refer to Note 4 of the audited consolidated financial statements for the year ended June 30, 2007.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Statements of Interest in Mineral Properties
and Deferred Exploration Expenditures (Continued)
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--------------------------------------|---------------------------------|-------------------|--------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| <u>Shrimp Lake Property**</u> | | | | |
| Balance, beginning of period | \$ 412,056 | \$ 318,266 | \$ 358,628 | \$ 46,963 |
| Drilling | - | - | 45,730 | 221,500 |
| Geological | - | - | 6,500 | 2,497 |
| Geophysical | - | - | - | 47,306 |
| Assays | 2,195 | - | 2,195 | - |
| General exploration | - | - | 1,198 | - |
| | 2,195 | - | 55,623 | 271,303 |
| Balance, end of period | \$ 414,251 | \$ 318,266 | \$ 414,251 | \$ 318,266 |
| <u>Tahoe Lake Property**</u> | | | | |
| Balance, beginning of period | \$ 345,206 | \$ 63,152 | \$ 67,485 | \$ 34,987 |
| Geological | - | - | 6,500 | 1,727 |
| Geophysical | - | - | - | 26,438 |
| General exploration | - | - | 3,595 | - |
| Drilling | (13,387) | - | 253,795 | - |
| Travel | - | - | 444 | - |
| | (13,387) | - | 264,334 | 28,165 |
| Balance, end of period | \$ 331,819 | \$ 63,152 | \$ 331,819 | \$ 63,152 |

** For a description of these properties, please refer to Note 4 of the audited consolidated financial statements for the year ended June 30, 2007.

Canstar Resources Inc.
(A Development Stage Enterprise)
Interim Consolidated Statements of Interest in Mineral Properties
and Deferred Exploration Expenditures (Continued)
(Expressed In Canadian Dollars)
(Prepared by Management)
(Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|---------------------|--------------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Sunday Lake Property** | | | | |
| Balance, beginning of period | \$ - | \$ 17,090 | \$ - | \$ - |
| Geological | - | - | - | 1,929 |
| Property option costs | - | 7,500 | - | 7,500 |
| Consultants | - | 12,633 | - | 12,633 |
| Assays | - | - | 5,292 | - |
| Geophysical | - | 71,713 | - | 71,713 |
| Write off of mineral property expenditures | - | 309 | (5,292) | 15,470 |
| | - | 92,155 | - | 109,245 |
| Balance, end of period | \$ - | \$ 109,245 | \$ - | \$ 109,245 |
| Total, end of period | \$ 1,428,990 | \$ 1,600,446 | \$ 1,428,990 | \$ 1,600,446 |

** For a description of these properties, please refer to Note 4 of the audited consolidated financial statements for the year ended June 30, 2007.

Canstar Resources Inc.
(A Development Stage Enterprise)
Notes to Interim Consolidated Financial Statements
Nine Months Ended March 31, 2008
(Expressed in Canadian Dollars)
(Prepared by Management)
(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated on March 5, 1997 as Agri-Solutions Systems Incorporated and, pursuant to Articles of Amendment filed on February 26, 1999, changed its name to loGold Systems Canada Incorporated. On June 14, 2001, the Company announced its intent to establish a mineral resource exploration business. Pursuant to Articles of Amendment filed on July 26, 2001, the Company changed its name to Candor Ventures Corp. The Company sold its water treatment business to loSolutions Incorporated during fiscal 2002. On April 5, 2005, the Company amalgamated its operations with Nustar Resources Inc. and changed its name to Canstar Resources Inc.

The Company is in the development stage and 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 March 31, 2008, the Company had a deficit of \$6,600,091 and working capital of \$580,084. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, as applicable to a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, as described in the following paragraph. Accordingly, they do not give effect to adjustments that would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited interim consolidated financial statements.

2. ACCOUNTING POLICIES

These unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian generally accepted accounting principles for annual consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 2008 may not necessarily be indicative of the results that may be expected for the year ending June 30, 2008.

The consolidated balance sheet at June 30, 2007 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for complete consolidated financial statements. The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual consolidated financial statements for the year ended June 30, 2007. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2007.

Canstar Resources Inc.
(A Development Stage Enterprise)
Notes to Interim Consolidated Financial Statements
Nine Months Ended March 31, 2008
(Expressed in Canadian Dollars)
(Prepared by Management)
(Unaudited)

2. ACCOUNTING POLICIES (Continued)

Financial Instruments

Financial Instruments, Comprehensive Income (Loss), and Hedges

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", 3861 "Financial Instruments - Disclosure and Presentation" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis; accordingly, comparative amounts for prior periods have not been restated. The Company has adopted these new standards effective July 1, 2007.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3861 establishes standards for presentation of financial statements and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustment as part of other comprehensive income. Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Upon adoption of these new standards, the Company designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. The Company's marketable securities are designated as available-for-sale and are presented at market value with the gain or loss realized in the accumulated other comprehensive income. Accounts receivable and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Canstar Resources Inc.
(A Development Stage Enterprise)
Notes to Interim Consolidated Financial Statements
Nine Months Ended March 31, 2008
(Expressed in Canadian Dollars)
(Prepared by Management)
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2. ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial Instruments, Comprehensive Income (Loss), and Hedges (Continued)

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Impact Upon Adoption of Sections 1530, 3855, 3861 and 3865

The Corporation has evaluated the impact of sections 1530, 3855, 3861 and 3865 on its interim consolidated financial statements and has determined that no adjustments are currently required.

Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement". The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

Accounting Changes

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

Canstar Resources Inc.
(A Development Stage Enterprise)
Notes to Interim Consolidated Financial Statements
Nine Months Ended March 31, 2008
(Expressed in Canadian Dollars)
(Prepared by Management)
(Unaudited)

2. ACCOUNTING POLICIES (Continued)

Future Accounting Changes

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual financial statements for the Corporation'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.

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.

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

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of IFRS on its consolidated financial statements.

Goodwill and Intangible Assets

In October 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

Canstar Resources Inc.
(A Development Stage Enterprise)
Notes to Interim Consolidated Financial Statements
Nine Months Ended March 31, 2008
(Expressed in Canadian Dollars)
(Prepared by Management)
(Unaudited)

3. CAPITAL STOCK, CONTRIBUTED SURPLUS, OPTIONS, AND WARRANTS

(a) Authorized:

Unlimited number of common shares

(b) Issued:

| | Shares | Amount |
|---|-------------------|---------------------|
| Balance, June 30, 2007 | 53,302,547 | \$ 6,171,595 |
| Warrants exercised | 6,424,166 | 957,625 |
| Warrants exercised - valuation | - | 266,834 |
| Renunciation of flow-through expenditures (i) | - | (193,104) |
| Balance, March 31, 2008 | 59,726,713 | \$ 7,202,950 |

(i) On February 9, 2008, the Company renounced the flow-through expenses resulting from the exercise of flow-through warrants. Pursuant to the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. As a result, the Company was required to recognize a foregone tax benefit of \$193,104 at the time of renouncement.

(c) Stock Option Plan

| | Number of Options | Weighted Average Exercise Price |
|--------------------------------|-------------------------|--|
| Balance, June 30, 2007 | 5,575,000 | \$ 0.23 |
| Granted (i) | 1,200,000 | 0.15 |
| Expired | (800,000) | 0.15 |
| Balance, March 31, 2008 | 5,975,000 | \$ 0.22 |

(i) On December 20, 2007 the Company granted an aggregate of 1,200,000 incentive stock options to directors, officers and a consultant with an exercise price of \$0.15, expiring on December 20, 2012. The above noted options are subject to semi-annual vesting over a period of 18 months, with one quarter vesting on the initial grant date. A fair value of \$152,400 was calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 146.1%; risk-free interest rate of 3.88% and an expected average life of 5 years. A total of \$53,525 and \$170,826 respectively has been recognized during the three and nine months ending March 31, 2008 in accordance with the established vesting terms.

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3. CAPITAL STOCK, CONTRIBUTED SURPLUS, OPTIONS, AND WARRANTS (Continued)

(c) Stock Option Plan (Continued)

The options outstanding as at March 31, 2008 are as follows:

| | Black-Scholes Valuation | Number of Options | Exercise Price | Expiry Date |
|-----------|----------------------------|----------------------|-------------------|-------------------|
| \$ | 123,936 | 500,000 | \$0.50 | April 11, 2008 |
| | 40,990 | 350,000 | \$0.15 | January 26, 2009 |
| | 112,724 | 598,334 | \$0.30 | March 4, 2009 |
| | 256,276 | 951,666 | \$0.30 | April 26, 2010 |
| | 42,965 | 500,000 | \$0.15 | November 10, 2010 |
| | 242,604 | 1,875,000 | \$0.15 | January 26, 2012 |
| | 76,989 | 1,200,000 | \$0.15 | December 20, 2012 |
| \$ | 896,484 | 5,975,000 | \$0.22 | |

(d) Warrants

A summary of changes in warrants is as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|--------------------------------|--------------------------|--|
| Balance, June 30, 2007 | 14,282,500 | \$ 0.16 |
| Exercised | (6,424,166) | 0.15 |
| Expired | (3,062,500) | 0.15 |
| Balance, March 31, 2008 | 4,795,834 | \$ 0.14 |

The warrants outstanding as at March 31, 2008 are as follows:

| | Black-Scholes Valuation | Number of Warrants | Exercise Price | Expiry Date |
|-----------|----------------------------|-----------------------|-------------------|-------------------|
| \$ | 79,527 | 3,985,834 | \$0.15 | December 28, 2008 |
| | 75,554 | 810,000 | \$0.12 | December 28, 2008 |
| \$ | 155,081 | 4,795,834 | \$0.14 | |

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4. BASIC AND DILUTED LOSS PER SHARE

The loss per share figures have been calculated using the weighted average number of common shares outstanding during the respective periods. Basic loss per share is computed by dividing earnings by the weighted average number of common shares outstanding for the period. No dilutive loss per share has been disclosed as it would be anti-dilutive.

5. RELATED PARTY TRANSACTIONS

During the period ending March 31, 2008 the Company incurred an aggregate of \$ 48,750 (March 31, 2007 - \$12,633) in consulting and administrative fees charged by a corporation controlled by an officer and director of the Company. As at March 31, 2008, \$nil (June 30, 2007 - \$5,742) is included in accounts payable owing to this corporation.

During the period ending March 31, 2008, the Company was charged \$Nil (June 30, 2007 - \$9,530) by a corporation controlled by an officer and director of the Company for rent and operating expenses and \$16,500 (March 31, 2007 - \$20,700) by a firm of chartered accountants of which one of the directors is a partner, for accounting and tax services.

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.

6. COMMITMENTS

The Company is committed to spending \$665,875, on a best efforts basis, in qualifying Canadian exploration expenditures, as a result of the the exercise of flow-through warrants. Pursuant to the terms of its flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the Canadian Income Tax Act for the look back rule. The look back rule requires the Company to incur qualifying exploration expenditures in Canada ("CEE") within twelve months from the effective date of renunciation. On February 4, 2008, the Company renounced the above noted expenditures with an effective date of December 31, 2007.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period financial statement presentation

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8. SUBSEQUENT EVENTS

- a) On April 11, 2008, 500,000 stock options with an exercise price of \$0.50 expired without exercise.
- b) Vinland Resources Limited ("Vinland") has appealed the ruling of the Newfoundland and Labrador Supreme Court Trial Division regarding the Mary March Property in the Buchans area of Newfoundland. Canstar and Phelps Dodge Corp. of Canada subsequently filed a cross-appeal asking that ownership of the property in question be decided upon by the Appeal Panel, thus eliminating the need for a second Adjudication Board hearing.

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. The Canstar-Phelps Dodge Corporation of Canada joint venture continues to hold its interest in the subject claims over which Vinland has sought Map Staking Licenses. The Corporation's legal advisors believe that the merits of the case strongly favour Canstar and that the appeal will be determined in favour of the Canstar-Phelps Dodge Corporation of Canada joint venture. No further work will be done on the property until the appeal is determined.

As of February 19, 2008, the Court has dismissed Vinland Resources' appeal to overturn the Supreme Court of Newfoundland's previous ruling, which favours Canstar. The Court also dismissed Canstar's cross appeal and has referred the matter back to the Mineral Rights Board to be presented at another adjudication hearing. Canstar is currently in discussions with legal counsel and the Government of Newfoundland regarding the decision and its implications.

- c) On April 14, 2008, the Company announced that an Option Agreement with United Reef Limited (TSX-V: URP) ("United Reef") and Geocanex Limited ("Geocanex") had been reached on the Company's 100%-owned McFauld's Lake 1 property and the McFauld's Lake 3 property, which is currently under option from Geocanex. The agreement gives United Reef the option to earn a 50% interest in the McFauld's Lake 1 and Lake 3 properties, with Canstar owning the remaining 50%, after which a joint venture will be formed.

Under the terms of the agreement, Geocanex will waive the \$25,000 payment and approximately \$200,000 in expenditures that were to be made by Canstar to earn its 50% interest in the McFauld's 3 property, and Canstar will receive a \$ 50,000 cash payment from United Reef. In addition, Canstar will maintain a 0.5% net smelter royalty on both the McFauld's 1 and McFauld's 3 claims, 0.25% of which can be bought back by United Reef for \$ 250,000. As operator, United Reef will be required to make exploration expenditures totalling \$150,000 on the two properties before December 31, 2008.

The United Reef option agreement is a related party transaction under Ontario Securities Commission rule 61-501 - Insider Bids, Issuer Bids, Business Combinations and Related Party Transactions (the "OSC Rule") as Geocanex is a related party.

- d) On April 18, 2008, the Company announced that it would receive 2,500,000 shares of United Reef from Geocanex, as part of the Option Agreement with United Reef and Geocanex. The original terms of the original agreement remain unchanged.