MEGASTAR DEVELOPMENT CORP.

Management's Discussion & Analysis

Form 51-102F1

For the three months ended May 31, 2012

(*Expressed in Canadian dollars*)

July 25, 2012

OVERVIEW

The following management discussion and analysis ("MD&A") is a review of the operations, current financial position and outlook for Megastar Development Corp. (the "Company") and should be read in conjunction with the Company's unaudited financial statements and the accompanying notes for the three months ended May 31, 2012 and the audited financial statements and the accompanying notes for year ended February 29, 2012, copies of which are filed on the SEDAR website: www.sedar.com.

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). All dollar figures included herein and in the following discussion and analysis are quoted in Canadian dollars unless otherwise noted. These are the Company's third IFRS financial statements; previously the Company reported in accordance with Canadian generally accepted accounting principles.

The financial information in this MD&A is derived from the Company's financial statements prepared in accordance with IFRS. This MD&A may contain forward looking statements based on assumptions and judgments of management regarding events or results that may prove to be inaccurate as a result of risk factors beyond its control. Actual results may differ materially from the expect results.

DESCRIPTION OF THE COMPANY'S BUSINESS

The Company was incorporated September 24, 1984 and is listed on the TSX Venture Exchange as a Tier 2 mining exploration issuer. The shares of the Company trade on the TSX-V under the symbol "MDV" and on the Frankfurt Stock Exchange, under the symbol "M5Q".

The Company is engaged in the exploration and development of mineral properties and currently owns two projects respectively located in Quebec and British Columbia, Canada. At this time, the Company does not own any operating mines and has no operating income from mineral production. Funding for operations is raised primarily through public and private share offerings. Future operations and the Company's ability to meet its mineral interest commitments are dependent on the Company's ability to raise sufficient funds through share offerings, debt, or operations to support current and future expenditures.

The Company's long-term objectives will be to:

(a) determine if an economic mineral deposit exists on the mineral properties;
(b) find one or more economic mineral deposits and bring them to commercial production; and
(c) deliver a return on capitalization to shareholders.

The interim financial statements have been prepared under going concern assumption which contemplates the Company will continue in operation and realize its assets and discharge its liabilities in the normal course of operations. Should the going concern assumption not continue to be appropriate, further adjustments to carrying values may be required. The Company's ability to meet its obligations and maintain its current operations is contingent upon successful completion of additional financial arrangements and ultimately upon the discovery of proven reserves and generating profitable operations.

Management expects to be successful in arranging sufficient funding to meet operating commitments for the ensuring year. However, the Company's future capital requirements will depend on many factors, including the costs of exploring and developing its mineral property, operating costs, the current market environment and global market conditions. At May 31, 2012 the Company had working capital (deficiency) of ($53,691) (February 29, 2012 – $75,205). For significant expenditures and mineral property development, the Company will almost exclusively depend on outside capital. Such outside capital will include the issuance of additional equity shares. There can be no assurance that capital will be available, as necessary, to meet the Company's operating commitments and further exploration and development plans. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the further success of the business could be adversely affected.

OVERALL PERFORMANCE

At the Company's Special Meeting of Shareholders held on December 20, 2010, shareholders of the Company approved a Plan of Arrangement whereby the 70,000,000 shares of Eloro received for the Simkar Property would be distributed to shareholders of Megastar on a pro-rata basis. The ratio of distribution were to be approximately 1.6616329869 Eloro shares for each share of the Company held by shareholders of record on the Distribution Record Date, previously set as December 21, 2010.

In order to comply with the TSX Venture Exchange ("Exchange") policies, the Company reset the record date for the Distribution to January 7, 2011. The Ex-dividend date, the date as on which a purchaser of Megastar shares would not be entitled to receive Eloro Shares pursuant to the Arrangement, was set for January 5, 2011.

The final court order to approve the Arrangement was obtained on December 21, 2010. On February 3, 2011, the Exchange provided its final acceptance of the sale of the Simkar property and on February 28, 2011, title to the Simkar property was transferred from Megastar to Eloro, and the 70,000,000 Eloro shares were released from escrow.

On March 31, 2011 the Company announced that its Board had unanimously resolved to implement the consolidation ratio of one (1) new post-consolidation common share for every four (4) pre-consolidation common shares previously approved by shareholders at the Special Meeting of Shareholders of Megastar held on December 20, 2010.

On May 4, 2011, effective as of the opening of trading of the Exchange the Company consolidated its common share capital on the basis of one (1) post-consolidated common share for every four (4) pre-consolidated common shares held. The Company's name and trading symbol remained the same and the Company's CUSIP number was changed to 58516P307.

On July 22, 2011 the Company closed a non-brokered private placement of 6,715,265 units at a price of $0.10 per unit for gross proceeds of $671,526. These 6,715,265 units were issued as non flow-through units consisting of one common share and one transferable share purchase warrant. One warrant entitles the holder to purchase one additional common share of the Company at a price of $0.135 per share until July 20, 2013.

On July 22, 2011, pursuant to its stock option plan, the Company granted incentive stock options to its directors, officers, consultants, and employees to purchase in the total of 1,050,000 common shares in the capital stock of the company, subject to regulatory approval, exercisable for a period of five years, at a price of $0.25 per share.

On June 5, 2012 the Company closed a non-brokered private placement of 11,000,000 units at a price of $0.10 per unit for gross proceeds of $1,100,000. These 11,000,000 units were issued as non-flow through units consisting of one common share and one transferable share purchase warrant. The share purchase warrant entitles the holder to purchase one additional common share at a price of $0.135 per share for a period of 24 months.

MINERAL INTERESTS

SIMKAR property, Val d'Or, Quebec:

The TSX Venture Exchange provided its final acceptance of the sale of the Simkar property and on February 28, 2011, title to the property was formally transferred from Megastar to Eloro, and the 70,000,000 Eloro shares were released from escrow. The Simkar property comprised two mining concessions totaling 557 acres and covering the historic Simkar gold mine, approximately 20 kilometres east of Val d'Or, Que.

RALLEAU property, Quevillon, Quebec:

The Company has a 100% interest in the Ralleau property located within the Abitibi greenstone belt approximately 40 km east of Quévillon, Quebec. Previous mapping and sampling has identified anomalous Cu-Zn Volcanogenic Massive Sulphide (VMS) style mineralization and alteration on the property. Several untested airborne INPUT geophysical anomalies occur within felsic volcanic rocks from which anomalous base metal values have been returned in surface sampling. The Ralleau property currently comprises 220 contiguous mineral claims covering approximately 12,390 hectares.

From 2006 to 2010, the Company has completed the following exploration work in a number of successive programs:

- 75km of linecut grid
- ground magnetic and deep EM surveys
- 1,545.7 meters (5 holes) of diamond drilling
- trenching and channel sampling
- 1,457 line km of helicopter-borne VTEM Survey spaced at 75 meter intervals and which identified a total of forty-nine anomalies of which eight were classified as Priority One
- Preliminary ground-proofing of VTEM anomalies together with minor mapping and prospecting

On February 28, 2011 the Company announced receipt of a NI 43-101 compliant technical report summarizing the results of work to date on the Ralleau Project from MRB & Associates of Quebec. MRB's report recommends a two-phase $1.75M exploration program consisting of further target delineation and definition followed by diamond drilling.

SEDEX property, northern British Columbia:

The Company has a 100% interest in 25 mineral claim units with a total area of 10,705 hectares situated in the Gataga-Akie SEDEX zinc/lead/silver district approximately 280 kilometers north-northwest of Mackenzie, British Columbia.

From 2007 to 2010, the Company completed the following exploration work under two successive options to other parties:

- Under an option agreement with Megastar in 2007, Mantle Resources operated a regional exploration program for SEDEX type lead-zinc deposits on all of the Megastar claims in conjunction with exploration on Mantle's adjacent property. This work included geochemical sampling, gravity surveying, prospecting and mapping and was successful in locating several exhalative horizons and other zones with anomalous zinc, lead, barium and/or silver geochemistry. The option agreement was terminated in May 2008.

- Under an option agreement with Megastar in 2010, Rio Grande Mining Corp. (Rio Grande) completed 1,199 line-kilometers of airborne magnetic survey.

The agreement was further amended on January 19, 2012. Pursuant to the agreement, Rio Grande must issue the Company 300,000 post-split common shares (issued) and pay $89,055 ($64,055 paid), while reducing its liability to incur $100,000 in exploration expenditures due on January 31, 2009 and $200,000 due on July 31, 2010 to a total of $500,000 in exploration expenditures by January 31, 2013.

RESULTS OF OPERATIONS

The Company had net income (loss) of ($53,665) for the three months ended May 31, 2012 (May 31, 2011 – ($787,338)). The Company's expenses related to accounting and audit fees, amortization, bank charges and interest, consulting fees, filing fees, insurance, investor relations and promotion, legal fees, management fees, office, telephone and miscellaneous, rent, share-based payments, transfer agent fees, and travel.

Such expenses include:

- Accounting and audit fees of $3,700 (2011 - $14,166)
- Amortization of $143 (2011 - $164)
- Bank charges and interest of $229 (2011 – $577)
- Consulting fees of $2,600 (2011 - $2,250)
- Filing fees of $7,000 (2011 - $2,040)
- Insurance of $3,516 (2011 - $3,553)
- Investor relations and promotion of $Nil (2011 - $156)
- Legal fees of $Nil (2011 - $17,325)
- Management fees of $25,500 (2011 - $32,500)
- Office, telephone, and miscellaneous of $389 (2011 - $1,943)
- Rent of $6,000 (2011 - $3,750)
- Shareholder information of $543 (2011 - $1,927)

- Travel of $3,540 (2011 - $3,101)
- Transfer agent fees of $753 (2011 - $3,886)
- Loss on share distribution of $Nil (2011 - $700,000)

During the three months ended May 31, 2012, the Company had interest income of $248 (2011 - $Nil).

Accounting and audit fees of $3,700 (2011 - $14,166) decreased compared to the same period of previous year and is attributed to the reduction in accounting services required for the Company's activity level.

Consulting fees of $2,600 (2011 - $2,250) relates to fees paid to consultants retained by the Company. The increase from last year is attributed to the increase in corporate development activities of the Company.

Investor relations and promotion of $Nil (2011 - $156) and travel expense of $3,540 (2011 - $3,101) consist of expenses relating to activities promoting the Company and its projects. The increase in promotional expenses and travel expense over the same period of previous year relate to management's decision to increase promoting activities and enhance shareholders' value.

Legal fees of $Nil (2011 - $17,325) relates to legal expenses in connection with legal advice and guidance for the operations of the Company and its compliance. There is a decrease in legal fees over the same period of previous year due to matters regarding the arrangement and share distribution in first quarter of last fiscal year.

Transfer agent fees of $753 (2011 - $3,886) relates to expenditures in connection with share capital activities of the Company. There is a decrease in transfer agent fees over the same period of previous year due to reduction in share capital activities in the current period. During the same period of last fiscal year, there were more share capital activities as the Company completed share distribution of Eloro shares.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The Company was incorporated on September 24, 1984. The Company's operating results from March 1, 2010 to May 31, 2012 are summarized as follows:

	Three months ended			
	May 31, 2012	February 29, 2012	November 30, 2011	August 31, 2011
Revenue	Nil	Nil	Nil	Nil
Net loss for the period	(117,740)	(118,985)	(115,074)	(265,851)
Loss per share	(0.00)	(0.01)	(0.01)	(0.01)
	Three months ended			
	May 31, 2011	February 28, 2011	November 30, 2010	August 31, 2010
Revenue	Nil	Nil	Nil	Nil
Net income (loss) for the period	(856,688)	5,659,821	(970,273)	(175,832)
Loss per share	(0.08)	(0.03)	(0.02)	(0.02)

The increased net loss in the quarter ended November 30, 2010 compared with the quarter ended August 31, 2010 primary relates to increased consulting fees of $8,500, increased legal fees of $60,895, and there were no share-based payment recoveries during the period ended November 30, 2010.

The increased net income in the quarter ended February 28, 2011 compared with the quarter ended November 30, 2010 primary relates to income from the disposition of the Simkar property to Eloro. The transfer of the property resulted in a gain of $5,019,024.

The increased net loss in the quarter ended May 31, 2011 compared with the quarter ended February 28, 2011 primary relates to the loss on share distribution of $700,000. The $700,000 recorded as a loss relates to the difference between the Eloro shares recorded on the date of the share capital distribution payable and the fair market value of the Eloro shares on the date of distribution.

The decreased net loss in the quarter ended August 31, 2011 compared with the quarter ended May 31, 2011 primary relates to decreased accounting fees of $6,006, and decreased legal fees of $4,464. Although there was an increase of share-based payments of $175,350 compared to the loss on share distribution of $700,000, the net loss in the quarter ended August 31, 2011 was much less than the quarter ended May 31, 2011.

The decreased net loss in the quarter ended November 31, 2011 compared with the quarter ended August 31, 2011 was because there were no share-based payment expenses.

The increased net loss in the quarter ended February 29, 2012 compared with the quarter ended November 30, 2011 was primarily due to the accrual of audit and accounting fees, as well the accounting reclassification of share-based payment recoveries of $72,462 to the statement of changes in equity.

The decreased net loss in the quarter ended May 31, 2012 compared with the quarter ended February 29, 2012 was primarily due to decreased in audit and accounting fees.

LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2012, the Company had net working capital deficiency of $53,691 (February 29, 2012 – $75,205) and cash of $891,261 (February 29, 2012 - $389,758).

Cash balances increased by $501,503 during the three months ended May 31, 2012 and decreased by $41,365 during the three months ended May 31, 2011.

During the three months ended May 31, 2012, cash used in operating activities was $57,443 compared to cash used in operating activities of $68,454 during the three months ended May 31, 2011. The decrease in cash used in operating activities is primarily attributed to a decrease in tax recoverable.

Cash used in investing activities during the three months ended May 31, 2012 was $1,054 compared with cash provided by investing activities of $27,089 during the three months ended May 31, 2011. The decrease of cash provided by investing activities is primarily attributed to the decrease in due to related parties resulting from the decreased management expense.

Cash provided from financing activities during the three months ended May 31, 2012 was $560,000, compared with cash provided by financing activities of $Nil during the three months ended May 31, 2011. The increase in 2012 was a result of share subscriptions received from private placement.

As at May 31, 2012, the Company had shareholders' equity of $546,292. The capital to date was from proceeds of the issuance of common shares. The Company did not have any revenues during the three months ended May 31, 2012.

On June 5, 2012 the Company closed a non-brokered private placement of 11,000,000 units at a price of $0.10 per unit for gross proceeds of $1,100,000. These 11,000,000 units were issued as non-flow through units consisting of one common share and one transferable share purchase warrant. The share purchase warrant entitles the holder to purchase one additional common share at a price of $0.135 per share for a period of 24 months.

The Company can raise additional capital required to satisfy its operational requirements primarily through private placement of its equity securities. The Company anticipates that its current cash on hand will be sufficient to cover its minimum operating expenses for the remaining three months of current fiscal year. There is no assurance that the Company will be able to obtain further funds required for the continued working capital requirements.

OUTSTANDING SHARES

Outstanding Share Data

As at May 31, 2012, there were 17,796,716 common shares, 1,206,250 stocks options, and 7,039,909 warrants outstanding.

During year ended February 29, 2012, the Company's issued capital was altered by consolidating on a 4:1 basis for all of the 42,127,233 issued common shares without par value into 10,531,807 common shares without par value. The basic and diluted loss per share figures and the weighted average number of shares outstanding have been retroactively restated on the statements of operations and deficit.

All current and comparative capital stock amounts have been restated to account for the 4 to 1 common share consolidation.

As of the date this report, the Company had the following outstanding:

- 28,796,716 common shares
- 18,782, 409 warrants
- 1,206,250 stocks options

As of the date of this report, the Company had 48,785,375 fully diluted shares outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at May 31, 2012 or as of the date of this report.

TRANSACTIONS WITH RELATED PARTIES

The amounts due to/from related parties are amounts due to the CFO and CEO. The balances are unsecured, non-interest bearing and have no specific terms for repayment. These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	May 31, 2012	February 29, 2012
	- $ -	**- $ -**
Dusan Berka, CEO and President	6,000	-
Gary Musil, Treasurer and Director	2,000	2,000
David Bickerman, Director	1,000	1,000
Richard Roy, Director	-	5,000
Brian Thurston, Director	1,850	1,850
Chris Staagaard, Director	6,000	6,000
	16,850	15,850

As at Many 31, 2012, the $16,850 (February 29, 2012 - $15,850) due to directors and officers of the Company is accrued management fees.

During the three months ended May 31, 2012 and 2011, the Company entered into the following transactions with related parties:

		May 31, 2012		May 31, 2011
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former director:				
Management and Directors fees	$	25,500	$	32,500
Rent		-		4,800
Total	$	25,500	$	37,300

Management compensation consisted of the following:

	May 31, 2012	May 31, 2011
Duster Capital Corp. (Company controlled by CEO)	18,000	18,000
Gary Musil, Corporate Secretary and Director	-	6,000
Zara Kanji-Aquino, CFO	7,500	-
Richard Roy, Director	-	500
Chris Staargaard, Director	-	2,000
Andrew Lee, Director	-	6,000
	25,500	32,500

CRITICAL ACCOUNTING ESTIMATES

During the three months ended May 31, 2012, the Company did not have any critical accounting estimates.

For a detailed summary of the Company's significant accounting policies, the reader is directed to Note 2 of the Notes to the audited financial statements for the year ended February 29, 2012 are available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in provincial securities legislation. The Company evaluated its disclosure controls and procedures as defined

under National Instrument 52-109 as at May 31, 2012. The Company's Chief Executive Officer and Chief Financial Officer performed this evaluation. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

RISKS AND UNCERTAINTIES

The Company believes that the following risks and uncertainties may materially affect its success.

Limited Operating History

The Company has no history of business or mining operations, revenue generation or production history. The Company was incorporated on September 24, 1984 and has yet to generate a profit from its activities. The Company is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objective. The Company anticipates that it may take several years to achieve positive cash flow from operations.

Exploration, Development and Operating Risks

The exploration for and development of minerals involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of minerals disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any minerals discovered would result in an increase in the Company's resource base.

The Company's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity; flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution, and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

Fluctuating Mineral Prices

The economics of mineral exploration is affected by many factors beyond the Company's control, including commodity prices, the cost of operations, variations in the grade of minerals explored and fluctuations in the market price of minerals. Depending on the price of minerals, it may be determined that it is impractical to continue the mineral exploration operation.

Mineral prices are prone to fluctuations and the marketability of minerals is affected by government regulation relating to price, royalties, allowable production and the importing and exporting of minerals, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any minerals found on the Property.

Substantial Capital Requirements and Liquidity

Substantial additional funds for the establishment of the Company's current and planned mining operations will be required. No assurances can be given that the Company will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Mineral prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures, operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

Regulatory Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of mineral properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the facilities and conduct of exploration and development operations will be obtainable on reasonable terms or that such laws and regulation would not have an adverse effect on any exploration and development project which the Company might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulation and permits governing operations and activities of mineral companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs or require abandonment or delays in the development of new properties.

Financing Risks and Dilution to Shareholders

The Company will have limited financial resources, no operations and no revenues. If the Company's exploration program on its properties is successful, additional funds will be required for the purposes of further exploration and development. There can be no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital will be raised through the issuance of additional equity, which will result in dilution to the Company's shareholders.

Title to Properties

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. The Company cannot give an assurance that title to the Property will not be challenged or impugned. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that the Company, as the case may be, does not have title to the properties could cause the Company to lose any rights to explore, develop and mine any minerals on that property, without compensation for its prior expenditures relating to such property.

Requirement for Permits and Licenses

As the Company holds properties subject to the NSR and it and may need to acquire further permits or licenses necessary to carry on proposed exploration activities on the properties. A substantial number of permits and licenses may be required should the Company proceed beyond exploration; such licenses and permits may be difficult to obtain and may be subject to changes in regulations and in various operational circumstances. It is uncertain whether the Company will be able to obtain all such licenses and permits.

Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company will compete with other mining companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of minerals claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon on the performance of the directors and officers and the ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

No Mineral Reserves or Mineral Resources

The properties in which the Company holds an interest is considered to be an early exploration stage property, however no mineral reserve or mineral resource estimates have been prepared in respect of the properties. Mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet commenced production may require revision based on actual production experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different mineral grades may cause a mining operation to be unprofitable in any particular accounting period.

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Governmental Regulations and Processing Licenses and Permits

The activities of the Company are subject to Canadian and provincial approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner, which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's investments in such projects may decline.

Local Resident Concerns

Apart from ordinary environmental issues, work on, or the development and mining of the properties could be subject to resistance from local residents that could either prevent or delay exploration and development of the properties.

Conflicts of Interest

Certain of the directors and officers of the Company will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The British Columbia Business Corporations Act ("BCBCA") provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director must disclose his interest in such contract or agreement and refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA.

Uninsurable Risks

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's results of operations and financial condition and could cause a decline in the value of the Company shares. The Company does not intend to maintain insurance against environmental risks.

Litigation

The Company and/or its directors may be subject to a variety of civil or other legal proceedings, with or without merit.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements are projections of events, revenues, income, future economic performance or management's plans and objectives for future operations. In some cases, you can identify forward-looking statements by the use of terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. Examples of forward-looking statements made in this MD&A include statements about the Company's business plans; the costs and timing of its developments; its future investments and allocation of capital resources; success of exploration activities; requirements for additional capital; government regulation of mining operations. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including: general economic and business conditions, fluctuations in worldwide prices and demand for minerals; our lack of operating history; the actual results of current exploration activities; conclusions or economic evaluations; changes in project parameters as plans continue to be refined; possible variations in grade and or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes or other risks of the mining industry; delays in obtaining government approvals or financing or incompletion of development or construction activities, any of which may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

While these forward-looking statements and any assumptions upon which they are based are made in good faith and reflect our current judgment regarding the direction of the Company's business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Except as required by applicable law, including the securities laws of the Canada, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS

A detailed breakdown of exploration and general and administrative expenses is provided in the financial statements for three months ended May 31, 2012.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANICAL REPORTING

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying MD&A.

In contrast to the certificate under National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification includes a 'Note to Reader' stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financing reporting, as defined in NI 52-109.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New Accounting Pronouncements Not Yet Adopted

The Company has not yet adopted certain new standards, amendments, and interpretations to existing standards, which has been published but are only effective for accounting periods beginning on or after January 1, 2012.

The following standards and interpretations have been issued but are not yet effective:

IFRS 9 Financial Instruments – IFRS 9 is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This new standard is effective for annual periods beginning on or after January 1, 2015. The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the financial statements.

IFRS 10 Consolidated Financial Statements - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation - Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 11 Joint Arrangements - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 12 Disclosure of Interests in Other Entities - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles.

The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 13 Fair Value Measurement - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 20 Stripping Costs in the Production Phase of a Surface Mine - In International Financial Reporting Interpretations Committee ("IFRIC") 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

FINANCIAL AND OTHER INSTRUMENTS

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Company of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are

subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those, which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

OTHER MATTERS

Legal proceedings

The Company is not aware of any legal proceedings.

Contingent liabilities

At the date of report, management was unaware of any outstanding contingent liability relating to the Company's activities.

Flow-through Shares Subscription Commitment

The Company is in arrears on filing certain of its statutory tax forms. The Company has exposure to late filing penalties and related interest. The Company has included a provision of $9,457 during the year ended February 28, 2011 to accrue for such liabilities. The Company may be required to indemnify flow-through investors for the amount of increased tax payable by the flow-through investor as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flow-through investors. Previously renounced and unspent exploration amounts of $335,466 relating to the 2006 flow-through shares offering may be subject to such indemnification. The Company estimates that the potential liability is $311,512 as at February 29, 2012 and has accrued a provision for this, recorded in interest and penalties. The outcome of the amount of actual claims, if any, is contingent on future assessments to the investors.

PROPOSED TRANSACTIONS

The Company had no proposed transactions.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Detailed listings of general and administrative expenses and exploration expenditures are provided in the financial statements of the Company for the three months ended May 31, 2012.

DIRECTORS

Changes of Directors and Officers

On March 31, 2011, the Company announced Richard Roy, P. Geo resigned as a director of the Company in order to focus on other professional commitments and business interests. The Company appointed Andrew Lee to its Board to fill the vacancy created by Mr. Roy's resignation.

On September 2, 2011, the Board of Directors appointed Mr. Andrew Lee as Vice President, who has been Director of the Company since March 30, 2011. Mr. Gary Musil resigned as CFO and Corporate Secretary. Ms. Zahara Kanji–Aquino was appointed as CFO to fill the vacancy created by Mr. Musil's resignation. Ms. Zahara Kanji-Aquino has been a Member of the Certified General Accountants of British Columbia and Canada since 2003. She has many years of experience in financial reporting for publicly listed companies, and has been holding CFO positions in various resource companies.

Certain directors of the Company are also directors, officers and/or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploring natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his/her interest and abstain from voting in the matter(s). In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

Current Directors of the Company are as follows:

1. Dusan Berka
2. Gary Musil
3. Christiaan Staargaard
4. Andrew Lee

OUTLOOK

The Company's primary focus for the foreseeable future will be on reviewing its financial position, continuing exploration and development activities on its mineral properties, and the Company's ongoing evaluation of possible projects.

OTHER REQUIREMENTS

Additional disclosure of the Company's material documents, information circular, material change reports, new release, and other information can be obtained on SEDAR at www.sedar.com.

APPROVAL

The board of Directors of the Company has approved the disclosure contained in this Management Discussion and Analysis. A copy will be provided to anyone who requests it.

On Behalf of the Board of Directors,

"Dusan Berka"
Dusan Berka, P. Eng.
President, CEO and Director
July 25, 2012

MEGASTAR DEVELOPMENT CORP.

LISTING

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Frankfurt Stock Exchange Symbol: M5Q

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DIRECTORS AND OFFICERS

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Andrew Lee, Vice President, Director
Zara Kanji-Aquino, CFO
Gary Musil, Director
Chris Staargaard, P. Geo, Director

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