MEGASTAR DEVELOPMENT CORP.

Management's Discussion & Analysis

Form 51-102F1

For the three months ended May 31, 2013

July 23**,** 2013

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, 2013 and the audited financial statements and the accompanying notes for the three months ended May 31, 2013, 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.

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 expected results.

DESCRIPTION OF THE COMPANY'S BUSINESS

The Company was incorporated on September 24, 1984 and is listed on the TSX Venture Exchange (TSX-V) 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 has interests in 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 financial statements have been prepared under a 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 ensuing 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, 2013 the Company had working capital of $733,467 (February 28, 2013 – $776,828). 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

MINERAL INTERESTS

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. The Company is assessing its options on the property and seeking joint venture opportunities.

As at year ended February 28, 2013, management had decided not to renew a small number of claims in outlying areas of the property, as such an impairment charge was recorded to write down the project by $44,091 at February 28, 2013.

SEDEX property, northern British Columbia:

The Company has a 100% interest in 9 mineral claim units with a total area of 3,302 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 with Rio Grande was further amended on January 19, 2012. Pursuant to the agreement, Rio Grande had to issue to the Company 200,000 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 (not incurred). The Option Agreement with Rio Grande was terminated by mutual consent on July 19, 2012. Upon TSX-V approval, Rio Grande agreed to issue 250,000 treasury shares to the Company (outstanding) as compensation for all outstanding out of pocket expense amounting to $25,000 in connection with keeping the property current and in good standing.

On September 30, 2011, the Company received $10,000 from Goldeneye Resources Corp. (formerly "Barranco Resources Corp") as a non-refundable advance payment for granting a right of first refusal in connection with a possible option agreement for SEDEX property. Goldeneye Resources Corp. has chosen not to pursue an option interest in the SEDEX property.

On August 2, 2012, the Company entered into a letter of intent with Yuntone Capital Corp. ("Yuntone"). The Company granted an option to Yuntone to purchase up to an undivided 60% interest in Sedex claims. For Yuntone to earn a 60% interest in the Sedex claims, it had to pay to the Company cash of $50,000 (received $25,000 from Yuntone), issue 250,000 common shares, and incur $500,000 in exploration expenditures. On October 9, 2012, the letter of intent was terminated by mutual consent and shall have no further force or effect. The Company returned the payment of $25,000 to Yuntone on October 9, 2012.

The Company abandoned 8 mineral claims during the year ended February 29, 2012, and abandoned 16 mineral claims during the year ended February 28, 2013, leaving the Company with a 100% interest in 9 mineral claims, totaling 3,302 hectares. The property has been written down to a nominal carrying value of $1 pursuant to the forfeiture of claims and management's assessment of impairment as at year ended February 28, 2013.

RESULTS OF OPERATIONS

The Company had net loss of $25,817 for the three months ended May 31, 2013 (2012 –$53,665). The Company's expenses included the following:

- Accounting and audit fees of $5,900 (2012 - $3,700)
- Depreciation of $119 (2012 - $143)
- Consulting fees of $Nil (2012 - $2,600)
- Transfer agent and filing fees of $1,497 (2012 - $7,753)
- Insurance of $1,669 (2012 - $3,516)
- Legal fees of $688 (2011 - $Nil)
- Management fees of $15,000 (2011 - $25,500)

- Office, telephone, and miscellaneous of $831 (2012 - $618)
- Rent of $3,000 (2012 - $6,000)
- Shareholder information of $607 (2012 - $543)
- Travel of $Nil (2012 - $3,540)

During the three months ended May 31, 2013, the Company had interest income of $3,494 (2012 - $248).

Transfer agent and filing fees of $1,497 (2012 - $7,753) relates to expenditures in connection with share capital activities of the Company. There is a decrease in transfer agent fees over the same period in the previous year from a reduction in share capital activities in the current period.

Management fees of $15,000 (2011 - $25,500) consist of payments made to a CEO and CFO as discussed under the heading "Related Party Transactions". The decrease from the last year is due to the lower management fees than the same period in the previous year based on the agreement signed between the Company and the Company's CEO and CFO.

Rental expenses of $3,000 (2012 - $6,000) are expenses paid for the Company's occupancy. The rental fees were decreased from the same period in the previous year as management concentrated its efforts to downsize and conserve cash.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The Company's operating results from the last eight quarters are summarized as follows:

	Three months ended			
	May 31, 2013	February 28, 2013	November 30, 2012	August 31, 2012
Revenue	Nil	Nil	Nil	Nil
Total comprehensive loss	(39,520)	(148,238)	(83,947)	(142,364)
Loss per share	(0.001)	(0.01)	(0.00)	(0.00)

	Three months ended			
	May 31, 2012	February 29, 2012	November 30, 2011	August 31, 2011
Revenue	Nil	Nil	Nil	Nil
Total comprehensive loss	(117,742)	(118,985)	(115,074)	(265,851)
Loss per share	(0.00)	(0.01)	(0.01)	(0.01)

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 as 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 decrease in audit and accounting fees. Accounting fees in the same period in the prior year were recorded in the first quarter of 2012 as opposed to the year ending February 28, 2011.

The increased comprehensive loss in the quarter ended August 31, 2012 compared with the quarter ended May 31, 2012 was primarily due to an increase in unrealized loss on marketable securities of $47,625 and the impairment for exploration and evaluation interest of $34,364.

The decreased net loss in the quarter ended November 30, 2012 compared with the quarter ended August 31, 2012 was primarily due to decreased consulting fees of $28,200, impairment for exploration and evaluation interest of $34,364, and share-based payment expenses occurred in the quarter ended August 31, 2012.

The increased net loss in the quarter ended February 28, 2013 compared with the quarter ended November 30, 2012 was primarily due to share-based payment expenses of $43,350 and impairment charge of $89,447 occurred in the quarter ended February 28, 2013.

The decreased net loss in the quarter ended May 31, 2013 compared with the quarter ended February 28, 2013 was primarily due to decreased accounting and audit fees of $16,100, share-based payment expense of $43,350, impairment of marketable securities of $122,575 and impairment on exploration and evaluation assets of $55,083 occurred in the quarter ended February 28, 2013.

LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2013, the Company had net working capital of $733,467 (February 28, 2013 – $776,828) and cash of $1,154,721 (February 28, 2013 - $1,170,616).

There was no share capital transactions during the three months ended May 31, 2013.

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.

In August 2012, the Company granted incentive stock options to its directors, officers, consultants, and employees to purchase the total of 425,000 common shares in the capital stock of the company, exercisable for a period of two years, at a price of $0.10 per share.

In January 2013, the Company granted incentive stock options to its directors, officers, consultants, and employees to purchase the total of 600,000 common shares in the capital stock of the company, subject to regulatory approval, exercisable for a period of three years, at a price of $0.10 per share.

On May 3, 2013, the Company received approval from TSX-V to extend the terms of certain warrants previously issued. The private placements, which these warrants relate to, closed on July 20, 2011 and June 1, 2012, respectively. These warrants initially had expiry dates of July 20, 2013 and June 1, 2014 and were extended for a period of two years and now expire on July 20, 2015 and June 1, 2016 respectively. All other terms of the warrants remain the same.

Three months ended May 31, 2013:

Cash balances decreased by $15,895 during the three months ended May 31, 2013 and increased by $501,503 during the three months ended May 31, 2012.

During three months ended May 31, 2013, cash used in operating activities was $20,429 compared to cash used in operating activities of $57,443 during the three months ended May 31, 2012. The decrease in cash used in operating activities is primarily attributed to the lower expenditures on professional fees and management fees, and management's efforts to conserve cash and incur only necessary compliance and operational expenses.

Cash provided by investing activities during the three months ended May 31, 2013 was $4,534 compared with cash used investing activities of $1,054 during the three months ended May 31, 2012. The difference is primarily attributed to the interest received from term deposit and the increased balance on due to related parties.

Cash provided from financing activities during the three months ended May 31, 2013 was $Nil, compared with cash provided by financing activities of $560,000 during the three months ended May 31, 2012. The difference was a result of the share subscriptions received from private placement during the three months ended May 31, 2012.

As at May 31, 2013, the Company had shareholders' equity of $1,245,937. The capital to date was from proceeds from the issuance of common shares. The Company did not have any revenues during the three months ended May 31, 2013.

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 next 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, 2013, there were 28,996,716 common shares, 1,475,000 share options, and 18,782,409 warrants outstanding.

	Number of shares	Share capital
Balance, February 29, 2012	17,796,716	$ 4,133,551
Shares issued for private placement	11,000,000	1,100,000
Share options exercised	200,000	20,000
Fair value of options exercised	-	14,450
Shares issued cost (agent's warrants)	-	(52,573)
Shares issued cost	-	(74,250)
Balance, February 28, 2013 and May 31, 2013	28,996,716	$ 5,141,178

On March 4, 2013, 93,750 options exercisable at $0.52 expired unexercised.

On July 20, 2013, 437,144 warrants exercisable at $0.135 expired unexercised.

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

- 28,996,716 common shares
- 18,345,265 warrants
- 1,475,000 share options

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at May 31, 2013 or as of the date of this report.

TRANSACTIONS WITH RELATED PARTIES

The amounts due to/from related parties are amounts due to the directors and officers. 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.

Due to Related Parties

	May 31, 2013	February 28, 2013
	- $ -	- $ -
Dusan Berka, CEO and President	3,000	-
Zara Kanji-Aquino, CFO	7,000	5,000
Chris Staagaard, Director	6,000	6,000
Directors (former)	2,850	2,850
	18,850	13,850

As at May 31, 2013, $18,850 (February 28, 2013 - $13,850) due to directors and officers of the Company is accrued management fees and prior director fees payable.

During the three months ended May 31, 2013 and 2012, the Company entered into the following transactions with related parties:

	Three months ended	
	May 31, 2013	May 31, 2012
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former directors:		
Management and directors fees	15,000	25,500
Professional fees	2,000	-
	$ 17,000	$ 25,500

Management compensation consisted of the following:

	Three months ended	
	May 31, 2013	May 31, 2012
	- $ -	- $ -
Duster Capital Corp. (Company controlled by CEO)	9,000	18,000
Zara Kanji-Aquino, CFO	6,000	7,500
	15,000	25,500

CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

i) Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

ii) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

iii) Income Taxes

The Company has not recognized a deferred tax asset as management believe it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

iv) Flow Through Shares Provisions

Flow-through share provisions are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring on a timely basis the appropriate amount of qualifying exploration expenditures required related to past flow-through share issuances. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made required exploration expenditures.

Flow-through share provisions have been created based on the Company's internal estimates of the maximum tax penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future potential liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. The final cost of the flow-through share provision may be lower than currently provided for.

For a detailed summary of the Company's significant accounting policies, the readers are directed to Note 3 of the Notes to the audited financial statements for the three months ended May 31, 2013 that are available on SEDAR at www.sedar.com.

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 the three months ended May 31, 2013.

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

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") during the year. None of these are expected to have a significant effect on the financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.
<u>The following standards and interpretations have been issued but are not yet effective:</u>

Amended standard IAS 1 Presentation of Financial Statements - These amendments require components of other comprehensive income (OCI) to be separately presented between those that may be reclassified to income and those that will not. These amendments are effective for annual periods beginning on or after July 1, 2012.

IFRS 7 Financial Instruments: Disclosures - Offsetting of Financial Assets and Liabilities - These amendments are applicable for annual reporting periods beginning on or after January 1, 2013 and requires an entity to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

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 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 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.
Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures and IAS 32 Financial Instruments: Presentation. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint

ventures in its scope and to address the changes in IFRS 10 to IFRS 13. IAS 32 amendment provides clarification on the application of offsetting rules. IAS 27 and IAS 28 are applicable to annual reporting periods beginning on or after January 1, 2013. IAS 32 is applicable to annual reporting periods beginning on or after January 1, 2014.

The Company does not expect that the new and amended standards will have significant impact on its financial statements.

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.

Management Commitment

As at May 31, 2013, the Company has consulting and management agreements that can be terminated by the Company by giving 30 days notice. The aggregate amount of these agreements is $5,000 monthly. The Company entered into a revised management agreement with a company controlled by the CEO of the Company dated April 23, 2013. The management agreement with the company controlled by the CEO contains a 30 days termination clause.

The Company entered into a revised management agreement with a company controlled by the CFO of the Company dated April 23, 2013. The management agreement with the company controlled by the CFO contains a 30 days termination clause.

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, amounting to $133,878. The Company may also 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 total potential liability is $190,297 as at May 31, 2013 and has included a provision for this amount together with the interest and penalty accruals in other liabilities. The total amount of $409,217 included within other liabilities includes taxes payable of $85,042, penalties of $100,824, shareholder indemnity liability of $190,297, and total interest of $33,054. 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, 2013.

DIRECTORS

Changes of Directors and Officers

On November 29, 2012, two new directors, Paul A. Smith of Bristol, UK and Jonathan M. Rich of Montreal, Quebec were elected at the Annual General Meeting of shareholders. Gary Musil and Andrew Lee did not stand for re-election as directors and/or officers. Following the Annual General meeting, the newly elected board of directors appointed Dusan Berka as President and CEO, and Zahara Kanji-Aquino as CFO and Corp. Secretary.

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.

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 23, 2013

MEGASTAR DEVELOPMENT CORP.

LISTING

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Frankfurt Stock Exchange Symbol: M5Q

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Zara Kanji-Aquino, CGA, CFO and Corporate Secretary
Chris Staargaard, P. Geo, Director
Paul A. Smith, Director
Jonathan M. Rich, Director

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