



**MEGASTAR DEVELOPMENT CORP.**

**Management Discussion & Analysis**

**Form 51-102F1**

**As at and for the six months ended August 31, 2019**

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October 29, 2019

## **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 interim condensed consolidated financial statements and the accompanying notes for the six months ended August 31, 2019, and the audited consolidated financial statements and the accompanying notes for the year ended February 28, 2019, copies of which are filed on the SEDAR website: [www.sedar.com](http://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. Information provided in this MD&A, including financial information extracted from the financial statements, is the responsibility of management. 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. Accordingly, actual results may differ materially from the expected results.

## **DESCRIPTION OF THE COMPANY'S BUSINESS**

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public company listed on the TSX Venture Exchange ("TSX-V") and the Frankfurt Stock Exchange. The Company is assessing its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under mineral property agreements and to complete the development of the properties, and upon future profitable production or the sale thereof.

On August 24, 2018, the Company incorporated a subsidiary, Minera Mazateca, S.A. de C.V. ("Minera Mazateca" or "Subsidiary"), under the laws of the United Mexican States.

The Company is listed as a Tier 2 mining exploration issuer. The Company is primarily engaged in the acquisition, exploration and development of mineral properties in Quebec, Canada and in the state of Oaxaca, Mexico. At August 31, 2019, the Company had no revenue producing operations and has an accumulated deficit of \$5,163,848 (February 28, 2019 - \$4,861,655) since its inception. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting year. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

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 August 31, 2019, the Company had a working capital of \$379,494 (February 28, 2019 - \$55,409). For significant expenditures and mineral property development, the

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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.

The head office, and principal address of the Company is Suite 1450, 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2. The Company's registered and records address is at the corporate solicitor's office, Fasken Martineau DuMoulin LLP, 2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3.

**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 have 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. As of the date of this report, the Ralleau property comprises 59 contiguous mineral claims covering approximately 3,324 hectares.

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

- 75 km of line cut 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 April 5, 2017, the Company entered into an option agreement with Deeprock Minerals Inc. ("optionee") on the Company's wholly owned Ralleau Property. Under the terms of the option agreement, the optionee will be deemed to have exercised its option to acquire a 50% interest in the property by cash payments of \$100,000, issuance of 750,000 common shares, and incurring Exploration Expenditures of \$250,000.

On September 11, 2017, the optionee changed its share capital structure by 1:2 forward split. Consequently, the 750,000 common shares to be issued to the Company will be prorated proportionally, aligning with the split.

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On March 15, 2018, the Company and the optionee amended the terms of the option agreement for the Ralleau Property. Under the amended agreement, the Company will receive 1,700,000 post-split (850,000 pre-split) common shares instead of 1,500,000 post-split (750,000 pre-split) common shares.

On June 30, 2018, the Company and the optionee entered the second amendment agreement to amend the terms of the option agreement for the Ralleau Property. Under the second amended agreement, the Company will receive 600,000 post-split common shares, which is due on the earlier of August 31, 2018 and the date the optionee's common shares are listed and begin trading on the Canadian Securities Exchange ("exchange listing date"). Moreover, the total exploration expenditure of \$25,000 is due on or before October 31, 2018 in lieu of June 15, 2018 as under the first amended agreement. As a result of the amendments, the optionee is required to fulfill the following terms:

(a) Cash payment of \$100,000 and issuance of 1,700,000 post-split common shares as follows:

- i. \$5,000 on or before the execution of this agreement (paid);
- ii. \$5,000 (paid) and 600,000 post-split (300,000 pre-split) common shares (issued 600,000 shares on January 29, 2019 at a fair value of \$0.07 per share) on or before the exchange listing date (November 16, 2018);
- iii. \$5,000 (paid) and 200,000 post-split (100,000 pre-split) common shares (issued 200,000 shares on April 9, 2018 at a fair value of \$0.0375 per share) on or before the first anniversary date of this agreement (April 5, 2018);
- iv. \$10,000 (paid on April 9, 2019) and 400,000 post-split (200,000 pre-split) common shares (issued 400,000 shares on April 5, 2019) on or before the second anniversary date of this agreement (April 5, 2019);
- v. \$75,000 and 500,000 post-split (250,000 pre-split) common shares on or before the third anniversary date of this agreement (April 5, 2020).

(b) Exploration expenditures of \$250,000 on the Property as follows:

- i. \$40,000 on or before May 30, 2017 (incurred);
- ii. \$15,000 on or before July 31, 2017 (incurred);
- iii. \$25,000 on or before October 31, 2018 (incurred);
- iv. \$50,000 on or before the second anniversary date of this agreement (April 5, 2019) (incurred);
- v. \$120,000 on or before the third anniversary date of this agreement (April 5, 2020).

As at August 31, 2019, the Company had a receivable balance of \$12,402 from the optionee.

During the six months ended August 31, 2019, the Company received \$10,000 (February 28, 2019 - \$10,000) from the optionee pursuant to the option agreement.

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#### **SEDEX property**, northern British Columbia:

On December 20, 2017, the Company abandoned seven mineral claims for its SEDEX property. On February 14, 2018, one remaining mineral claim in SEDEX property also expired.

As at February 28, 2018, the Company no longer has interest or ownership in any SEDEX claims, allocated approximately 280 kilometers north-northwest of Mackenzie, British Columbia.

The Company decided not to pursue this property as a result of market constraints and economic feasibility of the project. The nominal carrying value of this property has been written off entirely.

#### **RAMA DE ORO project**, Oaxaca, Mexico

On May 9, 2018, the Company entered into an option agreement to acquire a 100% interest in the Rama de Oro Project, located in the state of Oaxaca, Mexico.

The Project lies to the northwest of and borders the La Calavera and Cobre Grande copper-gold porphyry-skarn projects in east-central Oaxaca. It also lies to the north of the WNW-ESE San José structural zone defined by Gold Resource Corporation (<http://www.goldresourcecorp.com/exploration.php>). The Project is hosted by caldera-related Tertiary volcanic rocks (e.g. El Aguila model) crosscut by hydrothermal veining inferred to be related to late-stage granitic magmatism locally exposed as dikes and underlying the adjacent 'Nueve Puntos' mountain. Similar intrusions are associated with a 43-101 inferred resource of 49.8 MT containing 0.5% Cu, 0.04% Mo, 0.22% Zn and 12.9 g/t Ag at the Cobre Grande skarn system, which lies 6 km to the east, along the same structural trend (Source: TECHNICAL REPORT ON THE COBRE GRANDE PROJECT, OAXACA STATE, MEXICO prepared for Linear Metals Corporation (now Stockport Exploration Inc.), David A. Ross, M.Sc., P.Geol. and Paul Chamois, M.Sc. (Applied), P.Geol., May 6, 2008 - available on SEDAR on the issuer profile of Stockport Exploration Inc.).

Access to the Project is by two-lane paved highway from Oaxaca followed by improved dirt roads from Santiago Matatlán to the western side of the project area. Numerous dirt farm roads and paths afford access to majority of the project area. Oaxaca City, Santiago Matatlán, and San Pablo Villa de Mitla are local sources of skilled workers, water, and power for the project.

To date, exploration work at Rama de Oro consisted of reconnaissance geological mapping and rock-chip sampling. This work has outlined a 4 square-kilometer zone of quartz veining, silicification, and clay alteration of volcanic rocks inside and near the eastern margin of a Miocene caldera. Several rock samples assayed anomalous values of gold, silver, arsenic, mercury, and antimony, suggesting that the present-day surface represents high structural levels of a precious metal system.

To earn the 100% interest, the Company is required to make total cash payments of US\$35,000, issue a total of 2,900,000 common shares of the Company, and incur total work expenditures of US\$350,000 over a two-year period as follows:

- i. Pay US\$35,000 (paid) (\$45,703) and issue 1,100,000 common shares (issued on August 8, 2018 with a fair value of \$71,500) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.
- ii. Issue 600,000 common shares (issued on July 24, 2019) to the optionor and incur US\$150,000 work expenditures (incurred \$62,377 (US\$47,367) until August 31, 2019) on or before the first anniversary of the approval date (May 9, 2019).

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- iii. Issue 1,200,000 common shares to the optionor and incur US\$200,000 work expenditures on or before the second anniversary of the approval date (May 9, 2020).

A 2% net smelter return royalty is payable to the optionor, of which the Company have the right to purchase 1% of the royalty at any time for US\$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

Work on this project is currently paused pending community agreement for access. As of the date of the report the parties to the option agreement are negotiating amended terms on the work exploration of the project

#### **YAUTEPEC project, Oaxaca, Mexico**

On June 1, 2018, the Company entered into an option agreement to acquire a 100% interest in the Yautepec Project, located in the state of Oaxaca, Mexico.

The Yautepec Project comprises 4,861 hectares of Tertiary volcanic rocks highly prospective for hosting epithermal precious metal mineralization similar to that in the nearby producing Arista and Switchback mines at Gold Resources El Aguila project (20 km to the WNW) and Chesapeake Gold's La Gitana project (8 km to the east-southeast). The project lies along a prominent northwest-southeast structural trend defined by small volcanic centers which include numerous identified Au-Ag prospects as identified in regional mapping by the Mexican Geological Survey (Servicio Geológico Mexicano (SGM)), none of which have been systematically explored by modern methods. The mapped altered rocks along this trend are part of a nearly 100-kilometer-long structural volcanic corridor that extends from the San Jose mine (Fortuna Silver) to the northwest, to Chesapeake Gold's Gitana project to the southeast. Outside of areas of active mining, the region has seen little to no systematic exploration, and the Yautepec project is inferred to represent one of the most prospective segments of the trend.

Two periods of geologic mapping and rock chip sampling have been completed to date. This work has identified volcanic caldera-related features which include rhyolite domes, breccias, and volcanic tuffs along a 22-kilometer trend. Evidence for a strongly developed epithermal system with the potential to host precious and base metal deposits in veins is found along at least 8.4 kilometers of this trend as evidenced by the presence of quartz veins and intrusive dike rocks, and fossil carbonate and silica hot springs deposits (travertine and sinter). Geochemical results from 321 rock chip samples reveal modest to strong anomalies in Au, Ag, Cu, Pb, Zn, Mo, As, Ba, Hg, Se, Te, and Tl as reported in a news releases dated July 16 and August 22, 2019.

Successful negotiations were reached with Gunpoint Exploration Ltd., and its Minera CJ Gold S.A. de C.V., to acquire an inlier tenement ('Cerro Minas'; 899 hectares), as announced in a Company news release dated October 16, 2019. Under the terms of the Agreement, the Company may earn a 100% interest in the Property by paying Gunpoint US\$100,000 and issuing 800,000 common shares (the "**Shares**") as follows:

- i. US\$10,000 and 100,000 Shares on the Effective Date;
- ii. US\$20,000 and 150,000 Shares on the first anniversary of the Effective Date;

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- iii. US\$30,000 and 250,000 Shares on the second anniversary of the Effective Date; and
- iv. US\$40,000 and 300,000 Shares on the third anniversary of the Effective Date.

Gunpoint shall retain a 1.5% Net Smelter Returns Royalty on the Property, of which the Company may purchase, at any time, 0.5% for US\$1,000,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

**MAGDALENA Project, Oaxaca, Mexico**

On June 1, 2018, the Company entered into an option agreement to acquire a 100% interest in the Magdalena Project, located in the state of Oaxaca, Mexico.

The Magdalena Project comprises a single 480-hectare property centered on highly altered volcanic rocks approximately 20 kilometers ENE of Gold Resource Corporation's (GRC) producing Au-Ag-base metal deposits. Extensive felsic tuffs mapped by SGM are interpreted by Mr. David Jones, as a caldera setting, similar to that of the GRC mine area and the Company's recently acquired Rama de Oro Project. Historical sampling of strongly clay- and silica-altered rocks at Magdalena reported values up to 0.705 g/t Au, 15.2 g/t Ag, 2700 ppm As, 53 ppm Bi, 357 ppm Cu, 12,780 ppm Hg, 38 ppm Mo, 2730 ppm Pb, and 147 ppm Zn. The area of coincident metals anomalies, clay and silica alteration, sulfate (gypsum) deposition, and minor rhyolite diking, lies along a prominent NW-SE structural trend (SGM mapping) adjacent to an inferred caldera margin. The presence of various types of chalcedonic and vuggy silica, elevated pathfinder metals (Hg, As), and extensive sulfate deposition (gypsum) indicates exposures at the highest levels of an anomalous Au-Ag-base metal system with excellent exploration potential.

Field work consisting of geologic mapping and rock chip geochemical sampling is currently underway.

To earn the 100% interest, the Company is required to make total cash payments of US\$5,000, issue a total of 1,550,000 common shares of the Company, and incur total work expenditures of US\$230,000 over a three-year period as follows:

- i. Pay US\$5,000 (paid) and issue 200,000 common shares (issued on August 8, 2018 with a fair value of \$13,000) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.
- ii. Issue 450,000 common shares (issued on July 24, 2019) to the optionor and incur US\$40,000 work expenditures (incurred \$80,790 (US\$25,203) as of August 31, 2019) on or before the first anniversary of the approval date (June 1, 2019).
- iii. Issue 900,000 common shares to the optionor and incur US\$70,000 work expenditures on or before the second anniversary of the approval date (June 1, 2020).
- iv. Incur US\$120,000 work expenditures on or before the third anniversary of the approval date (June 1, 2021).

A 2% net smelter return royalty is payable to the optionor, of which the Company has the right to purchase 1% at any time for US\$1,650,000.

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All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

As of the date of the report, the Company and the optionee were negotiating amending work exploration amount on the project.

**CERRO MINAS** concession, Oaxaca, Mexico

On October 16, 2019, the Company entered into an Option Agreement with Gunpoint Exploration Ltd. ("Gunpoint") and Gunpoint's subsidiary, Minera CJ Gold S.A. de C.V. ("CJ Gold"), whereas the Company, through its subsidiary, Minera Mazateca, may acquire 100% interest in the Cerro Minas mineral concession (title # 234333) having a surface area of 899 hectares, located in the state of Oaxaca, Mexico (the "Property"). Under the terms of the Agreement, the Company may earn the said interest in the Property by paying Gunpoint US\$100,000 and issuing 800,000 common shares (the "Shares") as follows:

- US\$10,000 and 100,000 Shares on the Effective Date (October 23, 2019);
- US\$20,000 and 150,000 Shares on the first anniversary of the Effective Date (October 23, 2020);
- US\$30,000 and 250,000 Shares on the second anniversary of the Effective Date (October 23, 2021); and
- US\$40,000 and 300,000 Shares on the third anniversary of the Effective Date (October 23, 2022).
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Gunpoint shall retain a 1.5% Net Smelter Returns Royalty on the Property, of which the Company may purchase, at any time, 0.5% for US\$1,000,000. The agreement is subject to the approval of the TSX Venture Exchange (approval received October 21, 2019) and Gunpoint satisfying certain conditions, specifically: (a) Gunpoint having delivered to Megastar (and to Mazateca) all reports and other filings regarding the Property which were required to be filed by CJ Gold under applicable laws (including, notably, the Ley Minera and the regulations adopted thereunder), and (b) having paid all outstanding fees and having provided written evidence of same to Megastar (and to Mazateca). All conditions were met as of October 23, 2019

All shares issued pursuant to the Agreement will be subject to a hold period of four months and one day following issuance.

**RESULTS OF OPERATIONS**

The Company had a comprehensive loss of \$302,193 for the six months ended August 31, 2019 (August 31, 2018 – \$156,599). The Company's operating expenses included the following:

- Accounting and audit fees of \$17,589 (2018 - \$5,682)
- Consulting fees of \$22,860 (2018 - Nil)
- Depreciation of \$19 (2018 - \$40)
- Insurance of \$4,100 (2018 - \$3,851)
- Investor relations and promotion of \$2,209 (2018 - \$Nil)
- Legal fees of \$4,677 (2018 - \$50,099)
- Management fees of \$38,000 (2018 - \$30,000)



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- Office, telephone, and miscellaneous of \$5,298 (2018 - \$1,557)
- Property investigation of \$Nil (2018 - \$32,127)
- Share-based payments of \$123,689 (2018 - \$Nil)
- Shareholder information of \$3,278 (2018 - \$5,317)
- Transfer agent and filing fees of \$15,054 (2018 - \$10,209)

During the six months ended August 31, 2019, the Company had interest income of \$36 (2018 - \$37), loss on foreign exchange of \$33,681 (2018 - \$929), unrealized loss on marketable securities of \$25,775 (2018 - \$10,825).

Accounting and audit fees of \$17,589 (2018 - \$5,682) consist of expenses relating to the Company's financial recording and reporting activities. The accounting fees increased in the six months ended August 31, 2019 due to the increased activities related to the new mineral properties, additional activities related to the subsidiary and the compliance related to new projects and operations.

Consulting fees of \$22,860 (2018 - Nil) relate to the fees paid to the consultants of the Company for consultation on the Company's current and prospective projects. These general consulting expenses cannot be directly attributed to any particular project and have therefore been expensed as general consulting. See also "Transactions with Related Parties".

Legal fees of \$4,677 (2018 - \$50,099) relate to legal expenses in connection with legal advice and guidance for the operations and projects of the Company and its compliance. Legal fees decreased over the same period last year, as no new legal fees were incurred for project due diligence and compliance on new projected

Management fees of \$38,000 (2018 - \$30,000) consist of payments made to the CEO and CFO as discussed under the heading "Transactions with Related Parties".

Property investigation expenses were Nil (2018 - \$32,127) and the decrease is due to fees paid to consultants of the Company for investigation and due diligence consultation on the Company's prospective projects during the period of six months ended August 31, 2018. These property investigation expenses cannot be directly attributed to any particular project and have therefore been expensed as general expense.

Share-based payments of \$123,689 (2018 - \$Nil) relates to the issuance of options to the Company's employees, officers and directors or consultants pursuant to its Share Option Plan. See "Transactions with Related Parties".

Shareholder information expenses of \$3,278 (2018 - \$5,317) relates to maintaining the current projects and promoting the Company. These expenses increased in the current period in comparison to the same period in the previous year, due to increased activities with new projects and shareholder communications.

Transfer agent and filing fees of \$15,054 (2018 - \$4,323) relates to expenditures in connection with share capital activities and reporting of the Company. The expenses increased due the private placement issuances and option exercises during the period ended August 31, 2019. See "Transactions with Related Parties".

The overall expenses were higher than for the same period last year, most expenditures incurred during the current and the prior periods were primarily increased due to the share based compensation expense, the issuance of shares pursuant to a private placement, increased activities related to Mexican subsidiary

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projects/properties and the subsidiary, and the consultation on the Company's current and prospective projects.

**SUMMARY OF QUARTERLY FINANCIAL RESULTS**

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

	Three months ended			
	August 31, 2019	May 31, 2019	February 28, 2019	November 30, 2018
Net loss	\$ (201,604)	\$ (100,589)	\$ (111,079)	\$ (45,647)
Loss per share	(0.006)	(0.003)	(0.004)	(0.001)

  

	Three months ended			
	August 31, 2018	May 31, 2018	February 28, 2018	November 30, 2017
Net loss	\$ (55,759)	\$ (90,015)	\$ (59,781)	\$ (39,438)
Loss per share	\$ (0.002)	\$ (0.003)	\$ (0.002)	\$ (0.001)

The increased net loss in the quarter ended February 28, 2018 compared with the quarter ended November 30, 2017 was primarily due to the increase in accounting and audit fees of \$ 16,096, the legal fees of \$21,147, the transfer agent filing fees of \$1,860 for the year end reporting, and the consulting fee of \$532. Other expenses were comparable and remained the same.

The increased net loss in the quarter ended May 31, 2018 compared with the quarter ended February 28, 2018 was primarily due to legal fees of \$28,838, property investigation expense of \$32,127, and the transfer agent and filing fees of \$5,887. Other expenses were comparable and remained the same.

The decreased net loss in the quarter ended August 31, 2018 compared with the quarter ended May 31, 2018 was primarily due to the \$32,127 payments paid for property investigation for potential properties in the quarter ended May 31, 2018 and the decreased legal and filing fees in the quarter ended August 31, 2018. Other expenses were comparable and remained the same.

The decreased net loss in the quarter ended November 30, 2018 compared with the quarter ended August 31, 2018 was primarily due to the \$21,262 legal fees incurred in the quarter ended August 31, 2018 for its compliance for the new mineral property acquisition. Other expenses were comparable and remained the same.

The increased net loss in the quarter ended February 28, 2019 compared with the quarter ended November 30, 2018 was primarily due to the increased consulting fees and accounting and audit fees related to the year-end audit. Other expenses were comparable and remained the same.

The decrease in the net loss in the quarter ended May 31, 2019 compared with the quarter ended February 28, 2019 was primarily due to the decrease in the consulting fees and accounting and audit fees charged in the quarter May 31, 2019. Other expenses are comparable and remained reasonable.

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The increased net loss in the quarter ended August 31, 2019 compared with the quarter ended May 31, 2019 was primarily due to the issuance of share-based payments during the period. Other expenses were comparable and remained reasonable.

**LIQUIDITY AND CAPITAL RESOURCES**

As of August 31, 2019, the Company had net working capital of \$379,494 (February 28, 2019 – \$55,409) and cash and cash equivalents of \$344,305 (February 28, 2019 - \$187,106). The Company anticipates similar general and administrative expenses over the next quarter and anticipates significant expenditures required on projects in Mexico and as dictated by option agreements for these projects (See MINERAL PROPERTIES section of this report). As at August 31, 2019, the Company had sufficient liquidity to meet its obligations for the current fiscal year. The Company may require additional financing to fulfill project expenditure requirements for the next fiscal year.

**Three months ended August 31, 2019**

On June 26, 2019, the Company granted 1,850,000 stock options to members of its Board and management. The stock options are exercisable for a period of three years from the date of grant at a price \$0.11 per share and vesting over a period of three years.

On July 24, 2019, pursuant to the agreements with respect to its Mexican properties, the Company issued an aggregate of 1,500,000 common shares which comprises of 450,000 common shares towards Magdalena property, 450,000 common shares towards Yautepec property, and 600,000 common shares towards Rama de Oro property.

During the quarter ended August 31, 2019, 825,000 stock options were exercised at \$0.05 by officers, a current director and a former director for proceeds of \$41,250

**Three months ended May 31, 2019**

On May 8, 2019, the Company closed its non-brokered private placement financing for total gross proceeds of \$672,600. The Company issued 11,210,000 units (the "Units") at a price of \$0.06 per Unit. Each Unit comprises one common share and one non-transferable warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 24 months at a price of \$0.10. Should the common shares close at or above \$0.20 for a period of 10 consecutive days, the Company may accelerate the expiry date of the warrants to 30 days from such notice.

In addition, the Company paid \$33,600 finders' fees and issued 560,000 finders' warrants (the "Finders Warrants"). Each Finders Warrant is exercisable into one common share for a period of up to 24 months at a price of \$0.06.

The 560,000 Finders Warrants have an estimated fair value of \$14,882, which has been included in warrant reserve. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 2 years, volatility 110.36%, risk-free rate 1.53%, dividend yield 0%.

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Year ended February 28, 2019

On August 8, 2018, the Company issued 1,500,000 common shares valued at \$97,500 for the acquisition of exploration and evaluation assets.

Cash Flow Activities:

Six months ended August 31, 2019:

Cash balances increased by \$157,199 during the six months ended August 31, 2019 and decreased by \$214,169 during the six months ended August 31, 2018.

During the six months ended August 31, 2019, cash used in operating activities was \$338,108 compared to cash used in operating activities of \$124,954 during the six months ended August 31, 2018. The cash used in operating activities in 2019 increased compared to 2018 is attributable to increased expenses associated with the newly acquired properties in the year ended February 28, 2019.

Cash used in investing activities during the three months ended August 31, 2019 was \$184,943 compared to cash used in investing activities of \$124,954 during the six months ended August 31, 2018. The difference is primarily attributed to the payments in relation to the exploration and evaluation expenditures in the Company's new properties, Rama De Ore Project, Magdalena Project, and Yautepec Project.

Cash provided by financing activities during the six months ended August 31, 2019 was primarily due to funds provided by the private placement financing closed on May 8, 2019.

Year ended February 28, 2019:

Cash balances decreased by \$261,837 during the year ended February 28, 2019 and decreased by \$136,104 during the year ended February 28, 2018.

During the year ended February 28, 2019, cash used in operating activities was \$149,953 compared to cash used in operating activities of \$141,152 during the year ended February 28, 2018. The cash used in operating activities in 2019 increased compared to 2018 because of the increased expenses associated with the newly acquired properties in the year ended February 28, 2019.

Cash used in investing activities during the year ended February 28, 2019 was \$111,884 compared to cash provided by investing activities of \$5,048 during the year ended February 28, 2018. The difference is primarily attributed to the cash acquisition payments and exploration and evaluation expenditures incurred in the Company's new properties, Rama De Ore Project, Magdalena Project, and Yautepec Project.

**OUTSTANDING SHARES**

**Outstanding Share Data**

	Number of shares	Share capital
Balance, February 28, 2018	28,996,716	\$ 5,141,178
Share issued for exploration and evaluation assets	1,500,000	97,500
Balance, February 28, 2019	30,496,716	\$ 5,238,678
Private placements	11,210,000	672,600
Shares issuance costs	-	(48,482)
Options exercised	825,000	71,135
Share issued for exploration and evaluation assets	1,500,000	240,000
Balance, August 31, 2019	44,031,716	\$ 6,173,931

As of the date of this report, there were 44,031,716 common shares, 11,770,000 warrants, and 1,850,000 share options outstanding.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as at August 31, 2019 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.

As at August 31, 2019, \$28,531(February 28, 2019 - \$63,139) was due to directors and officers of the Company.

	August 31, 2019	February 28, 2019
Company controlled by CFO	\$ 4,000	\$ 5,000
Company controlled by a Director - David Jones	24,531	58,139
	\$ 28,531	\$ 63,139

**Megastar Development Corp.**

## MANAGEMENT'S DISCUSSION &amp; ANALYSIS

As at and for the six months ended August 31, 2019

During the six months ended August 31, 2019 and 2018, the Company entered into the following transactions with related parties:

	Six months ended	
	August 31, 2019	August 31, 2018
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors:		
Management fees	\$ 38,000	\$ 15,000
Professional fees	4,000	2,000
Consulting fees	16,596	-
Mineral exploration expenditures	38,586	-
	<u>\$ 97,182</u>	<u>\$ 17,000</u>

Management fees consisted of the following:

	Six months ended	
	August 31, 2019	August 31, 2018
Company controlled by CEO	\$ 20,000	\$ 9,000
Company controlled by CFO	18,000	6,000
	<u>\$ 38,000</u>	<u>\$ 15,000</u>

Consulting fees consisted of the following:

	Six months ended	
	August 31, 2019	August 31, 2018
Company controlled by the Corporate Secretary	\$ 15,000	\$ -
Company controlled by a Director - David Jones	1,596	-
	<u>\$ 16,596</u>	<u>\$ -</u>

Professional fees are paid for accounting services to a company controlled by the CFO. Mineral exploration expenditures paid to a company controlled by a director were capitalized as part of exploration and evaluation assets.

**Megastar Development Corp.**

## MANAGEMENT'S DISCUSSION &amp; ANALYSIS

As at and for the six months ended August 31, 2019

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Options granted on June 27, 2019 to officers and directors:

Name of the related party	Position of optionee	Number of options granted	Value
Company controlled by the CEO	Director and Officer	450,000	\$ 30,086
David Jones	Director	450,000	30,086
Paul Smith	Director	300,000	20,058
Robert Archer	Director	300,000	20,058
Zara Kanji	Officer	200,000	13,372
Company controlled by the Corporate Secretary	Officer	150,000	10,029
Total options granted		1,850,000	\$ 123,689

**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 loss effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income or loss 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 believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

iv) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

For a detailed summary of the Company's significant accounting policies, the readers are directed to Note 3 of the Notes to the unaudited interim condensed consolidated financial statements for the six months ended August 31, 2019 that are available on SEDAR at [www.sedar.com](http://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. 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 is 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



**Megastar Development Corp.****MANAGEMENT'S DISCUSSION & ANALYSIS**

As at and for the six months ended August 31, 2019

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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 impact 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, labor 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.

**Megastar Development Corp.****MANAGEMENT'S DISCUSSION & ANALYSIS**

As at and for the six months ended August 31, 2019

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**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 favorable 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 guarantee 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, it 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 are considered to be early exploration stage properties and 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

**Megastar Development Corp.****MANAGEMENT'S DISCUSSION & ANALYSIS**

As at and for the six months ended August 31, 2019

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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 drill holes and facility sites be operated, maintained, abandoned and/or 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, labor 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 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, labor disputes or other risks of the mining industry; delays in obtaining government approvals or financing or incompleteness 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.

**Megastar Development Corp.**

MANAGEMENT'S DISCUSSION & ANALYSIS

As at and for the six months ended August 31, 2019

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**MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL 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 policies**

(i) IFRS 9, Financial Instruments

New standard IFRS 9 *Financial Instruments* ("IFRS 9") was issued by IASB to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standard became effective for annual periods beginning on or after January 1, 2018.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS, so the Company's accounting policy with respect to financial liabilities is substantially unchanged.

As a result of adopting this standard, the Company has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. An assessment has been made and the impact to the Company's financial statements was to reclassify its available-for-sale marketable securities to FVTPL. The Company adopted IFRS 9 retrospectively without restatement of comparative amounts resulting in a reclassification of \$28,600 from accumulated other comprehensive income to deficit on March 1, 2018. Future changes in the fair value of these marketable securities have and will be recorded directly in profit or loss. No other differences of any significance have been noted in relation to the adoption of IFRS 9.

The accounting policy disclosure on financial instruments above describes the new accounting policies under IFRS 9.

The Company completed an assessment of its financial instruments as at March 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9.

**Megastar Development Corp.**  
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As at and for the six months ended August 31, 2019

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>
Cash and cash equivalents	Loans and receivables – amortized cost	Amortized cost
Marketable securities	Available-for-sale – fair value through other comprehensive income	FVTPL
Receivables	Loans and receivables – amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities – amortized cost	Amortized cost
Due to related parties	Other financial liabilities – amortized cost	Amortized cost

(ii) IFRS 16, Leases

New standard IFRS 16 *Leases* (“IFRS 16”) was issued by IASB to replace IAS 17 *Leases* (“IAS 17”). IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company’s only lease transaction pertains to the rent of its office premises whereby it pays \$1,000 plus harmonized sales tax. The terms of the contract do not provide a fixed term for the lease but management intends to stay within the premises for the next twelve months. Given the minimal amount and the short-term nature of the lease, the Company determined that such transaction and the application of IFRS 16 has no material impact on its financial statements as at and for the period ended August 31, 2019.

**Accounting standards, amendments and interpretations not yet effective**

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

**IAS 1** – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

**IFRIC 23** – Uncertainty over Income Tax Treatments – clarifies the accounting for uncertainties in income taxes. This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The Company does not expect that the new and amended standards will have a 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 classified its financial instruments as follows:

- Cash and cash equivalents are classified as *loans and receivables*.
- Marketable securities are classified as *available for sale*.

**Megastar Development Corp.**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

As at and for the six months ended August 31, 2019

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- Accounts payable and accrued liabilities except for flow through share provisions have been classified as *other financial liabilities*.
- Amounts due to related parties are classified as *other financial liabilities*.

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.

**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 consolidated financial statements of the Company for the six months ended August 31, 2019.

**DIRECTORS**

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.

On August 9, 2018, Mr. David M. Jones was appointed to the board of directors of the Company and shall also become a technical/ consultant to the Company in relation to its exploration activities in Mexico.

On June 27, 2019, Robert Archer was appointed to the board of directors of the Company, and the Company announced the departure of Jonathan Rich from its board of directors.

**OUTLOOK**

The Company's primary focus for the foreseeable future will be on reviewing its financial position, continuing evaluating 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](http://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  
October 29, 2019

**Megastar Development Corp.**

MANAGEMENT'S DISCUSSION & ANALYSIS

As at and for the six months ended August 31, 2019

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**MEGASTAR DEVELOPMENT CORP.**

**LISTING**

TSX Venture Exchange Symbol: MDV  
Frankfurt Stock Exchange Symbol: M5QN

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**DIRECTORS AND OFFICERS**

Dusan Berka, P. Eng., President & CEO, Director  
Zara Kanji, CPA, CGA, Chief Financial Officer  
Kelly Pladson, Corporate Secretary  
Paul A. Smith, Director  
David M. Jones, Director  
Robert Archer, Director

**LEGAL COUNSEL**

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**REGISTRAR AND TRANSFER AGENT**

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