



**MEGASTAR DEVELOPMENT CORP.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020**

**EXPRESSED IN CANADIAN DOLLARS  
(Unaudited – Prepared by Management)**

**Suite 1450 – 789 West Pender Street, Vancouver, BC, Canada V6C 1H2**

**Tel : (604) 681-1568 / Fax : (604) 681-8240 / TF : 1-877-377-6222**

**Email : [info@megastardevelopment.com](mailto:info@megastardevelopment.com)**

**Website: [www.megastardevelopment.com](http://www.megastardevelopment.com)**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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

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

The Company's independent auditor DAVIDSON & COMPANY LLP has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim condensed consolidated financial statements by an entity's auditor.

**MEGASTAR DEVELOPMENT CORP.**  
**INTERM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Notes	November 30, 2020	February 29, 2020
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	4	\$ 582,054	\$ 52,384
Amounts receivable		10,219	9,947
Taxes recoverable	5	3,519	36,865
Marketable securities	6	207,900	34,275
Prepaid expenses and deposits		7,352	5,779
Total current assets		811,044	139,250
Non-current assets			
Equipment	7	69	89
Exploration and evaluation assets	8, 13	1,499,094	1,031,941
Total non-current assets		1,499,163	1,032,030
<b>TOTAL ASSETS</b>		<b>\$ 2,310,207</b>	<b>\$ 1,171,280</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 71,203	\$ 60,979
Due to related parties	13	20,536	78,032
Total current liabilities		91,739	139,011
Total liabilities		91,739	139,011
Shareholders' equity			
Share capital	10	7,548,899	6,187,930
Reserves	10	263,783	207,861
Deficit		(5,594,214)	(5,363,522)
Total shareholders' equity		2,218,468	1,032,269
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 2,310,207</b>	<b>\$ 1,171,280</b>

Subsequent events (Note 16)

Approved and authorised for issue on behalf of the Board on January 20, 2021

"Robert Archer" Director  
 Robert Archer

"Mary Ellen Thorburn" Director  
 Mary Ellen Thorburn

**MEGASTAR DEVELOPMENT CORP.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(EXPRESSED IN CANADIAN DOLLARS)**

	Notes	Three Months Ended		Nine Months Ended	
		November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
<b>Expenses</b>					
Accounting and audit fees	13	\$ 5,758	\$ 5,674	\$ 20,495	\$ 23,263
Consulting fees	13	47,989	13,855	135,959	36,715
Insurance		2,496	2,258	7,221	6,358
Investor relations and promotion		4,775	5,182	9,244	10,669
Legal fees		963	5,297	1,744	9,974
Management fees	13	27,000	27,000	81,000	65,000
Office, telephone and miscellaneous		593	927	2,750	6,244
Property investigation		11,380	-	11,380	-
Rent		3,000	2,000	10,000	8,000
Share-based payments	13	27,853	5,705	55,922	129,394
Transfer agent and filing fees		1,348	6,301	16,688	21,355
Loss before other income (expenses)		(133,155)	(74,199)	(352,403)	(316,972)
<b>Other income (expenses):</b>					
Unrealized gain (loss) on marketable securities	6	94,075	(27,525)	161,625	(53,300)
Loss on provision for taxes receivables	5	(39,840)	-	(39,840)	-
Gain (loss) on foreign exchange		6,112	25,642	(93)	(8,039)
Interest income	4	-	18	19	54
Net loss for the year		\$ (72,808)	\$ (76,064)	\$ (230,692)	\$ (378,257)
<b>Weighted average number of common shares</b>					
Outstanding (basic and diluted)		60,036,798	44,073,938	53,735,380	40,010,019
Basic and diluted loss per share		\$ (0.001)	\$ (0.002)	\$ (0.004)	\$ (0.009)

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

**MEGASTAR DEVELOPMENT CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Share Capital (Note 10)		Reserves (Note 10)			Total
	Number of shares issued	Amount	Warrants reserve	Share-based payments reserve	Deficit (Note 10)	
Balance, February 28, 2019	30,496,716	\$ 5,238,678	\$ 52,573	\$ 29,885	\$ (4,861,655)	\$ 459,481
Private placements	11,210,000	672,600	-	-	-	672,600
Share issuance costs	-	(48,483)	14,882	-	-	(33,601)
Options exercised	825,000	71,135	-	(29,885)	-	41,250
Shares issued for exploration and evaluation assets	1,600,000	249,000	-	-	-	249,000
Share based compensation	-	-	-	129,394	-	129,394
Net loss for the period	-	-	-	-	(378,257)	(378,257)
<b>Balance, November 30, 2019</b>	<b>44,131,716</b>	<b>\$ 6,182,930</b>	<b>\$ 67,455</b>	<b>\$ 129,394</b>	<b>\$ (5,239,912)</b>	<b>1,139,867</b>
Balance, February 29, 2020	44,181,716	\$ 6,187,930	\$ 67,455	\$ 140,406	\$ (5,363,522)	\$ 1,032,269
Private placements	11,585,000	926,800	-	-	-	926,800
Share issuance cost - cash	-	(5,581)	-	-	-	(5,581)
Warrants exercised	1,202,500	120,250	-	-	-	120,250
Shares issued for exploration and evaluation assets	3,150,000	319,500	-	-	-	319,500
Share based compensation	-	-	-	55,922	-	55,922
Net loss for the period	-	-	-	-	(230,692)	(230,692)
<b>Balance, November 30, 2020</b>	<b>60,119,216</b>	<b>\$ 7,548,899</b>	<b>\$ 67,455</b>	<b>\$ 196,328</b>	<b>\$ (5,594,214)</b>	<b>\$ 2,218,468</b>

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

**MEGASTAR DEVELOPMENT CORP.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

MEGASTAR DEVELOPMENT CORP.  
 INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (EXPRESSED IN CANADIAN DOLLARS)

	Nine months ended	
	November 30, 2020	November 30, 2019
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (230,692)	\$ (378,257)
Adjustments to reconcile loss to net cash used in operating activities		
Depreciation	-	29
Share-based payments	55,922	129,394
Interest income	(19)	(54)
Unrealized loss on marketable securities	(161,625)	53,300
Net changes in non-cash working capital accounts		
Decrease (Increase) in taxes recoverable	33,346	(25,341)
Increase in amounts receivable	(272)	(8,003)
Increase in prepaid expenses and deposits	(1,573)	(3,092)
Decrease in amounts payable and accrued liabilities	(26,458)	(121,448)
Increase in taxes payable	-	5,488
Decrease in due to related parties	(20,814)	(31,488)
Cash used in operating activities	(352,185)	(379,472)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Interest received	19	54
Exploration and evaluation expenditures	(159,653)	(310,454)
Cash used in investing activities	(159,634)	(310,400)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares, net of share issuance costs	921,219	672,600
Options exercised	-	41,250
Warrants exercised	120,250	-
Share subscriptions received	-	(33,601)
Cash provided by financing activities	1,041,469	680,249
Net change in cash and cash equivalents	529,650	(9,623)
Cash and cash equivalents, beginning balance for the period	52,384	187,106
	\$ 582,034	\$ 177,483

Supplemental cash flows information (Note 14)

## MEGASTAR DEVELOPMENT CORP.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

#### 1. NATURE OF OPERATIONS

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public company listed on the TSX Venture Exchange 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. These interim condensed consolidated financial statements (the "Financial Statements") present the consolidated operations of the Company and its subsidiary. The Company is primarily engaged in the acquisition, exploration and development of mineral properties in the state of Oaxaca, Mexico (via its subsidiary) and in Quebec, Canada. At November 30, 2020, the Company had no revenue producing operations and has an accumulated deficit of \$5,594,214 (February 29, 2020 - \$5,363,522) since its inception. The Company has upcoming cash exploration and evaluation obligations of \$269,315 (US\$207,724) for the next twelve months from the end of this reporting period. The Company has a working capital of \$719,305 (February 29, 2020 - \$239). These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. 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.

During and after the nine months ended November 30, 2020, the COVID-19 pandemic has caused significant and negative impact to the global financial market. The Company continues to monitor and assess the impact on its business activities. So far, the Company has been impacted by having to suspend some of its exploration activities on its properties in Mexico. The full impact is uncertain, and it is difficult to reliably measure the extent of the effect of the COVID-19 pandemic on future financial results.

These Financial Statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were exclusively funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

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.

#### 2. BASIS OF PRESENTATION

##### Basis of consolidation and preparation

These Financial Statements include the accounts of the Company and its subsidiary, Minera Mazateca. Details of the controlled entity are as follows:

	Country of incorporation	Percentage owned
Minera Mazateca, S.A. de C.V.	Mexico	100%

The Company's Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value, and are presented in Canadian dollars, and except where otherwise indicated. All intercompany transactions and balances have been eliminated.

**2. BASIS OF PRESENTATION (continued)**

**Statement of compliance**

The interim condensed consolidated financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements of the Company should be read in conjunction with the Company's 2020 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The interim condensed consolidated financial statements have been prepared using accounting policies consistent with those used in the Company's 2020 annual financial statements except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

**Basis of measurement**

These Financial Statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments measured at fair value through profit or loss. Unless otherwise noted, these Financial Statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary.

**Approval of the interim condensed consolidated financial statements**

The Financial Statements of the Company as at and for the nine months ended November 30, 2020, were authorized for issue on January 20, 2021 by the Board of Directors of the Company.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Significant accounting estimates and assumptions**

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 (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.

**Significant accounting judgements**

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 an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Significant accounting judgements (cont'd...)**

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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

**Significant accounting policies**

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, and term deposits with maturities of six months or less.

**Property and equipment**

*Recognition and measurement*

On initial recognition, property and equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

*Subsequent costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment (cont'd...)**

*Gains and losses*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in profit or loss.

*Depreciation*

Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at 30% per annum for office equipment. Half of the normal depreciation is taken in the year of acquisition.

Depreciation is recognized in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**Income taxes**

Income tax expense is comprised of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or equity investments.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Share capital**

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Principles of consolidation**

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

**Foreign currencies**

The functional currency of the Company and its subsidiary is measured using the currency of the primary economic environment in which it operates. Management has determined that the functional currency of the Company and its subsidiary is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Gains and losses are included in net earnings.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

The financial results and position of foreign operations whose functional currency is different from the reporting currency are translated as follows:

- i. assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- ii. income and expenses are translated at average exchange rates for the period.

Exchange gains and losses arising on translation are recognized in accumulated other comprehensive loss.

**Earnings/loss per share**

Basic (loss) earnings per share is computed by dividing the net loss or income applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted (loss) earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of “in-the-money” stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period.

In periods that the Company reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share-based payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of operations and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations and comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss except where these are issued to consultants directly involved in the sourcing of finance in which case, they are measured at the fair value of the equity instruments granted. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in share-based payments reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

**Valuation of equity units issued in private placements**

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital.

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Valuation of equity units issued in private placements (cont'd...)**

If the warrants are issued as share issuance costs, the fair value will be recorded as warrant reserve using the Black-Scholes option pricing model. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

**Exploration and evaluation assets**

Pre-exploration costs are expensed in the period in which they are incurred.

Costs incurred to acquire the legal right to explore a property are capitalized. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized on a property-by-property basis. These direct expenditures include such costs as surveying costs, drilling costs, labour and contractor costs, materials used and licensing and permit fees.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development and is classified as development properties. The carrying value of exploration and evaluation assets is transferred to development properties after being tested for impairment.

Once commercial production has commenced all capitalized costs related to the property are transferred to producing properties and the costs of acquisition, exploration and development will be written off over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in other income for the period. If a property is abandoned, the acquisition, deferred exploration and development costs will be written off to other expenses.

Currently, all mineral properties of the Company are exploration stage.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Management reviews capitalized costs on its mineral properties when facts and circumstances suggest that the carrying amount of an asset may be impaired. If the recorded amount is higher than the asset's fair value less cost to sell, management will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized; however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Payments on mineral property option agreements are made at the discretion of the Company and, accordingly, are recorded as incurred.

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The carrying amount of intangible assets with indefinite useful economic lives is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

**Environmental rehabilitation**

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The estimated costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are determined, and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates, using a pre-tax rate that reflects the time value of money, are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted at each period-end for the unwinding of the discount rate, for changes to the current market-based discount rate, and for changes to the amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no known restoration, rehabilitation or environmental costs related to its mineral property interests.

**Financial instruments**

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") and at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets and collect contractual cash flows, its contractual terms give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as FVTPL.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (cont'd...)**

(i) Financial assets (cont'd...)

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, the Company can make an irrevocable election (on an instrument by-instrument basis) on the day of acquisition to designate them as at FVOCI.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of operations and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of operations and comprehensive loss in the period in which they arise. The Company's marketable securities, being in equity securities of other listed entities, are classified as FVTPL.

Financial assets at FVOCI

Investments in equity instruments at FVOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive loss. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. None of the Company's financial assets are classified as FVOCI.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. The Company's financial assets at amortized cost comprise cash and cash equivalents and amounts receivable.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of operations and comprehensive loss. Gains or losses on financial assets classified as FVOCI remain within accumulated other comprehensive income.

(ii) Financial liabilities

The Company classified its financial liabilities as subsequently measured at amortized cost which include accounts payable, accrued liabilities and due to related parties. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

(iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For amounts receivable the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decreases can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's amounts receivables, the Company has no material loss allowance as at November 30, 2020 and November 30, 2019.

**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**4. CASH AND CASH EQUIVALENTS**

	November 30, 2020	February 28, 2020
Cash in bank	\$ 571,051	\$ 41,267
Term deposit	11,003	11,117
Cash and cash equivalents	\$ 582,054	\$ 52,384

The term deposit of \$11,000 earns interest at an annual interest rate of 0.05%.

**5. AMOUNTS RECOVERABLE**

As at November 30, 2020, the Company has following amounts as amounts recoverable:

	November 30, 2020	February 28, 2020
Taxes recoverable	\$ 3,519	\$ 36,865
Amounts receivable	10,219	9,947
	\$ 13,738	\$ 46,812

During the nine months ended November 30, 2020, management ascertained that the process to apply for and collect on Mexican value added taxes recoverable, was cost prohibitive. As such, a provision was taken against the entire balance of Mexican taxes recoverable totalling \$39,849, with the corresponding loss recorded as Other income/loss.

**6. MARKETABLE SECURITIES**

	November 30, 2020		February 28, 2020	
	Fair Value	Cost	Fair Value	Cost
Zinc Resources Corp.	\$ 11,900	\$ 104,975	\$ 7,650	\$ 104,975
Eloro Resources Ltd.	66,000	116,260	14,625	116,260
DeepRock Minerals Inc.	130,000	81,500	12,000	69,500
	\$ 207,900	\$ 302,735	\$ 34,275	\$ 290,735

On April 23, 2020, the Company received 800,000 DeepRock Minerals Inc.'s common shares valued at \$12,000 as per the option agreement for DeepRock Minerals Inc. to acquire a 50% interest in the Ralleau Project (Note 8).

During the nine months ended November 30, 2020, the Company recorded \$161,625 as an unrealized gain (November 30, 2019 – unrealized loss of \$53,300) on its marketable securities.

**7. EQUIPMENT**

	Equipment	Equipment	
Cost:		Cost:	
At February 29, 2020	\$ 3,439	At February 28, 2019	\$ 3,439
At November 30, 2020	\$ 3,439	At February 28, 2020	\$ 3,439
Depreciation:		Depreciation:	
At February 29, 2020	3,350	At February 28, 2019	3,312
Charges for the quarter	20	Charges for the year	38
At November 30, 2020	\$ 3,370	At February 28, 2020	\$ 3,350
Net book value:		Net book value:	
At February 29, 2020	\$ 89	At February 28, 2019	\$ 127
At November 30, 2020	\$ 69	At February 28, 2020	\$ 89



**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**8. EXPLORATION AND EVALUATION ASSETS**

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

	Ralleau Project Quebec, Canada		Rama de Oro Project Oaxaca, Mexico		Magdalena Project Oaxaca, Mexico		Yautepec Project Oaxaca, Mexico		Total	
Balance of costs:										
Total acquisition costs	\$	96,543	\$	117,203	\$	19,529	\$	19,529	\$	252,804
Total proceeds received from optionees		(15,000)		-		-		-		(15,000)
Total shares received from optionees		(49,500)		-		-		-		(49,500)
Total cost recovery		(129,507)		-		-		-		(129,507)
Total deferred exploration costs		660,765		62,054		8,718		50,555		782,092
Total cumulative impairment charge		(436,944)		-		-		-		(436,944)
<b>Balance, February 28, 2019</b>	<b>\$</b>	<b>126,357</b>	<b>\$</b>	<b>179,257</b>	<b>\$</b>	<b>28,247</b>	<b>\$</b>	<b>70,084</b>	<b>\$</b>	<b>403,945</b>
Acquisition costs:										
Shares		-		96,000		72,000		81,000		249,000
Total acquisition costs		-		96,000		72,000		81,000		249,000
Exploration costs:										
Assays and testing		-		-		18,576		21,413		39,989
Consulting fees		-		10,672		140,924		102,016		253,612
License and taxes		-		-		-		21,660		21,660
Staking fees		-		58		16,675		-		16,733
Exploration costs		-		-		-		33,965		33,965
Misc.		-		126		11,596		5,885		17,607
Rent		-		-		5,075		7,077		12,152
Travel		-		816		2,498		9,964		13,278
Deferred exploration costs		-		11,672		195,344		201,980		408,996
Proceeds received from optionees		(10,000)		-		-		-		(10,000)
Shares received from optionees		(20,000)		-		-		-		(20,000)
Balance of costs:										
Total acquisition costs		96,543		213,203		91,529		100,529		501,804
Total proceeds received from optionees		(25,000)		-		-		-		(25,000)
Total shares received from optionees		(69,500)		-		-		-		(69,500)
Total cost recovery		(129,507)		-		-		-		(129,507)
Total deferred exploration costs		660,765		73,726		204,062		252,535		1,191,088
Total cumulative impairment charge		(436,944)		-		-		-		(436,944)
<b>Balance, February 29, 2020</b>	<b>\$</b>	<b>96,357</b>	<b>\$</b>	<b>286,929</b>	<b>\$</b>	<b>295,591</b>	<b>\$</b>	<b>353,064</b>	<b>\$</b>	<b>1,031,941</b>

**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**8. EXPLORATION AND EVALUATION ASSETS (continued)**

	Ralleau Project Quebec, Canada	Rama de Oro Project Oaxaca, Mexico	Magdalena Project Oaxaca, Mexico	Yautepec Project Oaxaca, Mexico	Total
Balance of costs:					
Total acquisition costs	96,543	213,203	91,529	100,529	501,804
Total proceeds received from optionees	(25,000)	-	-	-	(25,000)
Total shares received from optionees	(69,500)	-	-	-	(69,500)
Total cost recovery	(129,507)	-	-	-	(129,507)
Total deferred exploration costs	660,765	73,726	204,062	252,535	1,191,088
Total cumulative impairment charge	(436,944)	-	-	-	(436,944)
<b>Ending Balance, February 29, 2020</b>	<b>\$ 96,357</b>	<b>\$ 286,929</b>	<b>\$ 295,591</b>	<b>\$ 353,064</b>	<b>\$ 1,031,941</b>
Acquisition costs:					
Cash	-	10,116	3,372	25,775	39,263
Shares	-	102,000	99,000	118,500	319,500
Total acquisition costs	-	112,116	102,372	144,275	358,763
Exploration costs:					
Assays and testing	-	-	737	2,178	2,915
Consulting fees	-	2,998	16,043	43,265	62,306
Staking fees	-	33,306	5,916	-	39,222
Misc.	-	-	618	9,980	10,598
Rent	-	-	950	1,777	2,727
Travel	-	262	787	1,573	2,622
Deferred exploration costs	-	36,566	25,051	58,773	120,389
Shares received from optionees	(12,000)	-	-	-	(12,000)
Balance of costs:					
Total acquisition costs	96,543	325,319	193,901	244,804	860,567
Total proceeds received from optionees	(25,000)	-	-	-	(25,000)
Total shares received from optionees	(81,500)	-	-	-	(81,500)
Total cost recovery	(129,507)	-	-	-	(129,507)
Total deferred exploration costs	660,765	110,291	229,113	311,308	1,311,477
Total cumulative impairment charge	(436,944)	-	-	-	(436,944)
<b>Ending Balance, November 30, 2020</b>	<b>\$ 84,357</b>	<b>\$ 435,610</b>	<b>\$ 423,014</b>	<b>\$ 556,112</b>	<b>\$ 1,499,094</b>

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**8. EXPLORATION AND EVALUATION ASSETS (continued)**

1) Ralleau Project, Quebec, Canada

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 and as amended on March 15, 2018 (1<sup>st</sup> Amending Agreement), on June 30, 2018 (2<sup>nd</sup> Amending Agreement) and on April 20, 2020 (3<sup>rd</sup> Amending Agreement), the optionee will be deemed to have exercised its option to acquire a 50% interest in the property by fulfilling the following terms:

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

- i. \$5,000 on or before the execution of this agreement (paid);
- ii. \$5,000 (paid) and 600,000 common shares (issued) on or before the exchange listing date (November 16, 2018);
- iii. \$5,000 (paid) and 200,000 common shares (issued) on or before the first anniversary date of this agreement (April 5, 2018);
- iv. \$10,000 (paid) and 400,000 common shares (issued) on or before the second anniversary date of this agreement (April 5, 2019);
- v. \$75,000 on or before December 31, 2020 (in negotiations) and 800,000 common shares on or before April 23, 2020 (as amended; issued on April 23, 2020 at a fair value of \$12,000 – Note 6).

(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) (incurred).

By fulfilling the above terms, the optionee has exercised its option to acquire a 50% interest in the Ralleau Property.

As at November 30, 2020, the Company had a receivable balance of \$3,277 from the optionee (2019 – \$Nil). The Company is negotiating the cash payment obligation of \$75,000 which was due on December 31, 2020.

2) Rama de Oro Project, Oaxaca, Mexico

On May 9, 2018, and as amended on August 10, 2020, 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.

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) and issue 1,100,000 common shares (issued) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.
- ii. Issue 600,000 common shares (issued) to the optionor and incur US\$150,000 work expenditures (incurred \$110,291 (US\$84,019) as of November 30, 2020) on or before the first anniversary of the agreement (May 9, 2019).
- iii. Issue 1,200,000 common shares (issued on May 15, 2020 with a fair value of \$108,000) to the optionor and incur US\$200,000 work expenditures on or before May 9, 2022 (as amended on August 10, 2020 for a cash consideration of US\$7,500 (\$10,116) which was paid on August 12, 2020).

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**8. EXPLORATION AND EVALUATION ASSETS (continued)**

2) Rama de Oro Project, Oaxaca, Mexico (continued)

A 2% net smelter return royalty is payable to the optionor, of which the Company will 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. As of the date of the report, parties to the option agreement were negotiating amended terms of work expenditures.

3) Yautepec Project, Oaxaca, Mexico

On June 1, 2018, and as amended on August 10, 2020, the Company entered into an option agreement to acquire a 100% interest in the Yautepec Project, located in the state of Oaxaca, Mexico.

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\$310,000 over a three-year period as follows:

- i. Pay US\$5,000 (paid) and issue 200,000 common shares (issued) to the optionor within 15 days following the execution of the agreement, approved by the TSX-V.
- ii. Issue 450,000 common shares (issued) to the optionor and incur US\$40,000 work expenditures (incurred) on or before the first anniversary of the agreement (June 1, 2019).
- iii. Issue 900,000 common shares (issued on June 1, 2020 with a fair value of \$45,000 (Note 17)) to the optionor and incur US\$80,000 work expenditures (incurred) on or before the second anniversary of the agreement (June 1, 2020).
- iv. Incur US\$190,000 in work expenditures on or before December 1, 2021 (as amended on August 10, 2020 for cash consideration of US\$2,500 (\$3,372) which was paid on August 12, 2020). As of November 30, 2020, the Company had incurred \$127,688 (US\$95,090) in work expenditures.

A 2% net smelter return royalty is payable to the optionor, of which the Company will 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.

Cerro Minas

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 a 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:

- i. US\$10,000 (paid October 25, 2019) and 100,000 Shares (issued on October 23, 2019 with a fair value of \$9,000) on the Effective Date (October 23, 2019);
- ii. US\$20,000 (paid October 22, 2020) and 150,000 Shares (issued on October 19, 2020 with a fair value of \$19,500) on the first anniversary of the Effective Date (October 23, 2020);
- iii. US\$30,000 and 250,000 Shares on the second anniversary of the Effective Date (October 23, 2021); and
- iv. US\$40,000 and 300,000 Shares on the third anniversary of the Effective Date (October 23, 2022).

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 was approved by the TSX-V on October 21, 2019 and Gunpoint satisfying certain conditions, specifically: (a) Gunpoint having delivered to the Company (and to Mazateca) all reports

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**8. EXPLORATION AND EVALUATION ASSETS (continued)**

3) Yautepec Project, Oaxaca, Mexico (continued)

Cerro Minas (Continued)

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 the Company (and to Mazateca). All conditions were met as of October 23, 2019.

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

4) Magdalena Project, Oaxaca, Mexico

On June 1, 2018, and as amended on August 10, 2020, the Company entered into an option agreement to acquire a 100% interest in the Magdalena Project, located in the state of Oaxaca, Mexico.

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 issued 200,000 common shares on August 8, 2018 (issued).
- ii. Issue 450,000 common shares (issued) to the optionor and incur US\$40,000 (incurred) work expenditures on or before the first anniversary of the agreement (June 1, 2019)
- iii. Issue 900,000 common shares (issued on June 1, 2020 with a fair value of \$45,000 (Note 17)) to the optionor and incur US\$70,000 work expenditures (incurred) or before the second anniversary of the agreement (June 1, 2020).
- iv. Incur US\$120,000 work expenditures on or before December 1, 2021 (as amended on August 10, 2020 for cash consideration of US\$2,500 (\$3,372) which was paid on August 12, 2020). The Company has incurred \$56,523 (US\$42,093) of work expenditures as on November 30, 2020.

The Company shall also pay, for and on behalf of Minera Zalamera, all cash payments to be made to the Concession holder for a total amount of \$50,000 (paid) over an 18-month period and the granting of a 1% net smelter returns royalty.

A 2% net smelter returns royalty is payable to the optionor, of which the Company will 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 are subject to a hold period of 4 months and one day from their date of issuance.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As at November 30, 2020 and February 29, 2020, the Company has following accounts payable and accrued liabilities:

	November 30, 2020	February 29, 2020
Accounts payable	\$ 38,353	\$ 21,513
Accrued liabilities	32,850	39,466
	\$ 71,203	\$ 60,979

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**10. SHARE CAPITAL**

**Authorized share capital**

Unlimited number of common shares without par value.

**Issuance of share capital**

During the nine months ended November 30, 2020

On May 15, 2020, pursuant to the option agreement with respect to the Rama de Oro property, the Company issued 1,200,000 common shares valued at \$102,000.

On June 1, 2020, pursuant to the option agreement with respect to the Yautepec and Magdalena property, the Company issued 1,800,000 common shares valued at \$198,000.

On June 17, 2020, the Company closed its non-brokered private placement financing for total gross proceeds of \$926,800. The Company issued 11,585,000 units (the "Units") at a price of \$0.08 per Unit. Each Unit consists of one common share and one-half of non-transferable warrant, with each whole 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 \$0.12.

On October 19, 2020, pursuant to the option agreement with respect to the Cerro Minas property, the Company issued 150,000 common shares valued at \$19,500.

During the nine months ended November 30, 2020, 1,202,500 of the outstanding share warrants were exercised for an aggregate value of \$120,250.

During the year ended February 29, 2020

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 consists of 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.

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 valued at \$240,000, which comprises 450,000 common shares valued at \$72,000 towards the Magdalena property, 450,000 common shares valued at \$72,000 towards the Yautepec property, and 600,000 common shares valued at \$96,000 towards the Rama de Oro property.

In addition, the Company paid \$33,601 in 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 with an estimated fair value of \$14,882, were 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%.

On October 23, 2019, pursuant to the option agreement with respect to the Cerro Minas property, the Company issued 100,000 common shares valued at \$9,000.

During the year ended February 29, 2020, 825,000 stock options were exercised at \$0.05 by officers for gross proceeds of \$41,250, a current director and a former director with a fair value adjustment of \$29,885 against stock option reserves. An aggregate of 50,000 warrants were exercised at \$0.1 by brokers for proceeds of \$5,000. (Note 13)

**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**10. SHARE CAPITAL (continued)****Share options**

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, or consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company.

Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted using the Black-Scholes option-pricing model.

A summary of share options outstanding as at November 30, 2020, and February 29, 2020 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Number of Years to Expiry
Balance, February 28, 2019	825,000	\$0.00	0.49
Granted	2,225,000	\$0.11	1.93
Exercised	(825,000)	\$0.05	
Balance, February 29, 2020	2,225,000	\$0.11	2.27
Granted	668,000	0.11	2.26
Balance, November 30, 2020	2,893,000	0.11	1.69

During the nine months ended November 30, 2020

Total share-based payments expenses for the period ended November 30, 2020 amounted to \$55,922 (November 30, 2019 - \$129,394)

On July 6, 2020, the Company granted 668,000 stock options to consultants with an exercise price of \$0.11, expiring on July 6, 2022. The 668,000 stock options have a fair value of \$50,446 which was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: expected life 3 years, volatility 115.99%, risk-free rate 0.31%, dividend yield 0%.

During the year ended February 29, 2020

On June 26, 2019 the Company granted 1,850,000 stock options to directors and officers with an exercise price of \$0.11, expiring on June 27, 2022 (Note 13). The 1,850,000 stock options have an estimated fair value of \$123,689 and were included in share-based payment reserve. The fair value of the stock options was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 3 years, volatility 101.97%, risk-free rate 1.42%, dividend yield 0%.

On November 8, 2019, the Company granted 250,000 stock options to consultants with an exercise price of \$0.09, expiring on May 7, 2022. The 250,000 stock options have a fair value of \$14,247 which was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: expected life 2.5 years, volatility 115.29%, risk-free rate 1.05%, dividend yield 0%.

**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**10. SHARE CAPITAL (continued)****Share options (cont'd...)**

On November 12, 2019, the Company granted 125,000 stock options to consultants with an exercise price of \$0.09, expiring on November 12, 2021. The 125,000 stock options have a fair value of \$7,157 which was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions: expected life 2 years, volatility 123.82%, risk-free rate 0.59%, dividend yield 0%.

As at November 30, 2020, the following incentive share options were outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
1,850,000	\$ 0.11	June 26, 2022
250,000	0.09	May 7, 2022
125,000	0.09	November 12, 2021
444,000	0.11	July 6, 2023
224,000	0.11	July 6, 2022
2,893,000	\$ 0.08	

**Warrants**

A summary of changes in warrants outstanding as at November 30, 2020 and February 29, 2020 is as follows:

	Warrants Outstanding	Weighted average Exercise price	Weighted Average number of years to expiry
Balance, February 28, 2019	-	\$ -	-
Warrants issued	11,770,000	0.10	1.19
Warrants expired	(50,000)	0.10	-
Balance, February 29, 2020	11,720,000	\$ 0.10	1.19
Warrants issued	5,792,500	0.12	1.54
Warrants exercised	(1,202,500)	0.06	0.43
Balance, November 30, 2020	16,310,000	\$ 0.11	0.83

On May 8, 2019, pursuant to the non-brokered private placement financing, the Company issued 11,210,000 units (the "Units"). 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.

Pursuant to the May 8, 2019 private placement, the Company granted 560,000 Finders Warrants, expiring on May 7, 2021 with an exercise price of \$0.06, an estimated fair value of \$14,882, were 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%.

On June 17, 2020, pursuant to the non-brokered private placement financing, the Company issued 5,792,500 units (the "Units"). Each Unit comprises one common share and one-half of non-transferable warrant, with each whole 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 \$0.12.

During the nine-months ended November 30, 2020, 1,202,500 of the share warrants issued pursuant to the private placement completed on May 7, 2019, were exercised at \$0.10 each for proceeds of \$120,250.



**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020**

**10. SHARE CAPITAL (continued)**

**Warrants (cont'd...)**

As at November 30, 2020, the following warrants were outstanding and exercisable:

Issued for	Number of Warrants	Exercise Price	Expiry Date
Private placement 05.07.2019	9,957,500	\$ 0.10	07-May-21
Broker's warrants 05.07.2019	560,000	0.06	07-May-21
Private placement 06.17.2020	5,792,500	0.12	17-Jun-22
	16,310,000	\$ 0.06	

**11. CAPITAL DISCLOSURE**

The Company considers its capital structure to include the net residual equity of all assets, less liabilities. Capital comprises the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term.

The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital was mostly from proceeds from the issuance of common shares.

The Company is not subject to externally imposed capital restrictions nor were there any changes to the Company's capital management provisions during the period.

**12. FINANCIAL INSTRUMENTS AND RISKS**

**Fair values**

A three-level hierarchy that reflects the significance of inputs used in making fair value measurements is required. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 – Inputs for assets or liabilities that are not based on observable market data.

**Financial instrument risks**

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair value measurement.

Assets	As at November 30, 2020	As at February 28, 2020
Cash and cash equivalents	\$ 582,054	\$ 52,384
Amounts receivable	10,219	9,947
Marketable securities	207,900	34,275
Accounts payables	(71,203)	(60,979)
Due to related parties	(20,536)	(78,032)
Total	\$ 708,434	\$ (42,405)

**MEGASTAR DEVELOPMENT CORP.**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

---

**12. FINANCIAL INSTRUMENTS AND RISKS (continued)**

**Financial instrument risks (cont'd...)**

The Company's cash and cash equivalents, and marketable securities are valued using quoted market prices in active markets for identical assets, and therefore are classified as Level 1.

The fair value of amounts receivable, accounts payable and due to related parties approximates their carrying values due to their short term to maturity.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash, cash equivalents and amounts receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at November 30, 2020, the Company had working capital of \$719,305 (February 29, 2020 – net working capital of \$239). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's marketable securities bear market price risk. The maximum exposure to this risk is equal to the carrying value of the investment.

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of November 30, 2020, the Company had cash and cash equivalents balance of \$582,054 of which \$11,003 was in a term deposit, earning interest at a rate of 0.05% per annum (Note 4). The Company had no interest-bearing debt.

*Foreign currency risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company is exposed to foreign currency risk on fluctuations related to accounts payable and Mexican property expenditures that are denominated in US dollars and Mexican pesos. A 10% fluctuation in the Mexican peso against the Canadian dollar would affect comprehensive loss for the period by approximately \$7,392.

**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**13. RELATED PARTY TRANSACTIONS**

The amounts due to related parties are for amounts due to directors and officers. The balances are unsecured, non-interest bearing and have no specific terms for repayment.

As at November 30, 2020, \$20,536 (February 29, 2020 - \$78,032) was due to directors and officers of the Company.

	As at	
	November 30, 2020	February 29, 2020
Company controlled by Chief Executive Officer	\$ 5,250	\$ 13,000
Company controlled by Chief Financial Officer	8,700	18,600
Company controlled by Corporate Secretary	3,688	-
Company controlled by a director	2,898	46,432
	<b>\$ 20,536</b>	<b>\$ 78,032</b>

During the nine months ended November 30, 2020 and November 30, 2019, the Company entered into the following transactions with related parties:

	Nine Months Ended	
	November 30, 2020	November 30, 2019
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors:		
Management fees	\$ 81,000	\$ 65,000
Professional fees	13,151	15,947
Consulting fees	29,228	24,096
Mineral exploration consulting	29,815	87,013
Share based payments	-	123,689
	<b>\$ 153,194</b>	<b>\$ 315,745</b>

Management fees for nine months ended November 30, 2020 included \$45,000 paid to Chief executive officer of the Company (2019 - \$35,000) and \$36,000 paid to Chief financial officer of the Company (2019 - \$30,000)

Professional fees for nine months ended November 30, 2020 included \$13,151 accounting fees paid to the company controlled by CFO of the Company (2019 - \$13,042).

Consulting fees for the nine months ended November 30, 2020 included \$22,500 paid to the Corporate Secretary and 6,728 paid to a company controlled by a Director (2019 - \$22,500 paid to the Corporate Secretary and \$1,596 paid to a Company controlled by a Director).

Mineral exploration consulting for the nine months ended November 30, 2020 included \$29,815 of consulting fees related to the mineral exploration activities paid to a company controlled by one of the directors (2019 - \$87,013).

During the year ended February 29, 2020, 1,850,000 stock options, which are exercisable at \$0.05 and have an estimated fair value of \$123,689 (Note 10), were granted to officers (800,000 options) and directors (1,050,000 options).

During the year ended February 29, 2020, 825,000 stock options were exercised at \$0.05 by officers (425,000 options), a director (200,000 options) and a former director (200,000 options) for proceeds of \$41,250, with a fair value adjustment of \$29,885 posted against stock option reserves.

During the nine months ended November 30, 2020, the Company paid \$16,590 to a company controlled by one of the directors to amend the option agreement with respect of Yautepec, Magdalena, and Rama de Oro property.

**MEGASTAR DEVELOPMENT CORP.**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

AS AT AND FOR THE NINE MONTHS ENDED NOVEMBER 30, 2020

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

During the nine months ended November 30, 2020 and November 30, 2019, the Company incurred non-cash financing and investing activities as follows:

	Nine months ended	
	November 30, 2020	November 30, 2019
	\$	\$
Non-cash operating activities		
Fair value of options granted	55,922	123,689
Non-cash financing activities:		
Fair value of options exercised	-	29,885
Share issuance costs	-	14,882
Non-cash investing activities:		
Shares issued for exploration and evaluations assets	319,500	240,000
Marketable securities received on disposal of exploration and evaluation assets	12,000	-

**15. SEGMENTED INFORMATION**

The Company operates in one business segment, being the exploration and development of mineral properties. Geographical information is as follows:

	Canada	Mexico	Total
<b>Balance, as at November 30, 2020</b>			
Exploration and evaluation assets	\$ 825,566	\$ 673,528	\$ 1,499,094
<b>Balance, as at February 29, 2020</b>			
Exploration and evaluation assets	\$ 501,219	\$ 530,722	\$ 1,031,941

**16. SUBSEQUENT EVENTS**

Subsequent to the period ended November 30, 2020, an aggregate of 50,000 of the share warrants were exercised for a total value of \$5,000.

During and after the period ended November 30, 2020, the COVID-19 pandemic has caused significant and negative impact to the global financial market. The Company continues to monitor and assess the impact on its business activities. So far, the Company has been impacted by having to suspend some of its exploration activities on its properties in Mexico. The full impact is uncertain, and it is difficult to reliably measure the extent of the effect of the COVID-19 pandemic on future financial results.