



**MEGASTAR DEVELOPMENT CORP.**

**Management Discussion & Analysis**

**Form 51-102F1**

**For the year ended February 28, 2018**

**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)**

June 19, 2018

## **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 audited financial statements and the accompanying notes for the year ended February 28, 2018,, 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. 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.

The Company is listed as a Tier 2 mining exploration issuer. The Company operates in a single business segment focusing on mineral exploration in Quebec, Canada and in the state of Oaxaca, Mexico. At February 28, 2018, the Company had no revenue producing operations and has an accumulated deficit of \$4,587,754 (February 28, 2017 - \$4,429,005) 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 February 28, 2018, the Company had a working capital of \$478,359 (February 28, 2017 – \$629,343). For significant expenditures and mineral property development, the Company will almost exclusively depend on outside capital. Such outside capital will include the issuance of additional equity shares. There can be no assurance that capital will be available, as necessary, to meet the Company's operating commitments and further exploration and development plans. The issuance of additional equity securities by the Company may result in

significant dilution to the equity interests of current shareholders. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the further success of the business could be adversely affected.

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, McMillan LLP, Barristers and Solicitors, 1500 Royal Centre – 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7.

## **OVERALL PERFORMANCE**

### **MINERAL INTERESTS**

#### **RALLEAU property, Quevillon, Quebec:**

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

- 75km 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

The Company was eligible to receive refunds from the Quebec Ministry of Mines and Natural Resources and Revenu Quebec for the qualifying exploration expenditures that were incurred in 2015 and 2016. During the year ended February 28, 2017, the Company received a refund of \$23,529 from Revenu Quebec and \$4,858 from the Quebec Ministry of Mines and Natural Resources.

During the year ended February 28, 2017, the Company abandoned a non-core mineral claim, and recognized \$3,711 impairment charge.

**Megastar Development Corp.**  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the year ended February 28, 2018

---

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 and issuance of 750,000 common shares.

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.

On March 15, 2018, the Company and the optionee amended the terms of the option agreement for the Ralleau Property previously announced April 5, 2017. Under the amended agreement, the Company will receive 300,000 pre-split common shares in lieu of 200,000 pre-split common shares, which is due on the earlier of June 30, 2018 and the date the optionee's common shares are listed and begin trading on the Canadian Securities Exchange. Moreover, the total exploration expenditure of \$25,000 is due on or before June 30, 2018 in lieu of March 30, 2018 under the original agreement. As a result of the amendment, the Company will receive a total of 1,700,000 post-split common shares (850,000 pre-split common shares) of the optionee:

(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 and 600,000 post-split (300,000 pre-split) common shares on or before the exchange listing date (200,000 shares were issued on April 9, 2018);
- iii. \$5,000 and 200,000 post-split (100,000 pre-split) common shares on or before the first anniversary date of this agreement (April 5, 2018);
- iv. \$10,000 and 400,000 post-split (200,000 pre-split) common shares 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 June 30, 2018;
- iv. \$50,000 on or before the second anniversary date of this agreement (April 5, 2019);
- v. \$120,000 on or before the third anniversary date of this agreement (April 5, 2020).

During the year ended February 28, 2018, the Company made a \$2,717 payment on behalf of the optionee for its mineral expenditures on the Ralleau Property.

During the year ended February 28, 2018, the Company received \$5,000 from the optionee pursuant to the option agreement.

**SEDEX property**, northern British Columbia:

On December 20, 2017, the Company abandoned 7 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 will be written off entirely.

**RAMA DE ORE project**, Oaxaca, Mexico

On May 10, 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.

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 and issue 1,100,000 common shares to the optionor within 15 days following the execution of the agreement, subject to TSX-V Exchange approval.
- ii. Issue 600,000 common shares to the optionor and incur US\$150,000 on or before the first anniversary of the approval date.
- iii. Issue 1,200,000 common shares to the optionor and incur US\$200,000 on or before the second anniversary of the approval date.

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.

**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.

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 and issue 200,000 common shares to the optionor within 15 days following the execution of the agreement, subject to TSX-V Exchange approval.
- ii. Issue 450,000 common shares to the optionor and incur US\$40,000 on or before the first anniversary of the approval date.
- iii. Issue 900,000 common shares to the optionor and incur US\$80,000 on or before the second anniversary of the approval date.
- iv. Incur US\$190,000 on or before the third anniversary of the approval date.

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.

**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.

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 and issue 200,000 common shares to the optionor within 15 days following the execution of the agreement, subject to TSX-V Exchange approval.
- ii. Issue 450,000 common shares to the optionor and incur US\$40,000 on or before the first anniversary of the approval date.
- iii. Issue 900,000 common shares to the optionor and incur US\$70,000 on or before the second anniversary of the approval date.
- iv. Incur US\$120,000 on or before the third anniversary of the approval date.

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.

**RESULTS OF OPERATIONS**

The Company had comprehensive loss of \$156,099 for the year ended February 28, 2018 (2017 – \$119,971). The Company's operating expenses included the following:

- Accounting and audit fees of \$21,399 (2017 - \$24,839)
- Consulting fees of \$12,652 (2017 - \$Nil)
- Depreciation of \$114 (2017 - \$163)
- Insurance of \$7,702 (2017 - \$7,934)
- Investor relations and promotions of \$2,363 (2017 - \$Nil)
- Legal fees of \$27,798 (2017 - \$5,107)
- Management fees of \$60,000 (2017 - \$60,000)
- Office, telephone, and miscellaneous of \$5,269 (2017 - \$4,955)
- Rent of \$12,000 (2017 - \$12,000)
- Share-based payments of \$Nil (2017 - \$29,885)
- Shareholder information of \$3,135 (2017 - \$1,910)
- Transfer agent and filing fees of \$9,214 (2017 - \$12,865)
- Travel expense of \$Nil (2017 - \$2,203)

During the year ended February 28, 2018, the Company had interest income of \$48 (2017 - \$226), impairment for exploration and evaluation of \$1 (2017 - \$3,711), gain on write-off of amounts due to related parties of \$2,850 (2017 - \$Nil), and unrealized gain on marketable securities of \$2,650 (2017 - \$45,375).

Accounting and audit fees of \$21,399 (2017 - \$24,839) consist of expenses relating to the Company's financial recording and reporting activities.

**Megastar Development Corp.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
For the year ended February 28, 2018

---

Consulting fees of \$12,652 (2017 - \$Nil) increased due to fees paid to consultants of the Company for investigation and due diligence consultation on the Company's prospective projects. These general consulting expenses cannot be directly attributed to any particular project and have therefore been expensed as general consulting.

Investor relations and promotions of \$2,363 (2017 - \$Nil) relate to maintaining the current projects, investigating new projects and promoting the Company.

Legal fees of \$27,798 (2017 - \$5,107) relate to legal expenses in connection with legal advice and guidance for the operations of the Company and its compliance. The legal fees increased because management looks for options to expand their minerals properties and operations.

Management fees of \$60,000 (2017 - \$60,000) consist of payments made to the CEO and CFO as discussed under the heading "Related Party Transactions".

Office and miscellaneous expenses of \$5,269 (2017 - \$4,955) related to expenses paid for administration and support.

Rental expenses of \$12,000 (2017 - \$12,000) are expenses paid for the Company's occupancy.

Transfer agent and filing fees of \$9,214 (2017 - \$12,865) relates to expenditures in connection with share capital activities and reporting of the Company.

The overall expenses were comparable to the same period last year, except the consulting fees and the increased legal fees incurred during the year ended February 28, 2018 for consultation on the Company's current and prospective projects and share-based payments incurred during the period ended February 28, 2017 for the issuance of stock options.

**SUMMARY OF QUARTERLY FINANCIAL RESULTS**

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

	<i>Three months ended</i>			
	February 28, 2018	November 30, 2017	August 31, 2017	May 31, 2017
Net loss	\$ (59,781)	\$ (39,438)	\$ (32,471)	\$ (27,059)
Loss per share	\$ (0.002)	\$ (0.001)	\$ (0.001)	\$ (0.001)

  

	<i>Three months ended</i>			
	February 28, 2017	November 30, 2016	August 31, 2016	May 31, 2016
Net loss	\$ (20,090)	\$ (28,643)	\$ (63,556)	\$ (53,057)
Loss per share	\$ (0.001)	\$ (0.001)	\$ (0.002)	\$ (0.002)

The increase net loss in the quarter ended August 31, 2016 compared with the quarter ended May 31, 2016 was primarily due to transfer agent and filing fees of \$3,224, legal fees of \$4,177 and share-based payments of \$29,885 incurred in the quarter ended August 31, 2016.

The decrease net loss in the quarter ended November 30, 2016 compared with the quarter ended August 31, 2016 was primarily due to overall expenses decreased in the quarter ended November 30, 2016, and stock-based

**Megastar Development Corp.**  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the year ended February 28, 2018

---

payments incurred in the quarter ended August 31, 2016 for granting 825,000 share options to the Company's officers and directors.

The decrease net loss in the quarter ended February 28, 2017 compared with the quarter ended November 30, 2016 was primarily due to the recoveries recognized on its mineral property of \$25,982. The net loss, excluding the recoveries, increased in the quarter ended February 28, 2017, primarily due to the accounting and audit fees of \$17,033, and transfer agent and filing fees of \$6,001 for the year end reporting. Other expenses were comparable and remained same.

The increase net loss in the quarter ended May 31, 2017 compared with the quarter ended February 28, 2017 was primarily due to the recoveries recognized on its mineral property of \$25,982 in the quarter ended February 28, 2017. The net loss, excluding the recoveries, significantly decreased in the quarter ended May 31, 2017, primarily due to the reduction in the accounting and audit fees and transfer agent and filing fees.

The increase net loss in the quarter ended August 31, 2017 compared with the quarter ended May 31, 2017 was primarily due to the increase in transfer agent and filling fees and the investor relations and promotions expenses incurred in the quarter ended August 31, 2017. Other expenses were comparable and remained same.

The increased net loss in the quarter ended November 30, 2017 compared with the quarter ended August 31, 2017 was primarily due to the increase in legal and consulting fees incurred in the quarter ended November 30, 2017. Other expenses were comparable and remained same.

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 same.

**REVIEW OF FINANCIAL RESULTS**

The following table provides a summary of the Company's financial operations for the three years ended February 28, 2018, February 28, 2017 and February 29, 2016.

<u>Fiscal year</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total assets	\$ 708,345	\$ 843,747	\$ 947,661
Mineral exploration and evaluation assets	185,857	190,858	221,318
Working capital	478,359	629,343	688,806
Shareholders' equity	664,482	820,581	910,667
Revenues	Nil	Nil	Nil
Total comprehensive income (loss)	(156,099)	(119,971)	50,240
Earnings (loss) per share	(0.01)	(0.00)	0.00

The annual financial results reflect the Company's levels of activity over the past three years. Since 2016, the assets have decreased by \$239,316, mineral exploration and evaluation assets have decreased by \$35,461, and shareholders' equity has decreased by \$246,185.

#### **FOURTH QUARTER RESULTS**

During the quarter ended February 28, 2018, the Company had a net loss of \$59,781 compared to a net loss of \$20,090 for the quarter ended February 28, 2017. The operational expenses consist of accounting and audit fees of \$16,096 (2017 - \$17,033), depreciation expenses of \$29 (2017 - \$41), the legal fees of \$21,147 (2017 - \$Nil), insurance expenses of \$1,926 (2017 - \$1,925), consulting fees of \$532 (2017 - \$Nil), management fees of \$15,000 (2017 - \$15,000), office, telephone and miscellaneous expenses of \$2,749 (2017 - \$667), rent expenses of \$3,000 (2017 - \$3,000), shareholder information expenses of \$Nil (2017 - \$181), travel expenses of \$Nil (2017 - \$2,177), transfer agent and filing fees of \$1,860 (2017 - \$6,059), and investor relations and promotion expenses of \$302 (2017 - \$Nil). The Company also received \$11 interest income (2017 - \$11).

During the quarter ended February 28, 2018, the Company recognized gain on write-off of \$2,850 (2017 - \$Nil) of amounts due to related parties for its former directors and \$Nil (2017 - \$25,982) on its exploration and evaluation interest.

During the quarter ended February 28, 2018, the Company recognized an impairment charge of \$1 (2017 - \$Nil) due to the expiry of 1 non-core mineral claim.

#### **LIQUIDITY AND CAPITAL RESOURCES**

As of February 28, 2018, the Company had net working capital of \$478,359 (February 28, 2017 - \$629,343) and cash and cash equivalents of \$448,943 (February 28, 2017 - \$585,047). The Company anticipates similar general and administrative expenses over the next quarter and anticipates no new significant expenditures relating to its current projects. As at February 28, 2018, the Company had sufficient liquidity to meet its obligations for the current and next fiscal years.

##### Year ended February 28, 2018:

###### *Shares and Options:*

There were no share capital transactions and no options granted, expired, cancelled or exercised during the year ended February 28, 2018.

###### *Warrants:*

On June 1, 2017, 11,000,000 warrants, exercisable at \$0.135, expired unexercised.

##### Year ended February 28, 2017:

###### *Options:*

On July 22, 2016, 650,000 options exercisable at \$0.25 expired unexercised.

**Megastar Development Corp.**  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the year ended February 28, 2018

---

On August 25, 2016, the Company granted 825,000 share options to its directors and officers, which were exercisable for a period of three years, at a price of \$0.05 per share. The fair value of share options granted was estimated at the grant date using the Black-Scholes option pricing model with estimated volatility of 125%, a risk-free rate 0.58%, a dividend yield 0%, and expected life of 3 years. With these assumptions, the fair value of the options was determined to be \$29,885, which has been expensed with a corresponding credit to share-based payment reserve.

*Warrants:*

On July 20, 2016, 6,602,765 warrants exercisable at \$0.135 expired unexercised.

Cash Flow Activities:

Year ended February 28, 2018:

Cash balances decreased by \$136,104 during the year ended February 28, 2018 and decreased by \$117,650 during the year ended February 28, 2017.

During the year ended February 28, 2018, cash used in operating activities was \$141,152 compared to cash used in operating activities of \$144,625 during the year ended February 28, 2017. The cash used in operating activities in 2018 was comparable to 2017, and management only incurred necessary compliance and operational expenses to conserve cash.

Cash provided by investing activities during the year ended February 28, 2018 was \$5,048 compared with cash provided by investing activities of \$26,975 during the year ended February 28, 2017. The difference is primarily attributed to the refunds received from the Quebec Ministry of Mines and Natural Resources and Revenu Quebec in 2017 and proceeds received for disposition of exploration and evaluation property in 2018.

Year ended February 28, 2017:

Cash balances decreased by \$117,650 during the year ended February 28, 2017 and decreased by \$130,276 during the year ended February 29, 2016.

During the year ended February 28, 2017, cash used in operating activities was \$144,625 compared to cash used in operating activities of \$123,961 during the year ended February 29, 2016. The cash used in operating activities in 2017 was comparable to 2016, and management only incurred necessary compliance and operational expenses to conserve cash.

Cash provided by investing activities during the year ended February 28, 2017 was \$26,975 compared with cash used in investing activities of \$6,315 during the year ended February 29, 2016. The difference is primarily attributed to the decrease in interest received from its term deposit, reduction in evaluation and exploration expenditures, and refunds received from the Quebec Ministry of Mines and Natural Resources, and Revenu Quebec in 2017.

**OUTSTANDING SHARES**

**Outstanding Share Data**

	Number of shares	Share capital
Balance, February 29, 2012	17,796,716	\$ 4,133,551
Shares issued for private placement	11,000,000	1,100,000
Share options exercised	200,000	20,000
Fair value of options exercised	-	14,450
Shares issuance cost (agent's warrants)	-	(52,573)
Shares issuance cost	-	(74,250)
Balance, February 28, 2018 and February 28, 2017	28,996,716	\$ 5,141,178

On June 1, 2017, 11,000,000 warrants exercisable at \$0.135 expired unexercised.

As of the date of this report, there were 28,996,716 common shares and 825,000 share options outstanding.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as at February 28, 2018 or as of the date of this report.

**TRANSACTIONS WITH RELATED PARTIES**

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

Due to Related Parties	February 28, 2018	February 28, 2017
Zara Kanji & Associates (Company controlled by CFO)	\$ 5,000	\$ 4,000
David Bickerman, Former Director	-	1,000
Brian Thurston, Former Director	-	1,850
	\$ 5,000	\$ 6,850

During the year ended February 28, 2018 and 2017, the Company entered into the following transactions with related parties:

**Megastar Development Corp.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
For the year ended February 28, 2018

	Year ended	
	February 28, 2018	February 28, 2017
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and former directors:		
Management and directors fees	\$ 60,000	\$ 60,000
Professional fees	8,609	10,349
Share-based payments	-	29,885
	<u>\$ 68,609</u>	<u>\$ 100,234</u>

Management compensation consisted of the following:

	Year ended	
	February 28, 2018	February 28, 2017
Company controlled by CEO	\$ 36,000	\$ 36,000
Company controlled by CFO	24,000	24,000
	<u>\$ 60,000</u>	<u>\$ 60,000</u>

During the year ended February 28, 2018, the Company wrote off payables of \$2,850 due to former directors of the Company.

**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 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 audited financial statements for the year ended February 28, 2018 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 history. The Company was incorporated on September 24, 1984 and has yet to generate a profit from its activities. The Company is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objective. The Company anticipates that it may take several years to achieve positive cash flow from operations.

### **Exploration, Development and Operating Risks**

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

The Company's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity; flooding and other conditions involved in the extraction of material, any of which could

result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

### **Fluctuating Mineral Prices**

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

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

### **Substantial Capital Requirements and Liquidity**

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

### **Regulatory Requirements**

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

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or

criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulation and permits governing operations and activities of mineral companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs or require abandonment or delays in the development of new properties.

### **Financing Risks and Dilution to Shareholders**

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

### **Title to Properties**

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. The Company cannot 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 and it and may need to acquire further permits or licenses necessary to carry on proposed exploration activities on the properties. A substantial number of permits and licenses may be required should the Company proceed beyond exploration; such licenses and permits may be difficult to obtain and may be subject to changes in regulations and in various operational circumstances. It is uncertain whether the Company will be able to obtain all such licenses and permits.

### **Competition**

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

### **Reliance on Management and Dependence on Key Personnel**

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

### **No Mineral Reserves or Mineral Resources**

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

### **Environmental Risks**

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

### **Governmental Regulations and Processing Licenses and Permits**

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

### **Local Resident Concerns**

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

### **Conflicts of Interest**

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

### **Uninsurable Risks**

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

### **Litigation**

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

### **FORWARD-LOOKING STATEMENTS**

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

### **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**

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

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

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

**IFRS 9 Financial Instruments** – IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 is applicable to annual reporting periods beginning on or after January 1, 2018.

**IFRS 15, Revenue from Contracts with Customers** - IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is applicable to annual reporting periods beginning on or after January 1, 2018.

**IFRS 16, Leases** - 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. IFRS 15 is applicable to annual reporting periods beginning on or after January 1, 2019.

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

## **FINANCIAL AND OTHER INSTRUMENTS**

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

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

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

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those, which are expected to mature within 12 months after the end of the reporting period.

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

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

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

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

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

The Company classified its financial instruments as follows:

- Cash and cash equivalents are classified as *loans and receivables*.
- Marketable securities are classified as *available for sale*.
- 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 financial statements of the Company for the year ended February 28, 2018.

## **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.

Upon the receipt of the required regulatory approvals regarding the acquisition of Rama de Oro Option in Mexico, David Jones will be 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 August 24, 2016, Chris Staargaard tendered his resignation from the board to pursue other interests.

### **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

June 19, 2018

## **MEGASTAR DEVELOPMENT CORP.**

### **LISTING**

TSX Venture Exchange Symbol: MDV

Frankfurt Stock Exchange Symbol: M5Q

### **HEAD OFFICE**

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

Telephone: 604-681-1568

Fax: 604-681-8240

Toll Free: 1-877-377-6222

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

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

### **DIRECTORS AND OFFICERS**

Dusan Berka, P. Eng., President & CEO, Director

Zara Kanji, CPA, CGA, CFO and Corporate Secretary

Paul A. Smith, Director

Jonathan M. Rich, Director

### **LEGAL COUNSEL**

McMillan LLP, Barristers and Solicitors

Solicitor – James Munro

1500 Royal Centre - 1055 W. Georgia Street, Vancouver, BC, V6E 4N7

### **REGISTRAR AND TRANSFER AGENT**

Computershare Trust Co. of Canada

3<sup>rd</sup> Floor – 510 Burrard Street, Vancouver, BC, V6C 3B9

### **AUDITORS**

Davidson & Company LLP

1200 – 609 Granville Street, Vancouver, BC, V7Y 1G6