



MEGASTAR DEVELOPMENT CORP.

Annual Financial Statements

&

**Management Discussion & Analysis
for the Year-Ended**

February 28, 2011

and

Comparative to February 28, 2010

#600 – 625 Howe Street, Vancouver, B.C. V6C 2T6

Tel (604) 683-6648 / Fax: (604) 683-1350

Email: info@megastardevelopment.com

Website: www.megastardevelopment.com

MEGASTAR DEVELOPMENT CORP.

FORM 51-102F1

**Management's Discussion & Analysis
for the Year Ended February 28, 2011
(and containing information as of June 28, 2011)**

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MEGASTAR DEVELOPMENT CORP.

Form 51-102F1

*Management's Discussion & Analysis
for the Year Ended February 28, 2011
(and containing information as of June 28, 2011)*

Item 1: ANNUAL MD&A

Forward-looking Information

This Management Discussion and Analysis (“MD&A”) contains certain forward-looking statements and information relating to Megastar Development Corp. (“Megastar”, “MDV” or the “Company”) that are based on the beliefs of its management as well as assumptions made by and information currently available to MDV. When used in this document, the words “anticipate”, “believe”, “estimate”, “expect” and similar expressions, as they relate to MDV or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of MDV exploration properties. Such statements reflect the current views of MDV with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of MDV to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Aside from factors identified in the annual MD&A, additional important factors, if any, are identified here.

1.1 Date

The following discussion and analysis was approved by the Directors of the Company on June 28, 2011. All figures are in Canadian dollars unless otherwise noted.

1.2 Overall Performance

(i) SIMKAR property, Val d’Or, Quebec:

The Company’s exploration focus has been in Quebec, on the Company’s 100% owned SIMKAR property. Megastar Development Corp. had a 100-per-cent interest in two mining concessions consisting of 557 acres in the Louvicourt township of Quebec, approximately 20 kilometres east of Val d’Or, Que. The Simkar property is situated within the Abitibi greenstone belt.

On **August 17, 2009**, Eloro Resources Ltd. (“Eloro”) and Megastar announced that they have executed a definitive agreement. After Eloro completes its earn-in, Eloro and Megastar will form a joint venture reflective of their proportionate ownership interest in the Project with Eloro acting as operator. Should either Eloro or Megastar’s participating interest in the Project be diluted to less than ten percent, the diluted party’s interest will be converted to a 2% net smelter returns royalty. The non-diluted party can acquire one-half percent of the royalty from the diluted party for \$1 million, thereby reducing the royalty from 2% to 1.5%.

On August 30, 2010 the Company and its joint venture partner Eloro announced that they have reached an agreement in principle regarding a proposed business combination (the “Business Combination”). Eloro and Megastar propose to complete a Business Combination that will

provide that shareholders of Megastar will receive seventy million (70,000,000) common shares of Eloro in exchange for all of Megastar’s right, title and interest in and to the Simkar Property. The common shares of Eloro to be distributed to shareholders of Megastar will be listed for trading on the TSX Venture Exchange (“TSXV”).

On November 18, 2010 the Company and Eloro entered into an Asset Purchase Agreement whereby the Company agreed to transfer its 100% interest in the Property in exchange for 70,000,000 Eloro shares, which shares were distributed to the shareholders of Megastar on March 15, 2011,

For all information related to the plan of arrangement see “Other” including the transfer of title from Megastar to Eloro which was made on February 28, 2011.

(ii) RALLEAU property, Quevillon, Quebec:

On **July 25, 2005** the Company announced that it has received regulatory approval for the acquisition of a 100% interest in the RALLEAU property located approximately 40km east of Quévillon, Quebec. Mapping and sampling has identified anomalous Cu-Zn Volcanogenic Massive Sulphide (VMS) mineralization on the property. Several untested input anomalies occur within the favourable felsic volcanic rocks which are coincident with anomalous base metal values on surface. The closing of this acquisition was announced in the News Release dated August 18, 2005. From 2005 through 2009, the Company has increased the size of the property through staking. The Ralleau property now comprises 232 contiguous claims covering approximately 12,100 hectares.

From 2006 to 2009 the Company has completed the following exploration program:

- During 2006 a 75km grid, magnetic and deep EM survey
- 1,545.7 meters (5 holes) of diamond drilling, testing the surveyed conductors
- Trenching and channel sampling during the winter 2007 and assaying 50 channel samples taken over approximately 50 meters
- 1,457 line km, spaced at 75 meter intervals, helicopter-borne VTEM Survey completed by Abitibi Geophysique Ltd. of Val d’Or, Quebec and Geotech Ltd. of Aurora, Ontario during 2008.

On **March 25, 2009** the Company announced results of the VTEM Airborne Survey. The company’s objective with this survey was to identify conductive anomalies which could be caused by underlying VMS deposits. The survey clearly identified a total of forty nine (49) anomalies classed according to conductivity and strike length as priorities 1 to 4. Eight (8) of these anomalies were classified as Priority 1, additional eight (8) as priority 2, thirteen (13) were classified as priority 3 and finally twenty (20) more were classified as priority 4. Because VMS deposits are more often than not associated to anomalies of shorter strike length and moderate to low conductivity, the Company believes that all 49 anomalies will need to be reprioritized following a field mapping program to verify those anomalies that may be near surface, and corroborate them with favorable geological environments (rock type, alteration, and structural context). Among these, the anomalies located near the felsic domes will be studied very closely.

On August 3, 2010 the Company announced the commencement of a property-wide field program on its Ralleau Copper-Zinc Project. The program is designed to provide a geological model of the 12,165 hectare property, which straddles a virtually unexplored section of the Archean Abitibi Greenstone Belt. In addition, ground proofing of identified VTEM anomalies and surface prospecting will be completed to identify favourable horizons for both gold and base metal mineralization. This new phase of work follows up a Mag-VTEM airborne survey conducted in

2008, which will help improve the understanding of the overall felsic volcanic package. The VTEM survey identified forty nine (49) conductors, several with magnetic correlation that could be associated with a VMS deposit.

On February 28, 2011 the Company announced receipt of the final technical report on its Ralleau Copper-Zinc Project from MRB & Associates. MRB's 43-101 compliant report recommends a \$1.75M program consisting of target delineation and definition followed by a diamond drill program.

(iii) SEDEX Zinc project, northern, British Columbia:

On **February 13, 2006** the Company announced that it has entered into an option agreement to acquire 100% interest in a total of 46 mineral claim units located in the Omineca Mining Division, British Columbia, approximately 280 kilometers north-northwest of Mackenzie, B.C., Canada. These claims are situated in the emerging world class Gataga-Akie SEDEX zinc/lead/silver camp in the Omineca mining district of British Columbia, northeast of Williston Lake. The claims under option cover 185 square kilometers and include 5,630 meters of active zones in the favorable late Devonian Gunsteel shales. On January 11, 2007 the Company announced that it had fully exercised its option.

On **March 3, 2008** the Company announced that it has received a summary report on exploration recently completed on its 100% owned SEDEX zinc properties. Sampling returned significant zinc, lead and silver values. Under an option agreement with Megastar, Mantle Resources operated a regional exploration program on all of the Megastar claims, in conjunction with exploration on Mantle's contiguous tenures, investigating the potential for more SEDEX type mineral deposits. The 2007 work program consisted of geochemical sampling, gravity geophysics, prospecting and mapping. It was successful in locating several areas and trends of zinc, lead and silver bearing exhalative horizons within the underlying rocks. Encouraging assay returns were obtained for most of these claims, notably zinc and barium (the principal element in Barite, the gangue mineral in the Kechika SEDEX deposits). In soils, values returned up to 0.82% Zn (New Gun-Pesika claim) and 0.50% Ba (barium) – (Erin claim). Anomalous silver and lead were also encountered on most of the claims, with values ranging to 0.54% Pb on the Erin claim and 12.43 g/t Ag on the Akie-Sika North claim. Returns for rock samples ranged to 0.56% Ba on the New Gun-Pesika claim and up to 0.87% Zn, 7.9 g/t Ag and 0.82% Pb on the Erin claim.

On **April 30, 2008** the Company announced that it delivered a Notice of Default to Mantle Resources Inc. ("Mantle") regarding a number of Mantle's specific obligations that have not been complied with pursuant to the terms of the property option agreement. Subsequently, the option agreement between Megastar and Mantle was terminated by mutual consent as the parties were unable to agree upon amended terms.

On **August 29, 2008** the Company announced that Mantle Resources Inc. has completed its commitment to transfer all 100% right, title and interest in and to ten mineral claims. The ten additional claims, located within an area of mutual interest defined in the March 2007 option agreement between Megastar and Mantle, were acquired by Mantle subsequent to signing the Megastar Option Agreement. Mantle completed its first year obligations under the agreement. The work program was successful in locating several areas and trends of zinc, lead and silver bearing exhalative horizons within the underlying formations on Megastar's ground. As a result of ten new claims transferred to Megastar, Megastar now has a clear title and 100% interest in a total of 33 mineral claims covering 22, 461 ha.

On **November 25, 2008** the Company announced that it has granted Rio Grande Mining Corp. ("Rio Grande"), a private British Columbia corporation, an option to earn up to 60% interest over the next 36 months by making cash payments totalling \$70,000 (received \$10,000) and the issuance of a total of 200,000 shares, commencing the earlier of 7 days after listing or July 31, 2009. In addition,

Rio Grande must incur \$2,000,000 in exploration expenditures over 36 months of which \$100,000 is to be incurred before January 31, 2009.

On **August 14, 2009** the Company and Rio Grande Mining Corp. signed an amending letter of agreement, revising the second cash payment of \$15,000 to \$17,500 and extending both the cash payment of \$17,500 and first 50,000 share payment from the July 31, 2009 date to the earlier of seven days after listing or December 31, 2009.

On **November 2, 2009** the Company and Rio Grande Mining Corp. signed a further amending letter of agreement, extending both the cash payment of \$17,500 and first 50,000 share payment from the December 31, 2009 date to the earlier of 7 days after the Listing Date or May 31, 2010.

On **March 17, 2010** the Company announced that its optionee Rio Grande Mining Corp., commenced trading **March 15, 2010**, under the symbol **RGV**, on the **TSX Venture Exchange**. The Company received from Rio Grande a cash payment of **\$17,500** and **50,000** common shares. The next milestone in the option agreement is **July 31, 2010**, by which date Rio Grande needs to make an additional cash payment of **\$20,000**, issue a further **50,000** shares of Rio Grande and incur a minimum **\$200,000** (completed) in exploration expenditures to keep the option agreement in good standing.

On **July 13, 2010** the Company announced that it has received an update of exploration on its **100% owned SEDEX Zinc-Lead-Silver Property** by the optionee and J/V partner Rio Grande Mining Corp. The **Kwad South, New Quad, West Quad and Akie-Sika North claim blocks**, which are part of **11** segregated, grouping of claims located within prolific **Kechika basin**, were subjected to an airborne magnetic survey conducted from **March 23 to April 1 in 2010**. A total of **1,199** line-kilometres or **99** square kilometres of data were acquired on these four claim blocks using high sensitivity cesium magnetometer (Scintrex CS-3) survey, covering more than **7,503** hectares. In summary, Rio Grande reports that they now have a target lithology, the **Gunsteel Formation**, both, on the **Yuen North and Akie-Sika North claims** that warrant follow-up by ground-truthing methods such as prospecting, mapping, soil and lithochemical surveying.

On **July 28, 2010** the Company received the **\$17,500** second option payment and **50,000** common shares from Rio Grande Mining Corp. regarding the **SEDEX** property.

On **May 31 2011**, the Company allowed the expiration of **8** mineral claim units which were not part of its core exploration tenures in the area. The Company still has **100%** interest in **25** mineral claim units totaling **10,705** hectares in good standing.

(iv) OTHER:

- a) The Company received a total of **\$135,000** as a result of **1,290,000** incentive stock options exercised at prices of **\$0.10** and **\$0.13** per share.
- b) The Company received a total of **\$300,000** as a result of **4,100,000** warrants being exercised at prices of **\$0.06** and **\$0.10** per share.
- c) A total of **1,120,000** options exercisable at prices between **\$0.10** and **\$0.20** per share expired unexercised.
- d) At the Company's Annual General Meeting held on **December 7, 2010** shareholders re-elected **Dusan Berka, Gary Musil, Richard Roy** and newly elected **Chris Staargaard** to the Board of Directors for the upcoming year. Shareholders also approved, subject to acceptance by the **TSX Venture Exchange**, the company's incentive stock option plan for **2010** and

reappointment of BDO Canada LLP Chartered Accountants as auditors for the ensuing year and authorized the directors to fix their remuneration. All other resolutions submitted by management to shareholders for consideration were approved as presented. At a directors' meeting held after the Company's AGM, the directors re-appointed only two officers: Mr. Berka as President and Chief Executive Officer, and Mr. Musil as Chief Financial Officer and Corporate Secretary, The Board and management thanked Mr. Shawn Thomas and Andrew Lee, former Vice Presidents, for their dedicated service to the Company, (see the News Release dated December 15, 2010).

- e) At the Company's Special Meeting of Shareholders held on December 20, 2010 shareholders of the Company approved the Plan of Arrangement whereby the 70,000,000 shares of Eloro received for the Simkar Property will be distributed to shareholders of Megastar on a pro-rata basis. The ratio of distribution will be approximately 1.6616329869 Eloro shares for each share of the Company held by shareholders of record on the Distribution Record Date, previously set as December 21, 2010. The Company also received conditional regulatory approval to proceed with the transaction at this time.
- f) On December 22, 2010 the Company announced that its previously announced arrangement under the *Business Corporations Act* (British Columbia) (the "Arrangement") has received the requisite shareholder approval at the Company's special meeting of shareholders held on December 20, 2010. The Arrangement was approved by 99.95% of shares voted at the Meeting. Pursuant to the Arrangement, Megastar will distribute to its shareholders those shares of Eloro, which it received as consideration for the sale of its Simkar Property to Eloro. In order to comply with Exchange policies, the Company has reset the record date for the Distribution to January 7, 2011. The final court order to approve the Arrangement was obtained on December 21, 2010. At the meeting, shareholders also approved a resolution approving a possible consolidation, if deemed to be necessary or advisable by the Company's board of directors, on the basis one (1) new post-consolidation Megastar share for up to every six (6) pre-consolidation Megastar shares outstanding. Such resolution was approved by 93.05% of shares voted at the meeting.
- g) On December 23 and 24, 2010 the Company provided clarification regarding its recent announcements of a new Distribution Record Date for the distribution of the Eloro shares under the terms of the Company's shareholder approved Arrangement. The Distribution Record Date was previously set for December 21, 2010 and, in consultation with the TSX Venture Exchange, was required to be reset to January 7, 2011 in order to comply with the Exchange policies applicable to distributions characterized as dividends. Additionally, the Ex-dividend date, the date as of which a purchaser of Megastar shares would not be entitled to receive Eloro Shares pursuant to the Arrangement, was set for January 5, 2011.
- h) Further to the Plan of Arrangement, on February 3, 2011 - the TSX Venture Exchange declared its final acceptance of the sale of the Simkar property and on February 28, 2011, title to the Simkar property was transferred from Megastar to Eloro, and the 70,000,000 Eloro shares were released from escrow

Investor Relations & Shareholder Communication:

CEO Clips, a series of 1 - 2 minute corporate profiles on Canadian companies (www.ceoclips.com), featured the Company nationally on BNN Television network from August 31, 2009 to November 1, 2009. CEO Clips also featured the Company on CBC Newsworld from Monday January 25 – 31, 2010 and February 15 – 21, 2010. The segment can also be viewed online via this link www.b-tv.com/i/videos/CBCMegastar30sec.wmv and on Yahoo Finance Canada, stockhouse.ca and MSN Finance as well as www.ceoclips.com.

On March 4, 2010 the Company announced, subject to regulatory approval (received May 26, 2010), that it retained Axino AG to provide investor relations services. Axino presented Megastar in Germany and other European countries, disseminating investor relations information and creating awareness of Megastar in the European financial community. Axino was to have received compensation of 30,000 euros for an initial term of 12 months starting March 1, 2010, as well as 200,000 incentive stock options under the company's 2009 stock option plan at an exercise price of 13 cents per share exercisable for a period of two years. The contract with Axino AG was terminated by mutual consent on November 30, 2010. The Company has no current investor relations contract in place.

Stock Option Plan:

Pursuant to a “Stock Option Plan” as approved by the shareholders at the Annual General Meeting that was held on December 7, 2010 the Company has implemented the “2010 10% Rolling Plan” until the next annual general meeting of the Company. Upon implementation of the 2010 Rolling Plan, the Company’s Board of Directors (the "Board"), or any committee created pursuant to the terms of the 2010 Rolling Plan (the “Committee”), is authorized to grant options under and subject to the terms and conditions of the 2010 Rolling Plan, which may be exercised to purchase up to 10% of the issued and outstanding share capital of the Company, as determined at the time of granting.

During the year, the following incentive stock options were granted:

- On March 4, 2010 the Company announced that it had granted 1,000,000 incentive stock options to directors, officers and consultants, exercisable at \$0.13 per share until March 4, 2013
- On July 13, 2010 the Company announced that it had granted 200,000 incentive stock options to directors, officers and consultants, exercisable at \$0.10 per share for period of two years.

(v) SUBSEQUENT EVENTS:

Subsequent to the year ended February 28, 2011 the following transactions and events occurred:

On March 17, 2011, the Company announced the completion of its Plan of Arrangement and distribution of 70,000,000 common shares of Eoro Resources Ltd. to Megastar shareholders of record on January 7, 2011. The ratio of distribution is 1.6616329869 Eoro shares for each Megastar share and the effective date of the share distribution is March 15, 2011. The Eoro share certificates being delivered to eligible Megastar shareholders will carry a hold period legend expiring on March 19, 2011.

Megastar has determined that the fair market value of each Eoro Share distributed on the exchange was equal to \$0.087, with 1.6616329869 Eoro Shares distributed for every Megastar Class A Share. Further, Megastar has determined that the paid-up capital of each Megastar Class A Share was equal to \$0.1504. Accordingly, management has concluded that no deemed dividend should result.

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

Once complete, the 42,127,233 issued common shares outstanding will be reduced to 10,531,808 common shares (completed on May 4, 2011). No fractional common shares will be issued as a result of the Share Consolidation. The exercise price and the number of common shares issuable under any outstanding convertible securities of the Company, including outstanding incentive stock options and common share purchase warrants, will be proportionately adjusted once the transaction is complete.

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

On May 4, 2011 the Company announced that effective as of the opening of trading of the TSX Venture Exchange (the "Exchange") on Wednesday May 4, 2011, the Company will consolidate its common share capital on the basis of one (1) post-consolidated common share for every four (4) pre-consolidated common shares held (the "Consolidation"). The Company's name and trading symbol will remain the same. The Company's new CUSIP number is 58516P307.

On June 3, 2011 the Company announced that it has arranged a financing of up to \$1,005,000 by way of a non-brokered private placement offering. The Offering consists of the issuance of approximately 7,000,000 units at \$0.075 per unit and approximately 4,000,000 units at \$0.12 per unit.

On June 21, 2011 the Company announced that the previously announced financing on June 3, 2011 was amended to \$650,000 by way of a non-brokered private placement offering (the "Offering"). The Offering consists of the issuance of approximately 6,500,000 units at \$0.10 per unit (the "Units"). Each Unit consists of one common share (a "Share") and one share purchase warrant (the "Warrant"). Each Warrant will entitle the holder thereof to purchase one Share at a price of \$0.135 per Share for a period of 24 months.

1.3 Selected Annual Information

	Year-Ended February 28, 2011	Year-Ended February 28, 2010	Year-Ended February 28, 2009
a. Net Sales or Total Revenues	\$Nil	\$Nil	\$Nil
b. Net Income or (Loss) before Other Items and Income Tax provisions	(\$729,899)	(\$428,826)	(\$488,209)
c. Basic and diluted Earnings (Loss) per share	\$0.51	(\$0.08)	(\$0.02)
d. Net Income or (Loss)	\$5,151,117	(\$628,911)	(\$565,575)
e. Total Assets	\$7,475,241	\$1,688,618	\$1,689,594
f. Total long-term financial Liabilities	\$Nil	\$Nil	\$Nil
g. Cash dividends declared per share	\$Nil	\$Nil	\$Nil

1.4 Results of Operations

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may be different from those estimates. Additional significant accounting policies are detailed in Note 2 attached to the financial statements.

The Company's current exploration focus has been on its 100% owned SIMKAR gold and RALLEAU Zn-Cu properties located in Quebec. The Company has also been actively reviewing numerous exploration projects during the period under review in search of additional projects of merit.

1.5 Summary of Quarterly Results

The following table sets forth selected (unaudited) quarterly financial information for each of the last eight most recently completed quarters:

For the Quarter Periods Ending on	February 28, 2011	November 30, 2010	August 31, 2010	May 31, 2010
Total Revenues	\$Nil	\$Nil	\$Nil	\$ Nil
Net Income (Loss) before other items	(\$105,469)	(\$189,357)	(\$172,888)	(\$262,185)
Total Net Income (loss)	*5,659,821	(\$138,248)	(\$175,832)	(\$317,624)
Basic and diluted Earnings (Loss) per share***	\$0.54	(\$0.014)	(\$0.018)	(\$0.033)

For the Quarter Periods Ending on	February 28, 2010	November 30, 2009	August 31, 2009	May 31, 2009
Total Revenues	\$Nil	\$Nil	\$Nil	\$ Nil
Net Income (Loss) before other items	(\$118,392)	(\$141,240)	(\$101,992)	(\$67,202)
Total Net Income (loss)	**(\$392,849)	(\$96,216)	(\$81,866)	(\$57,980)
Basic and diluted (Loss) per share***	(\$0.043)	(\$0.011)	(\$0.011)	(\$0.008)

* Other items accounted for during the year and at year-end February 28, 2011 were:

- \$5,581,049 gain on sale of mineral properties to Eloro
- a provision for \$9,457 in interest, penalties and potential indemnification has been recorded as a liability from filing arrears on certain tax forms
- \$425 in Interest Income on terms deposits and GIC's;
- \$40,200 Unrealized gain on marketable securities; and

** Other items accounted for during the year and at year-end February 28, 2010 were:

- \$775 in Interest Income on terms deposits and GIC's;
- \$89,750 Unrealized gain on marketable securities; and
- a provision for (\$290,610) in interest, penalties, and potential indemnification has been recorded as a liability arising from filing arrears on certain tax forms and failure of the Company to incur qualifying exploration expenditures previously renounced.

***Basic and diluted loss per share figures have been calculated using weighted average number of shares outstanding retroactively restated post consolidation.

Operating expenses before other items and income tax provisions have increased by \$301,073 (71%) compared with the year ended February 28, 2010. The main factors accounting for the increases in the current period are attributed to the Eloro transaction which increased the accounting and audit fees to \$78,374 (2010: \$28,817), legal fees to \$11,345 (2010: \$3,133), transfer agent fees \$12,224 (2010: \$6,203) as well as increasing consulting fees to \$211,030 (2010: \$105,770). In addition, there were increases in stock based compensation (a non-cash item) to \$97,924 (2010: \$38,310), travel to \$26,011 (2010: \$15,590), investor relations and promotion combined with shareholder information to \$102,725 (2010: \$53,219) as a result of investor relations agreements and increased presence at investment shows. There were increases in filing fees \$17,015 (2010: \$11,415), office, telephone and miscellaneous \$13,544 (2010: \$9,331), rent \$15,000 (2010: \$11,175), and administrative fees to \$5,445 from \$4,275 in 2010.

There were decreases in management fees to \$123,500 (2010: \$124,000), directors liability insurance to \$14,129 (2010: \$14,254); bank charges and interest \$934 (2010: \$1,759) and Property investigation costs of \$nil (2010: \$1,130).

1.6 Liquidity

The Company has no history of profitable operations and its mineral projects are at an early stage. Therefore, it is subject to many risks common to comparable junior venture resource companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

As at February 28, 2011, the Company had a working capital deficiency of \$244,320 compared to working capital of \$93,597 as at February 28, 2010.

The Company's ability to continue as a going concern in the short term is dependent upon its ability to obtain financing. The Company obtains financing by the issuance of share capital or from the disposition of its mineral prospects. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favorable.

1.7 Capital Resources

The Company relies on the issuance of share capital to raise further capital and on its management to find sources of financing to provide additional working capital for new resources acquisitions and exploration. There can be no assurance, however, that the Company will be able to obtain required financing in the future on acceptable terms.

Additional disclosure concerning the Company's operating expenses, resource property obligations and commitments are provided in the Company's Statement of Operations and Deficit, Schedules of Mineral Properties and Notes therein.

1.8 Off-Balance Sheet Arrangements

The Company has no undisclosed off-Balance Sheet Arrangements.

1.9 Transactions with Related Parties

See Note 7 of the audited financial statements as at February 28, 2011.

During the year ended February 28, 2011, the Company paid and/or accrued an aggregate of \$123,500 (2010: \$124,500) to the directors, for management and administrative services. The Company paid \$5,445 (2010: \$4,275) in administrative fees and \$90,450 (2010: \$42,000) in consulting fees to senior officers. The Company also incurred rent and office costs of \$19,200 (2010: \$15,375) to a company with a common director.

All transactions with related parties were within the normal course of business and were measured by the exchange amount which is the amount agreed upon by the transacting parties.

As at February 28, 2011, \$58,850 (2010: \$46,500) was due to directors of the Company for unpaid management and directors fees incurred on behalf of the Company.

1.10 Fourth Quarter

Previously discussed under Sections 1.3 and 1.5

1.11 Proposed Transactions

See previous Section 1.2 - Overall Performance and Subsequent Events.

1.12 Critical Accounting Estimates

Use of estimates:

Our financial statements have been prepared in conformity with Canadian generally accepted accounting principles and form the basis for discussion and analysis of critical accounting policies and estimates. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant financial statement areas requiring the use of management estimates relate to the determination of impairment of assets and resource property interests, and their useful lives for amortization, the fair value of investments and share-based compensation, and the recoverability of future income tax assets. Financial results as determined by actual events could differ from those estimates.

Risk management:

The Company's mineral property holdings and exploration activities create potential exposure to environmental liabilities, including site reclamation. The Company is currently in the initial exploration stages on its Canadian property interests and management has not determined whether significant site reclamation costs will be required. The Company records liability for site reclamation when determinable on a systematic accrual basis in the period in which such costs can be reasonably determined.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they come due. Due to current economic conditions in capital markets the Company has a high risk associated with liquidity. The Company does not hold complex financial instruments or significant long-term assets.

Stock-based compensation:

The Company follows the guidelines of the CICA Handbook Section 3870, relating to stock-based compensation and other stock-based payments. The Company follows a fair-value method for all stock-based compensation and similar stock based awards to directors, employees and consultants. Where the Company has issued options that vest over a period of expected service, the fair value of the options at the date of grant is estimated and charges to income over the respective vesting periods.

1.13 Changes in Accounting Policies including Initial Adoption

See Note 2 "Summary of Significant Accounting Policies" set out in the Company's financial statements for the year ended February 28, 2011.

International financial reporting standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB

announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP.

The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company does not expect any material changes to the financial statements, except for an increase in required disclosures.

Management is currently working through planned IFRS transition stages. A changeover plan is being established to convert the new standards within the allotted timeline and is expected to consist of the following three key phases:

- ❖ Stage 1 – Raise awareness and assess;
- ❖ Stage 2 – Design; and
- ❖ Stage 3 – Implementation

The first stage focused on raising awareness within the Company and for management and the accounting department to be introduced to IFRS. Thus far, activities in the introduction stage have included participation in IFRS workshops run by various experts including large accounting and auditing firms. Third party IFRS consultants have also been identified to aid in the process, including a stock-based compensation management and valuation program. These consultants have programs that are all encompassing and would provide management with project management advice on such key topics as general IFRS accounting policy differences, information technology requirements, disclosure and internal control differences.

The second stage involved a detailed assessment of the impact of the conversion to IFRS, and building the tools required for the conversion based on management's decisions about accounting options and the related disclosures. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS is in process.

Stage three changes will include the development of the new accounting policies and consolidation templates, preparing the IFRS financial statements and related note disclosures. The Company adopted IFRS on March 1, 2011.

1.14 Financial and Other Instruments

Megastar's financial instruments consist of cash and cash equivalents, marketable securities, accounts payables and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

1.15 Other MD&A Requirements

A. Authorized and Issued Share Capital as at June 28, 2011:

Authorized: an unlimited number of Common shares without par value
 Issued and outstanding: 10,531,808 common shares

B. Options, Warrants & Convertible Securities Outstanding as at June 28, 2011:

The following options, warrants, and convertible securities were outstanding as at June 28, 2011:

Options (adjusted for consolidation of 4:1)

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
62,500	\$0.40	October 22, 2012
<u>93,750</u>	<u>\$0.52</u>	March 4, 2013
<u><u>156,250</u></u>		

Warrants (adjusted for consolidation of 4:1)

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
375,000	\$0.40	August 26, 2011

C. Corporate Governance Disclosure

The Company has submitted to its members and shareholders details in the Information Circular dated July 9, 2009 Corporate Governance Disclosure guidelines that have been presented to the Board of Directors for periodic review. Some of these guidelines are: Outlining the Company's business and implementation of appropriate systems to manage any associated risks, communications with investors and the financial community and the integrity of the Company's internal control and management information systems. The Management of the Company periodically updates directors with regulatory policy changes. The Management encourages and promotes a culture of ethical business conduct. The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interest of the Company.

D. Risks and Uncertainties

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

The Company has no significant source of operating cash flow and no revenue from operations. The Company has either not yet determined whether its mineral properties contain mineral reserves that are economically recoverable or where reserves have been determined, mining operations have not yet commenced. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves.

The property interests in which the Company has an interest are in the exploration stages only, are without and may not result in any discoveries of commercial mineralization, and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines, the result being the Company will be forced to look for other exploration projects.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters.

MEGASTAR DEVELOPMENT CORP.

LISTING:

TSX Venture Exchange Symbol: **MDV**
Frankfurt Stock Exchange Symbol: **M5Q**

HEAD OFFICE:

#600 – 625 Howe Street
Vancouver, BC
V6C 2T6
Tel.: 604-683-6648
Fax : 604-683-1350
Email: dberka@megastardevelopment.com
Website: www.megastardevelopment.com

MAILING ADDRESS:

#600 – 625 Howe Street
Vancouver, B.C.
V6C 2T6
Tel: 604-683-6648
Fax: 604-683-1350
Email: info@megastardevelopment.com

DIRECTORS AND OFFICERS:

Dušan Berka, P. Eng., President &
CEO/Director
Gary Musil, CFO/Director
Chris Staargaard, P. Geo., Director
Andrew Lee, Director

REGISTRAR AND TRANSFER AGENT:

Computershare Trust Co. of Canada
3rd Floor - 510 Burrard Street
Vancouver, B.C. V6C 3B9

LEGAL COUNSEL:

McMillan LLP, Barristers and Solicitors
Solicitor – Steve Mathiesen
1500 Royal Centre
1055 W. Georgia Street, P.O. Box 11117
Vancouver, BC V6E 4N7

AUDITORS:

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver, B.C.
V6C 3L2