

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2012
EXPRESSED IN CANADIAN DOLLARS

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

The Company's independent auditor BDO CANADA LLP has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

July 25, 2012

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

		May 31	February 29
		2012	2012
	Notes		(audited)
ASSETS			
Current assets			
Cash		\$ 891,261	\$ 389,758
Marketable securities	5	92,250	156,325
Taxes recoverable	4	7,163	29,630
Prepaid expenses and deposits		7,031	6,067
Total current assets		997,705	581,780
Non-current assets			
Equipment	6	2,120	2,263
Exploration and evaluation assets	7	597,863	586,564
Total non-current assets		599,983	588,827
TOTAL ASSETS		\$ 1,597,688	\$ 1,170,607
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 474,546	\$ 490,725
Due to related parties	12	16,850	15,850
Obligation to issue shares		560,000	-
Total liabilities		1,051,396	506,575
Shareholders' equity			
Share capital	8	4,133,551	4,133,551
Reserves	9	225,601	225,601
Accumulated other comprehensive loss		(149,000)	(84,925)
Deficit		(3,663,860)	(3,610,195)
Total shareholders' equity		546,292	664,032
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 1,597,688	\$ 1,170,607

Nature of operations and going concern uncertainty (Note 1)
Commitments and contingencies (Note 14)
Events after reporting period (Note 16)

Approved on behalf of The Board on July 25, 2012

"Dusan Berka" Director
Dusan Berka

"Gary Musil" Director
Gary Musil

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

MEGASTAR DEVELOPMENT CORP.**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPEREHNSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)**

		Three Months Ended	
	Notes	May 31, 2012	May 31, 2011
Expenses			
Accounting and audit fees		\$ 3,700	\$ 14,166
Amortization		143	164
Bank charges and interest		229	577
Consulting fees		2,600	2,250
Filing fees		7,000	2,040
Insurance		3,516	3,553
Investor relations and promotion		-	156
Legal fees		-	17,325
Management fees	12	25,500	32,500
Office, telephone and miscellaneous		389	1,943
Rent	12	6,000	3,750
Shareholder information		543	1,927
Transfer agent fees		753	3,886
Travel		3,540	3,101
Loss before other income (expenses)		(53,913)	(87,338)
Other income (expenses):			
Loss on share distribution	8	-	(700,000)
Interest income		248	-
Net loss for the period		(53,665)	(787,338)
Other comprehensive loss			
Unrealized loss on marketable securities, net of tax		(64,075)	(69,350)
Total comprehensive loss for the period		(117,740)	(856,688)
Weighted average number of common shares outstanding (basic and diluted)		14,935,717	10,531,807
Basic and diluted net loss per share		\$ (0.004)	\$ (0.081)

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

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

	<u>Share Capital</u>		Share Capital Distribution	<u>Reserves</u>	<u>Accumulated other comprehensive loss</u>		Deficit	Total
	Number of shares issued	Amount		Share based payments reserve	Unrealized marketable securities gain (loss)			
Balance, March 1, 2011	10,531,807	\$ 9,046,836	\$ (6,300,000)	\$ 122,713	\$ 88,950	\$ (2,499,934)	\$ 458,565	
Comprehensive income:								
Loss on share distribution	-	-	700,000	-	-	-	700,000	
Net loss for the period	-	-	-	-	-	(787,338)	(787,338)	
Unrealized loss on marketable securities	-	-	-	-	(69,350)	-	(69,350)	
Balance, May 31, 2011	10,531,807	9,046,836	(5,600,000)	122,713	19,600	(3,287,272)	301,877	
Balance, February 29, 2012	17,796,716	4,133,551	-	225,601	(84,925)	(3,610,195)	664,032	
Comprehensive income:								
Net loss for the period	-	-	-	-	-	(53,665)	(53,665)	
Unrealized loss on marketable securities	-	-	-	-	(64,075)	-	(64,075)	
Balance, May 31, 2012	17,796,716	\$ 4,133,551	\$ -	\$ 225,601	\$ (149,000)	\$ (3,663,860)	\$ 546,292	

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

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

	Three Months Ended	
	May 31, 2012	May 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (53,665)	\$ (787,338)
Adjustments to reconcile loss to net cash used in operating activities:		
Amortization and depreciation	143	164
Interest income	(248)	-
Loss on share capital distribution	-	700,000
	<u>(53,770)</u>	<u>(87,174)</u>
Changes in assets and liabilities:		
Decrease (increase) in taxes recoverable	22,467	(13,995)
Decrease in prepaid expenses and other current assets	(964)	3,478
Increase (decrease) in accounts payable and accrued liabilities	(25,176)	29,237
Cash used in operating activities	<u>(57,443)</u>	<u>(68,454)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	248	-
Evaluation and exploration costs	(2,302)	(9,051)
Increase in due to related parties	1,000	36,140
Cash provided by (used in) investing activities	<u>(1,054)</u>	<u>27,089</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligation to issue shares	560,000	-
Cash provided by financing activities	<u>560,000</u>	<u>-</u>
Net change in cash	501,503	(41,365)
Cash, beginning balance	389,758	120,689
Cash, ending balance	<u>\$ 891,261</u>	<u>\$ 79,324</u>

Supplemental disclosure with respect to cash flows (Note 13)

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

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public Company listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company is in the process of exploring 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 and British Columbia, Canada. At May 31, 2012, the Company had no revenue producing operations and accumulated deficit of \$3,663,860 (February 29, 2012 - \$3,610,195) since inception. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

During the year ended February 28, 2011, the Company's shareholders approved a 4 to 1 consolidation of the Company's common shares at its Special Meeting held on December 20, 2010. The Company's shares commenced trading on a post-consolidation basis on May 4, 2011.

The head office, principal address of the Company is Suite 1130, 789 West Pender Street, Vancouver, BC 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 W. Georgia Street, Vancouver, BC, V6E 4N7.

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

2. BASIS OF PRESENTATION

Statement of compliance and transition to International Financial Reporting Standards

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

The interim financial statements of the Company should be read in conjunction with the Company's 2012 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2012 annual financial statements except for income tax expense which is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

2. BASIS OF PRESENTATION (cont'd...)

Basis of measurement

These financial statements have been prepared on an accrual basis except for cash flow information and are based on historical costs, as modified by the revaluation of available for sale financial assets. These financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise noted.

Approval of the unaudited condensed consolidated interim financial statements

The unaudited condensed interim financial statements of the Company for the three months ended May 31, 2012, were authorized for issue on July 25, 2012 by the Board of Directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The preparation of the Company's interim financial statements in accordance with IFRS requires management to make judgments, 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. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property and equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and share-based payments and other equity-based payments, the recognition and valuation of provisions for restoration and environment liabilities, and the recoverability and measurement of deferred tax assets. Actual results may differ from those estimates and judgments.

Accounting standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2011 or later years. None of these are expected to have a significant effect on the financial statements.

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

IFRS 9 Financial Instruments – IFRS 9 is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This new standard is effective for annual periods beginning on or after January 1, 2015. The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the financial statements.

IFRS 10 Consolidated Financial Statements - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

IFRS 11 Joint Arrangements - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 12 Disclosure of Interests in Other Entities - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 13 Fair Value Measurement - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 20 Stripping Costs in the Production Phase of a Surface Mine - In International Financial Reporting Interpretations Committee ("IFRIC") 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. TAXES RECOVERABLE

	May 31, 2012	February 29, 2012
Taxes recoverable	7,163	29,630

As at May 31, 2012, taxes recoverable consisted of \$6,308 of Harmonized Sales Tax receivable and \$855 of Quebec Sales Tax receivable.

As at February 29, 2012, taxes recoverable consisted of \$8,214 of Harmonized Sales Tax receivable and \$21,416 of Quebec Sales Tax receivable.

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5. MARKETABLE SECURITIES

	May 31, 2012		February 29, 2012	
	Fair Value	Cost	Fair Value	Cost
Canada Zinc Metals Corp.	\$ 38,250	\$ 104,975	\$ 44,200	\$ 104,975
Eloro Resources Ltd.	15,000	56,250	35,625	56,250
Rio Grande Mining Corp.	39,000	22,500	76,500	22,500
	\$ 92,250	\$ 183,725	\$ 156,325	\$ 183,725

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with Canada Zinc Metals Corp. (previously Mantle Resources Inc.), the Company received 100,000 shares of Canada Zinc Metals Corp. as partial consideration for Canada Zinc Metals Corp. earning up to 60% interest in the Sedex Zinc Property in BC. The agreement was mutually terminated after Feb 28, 2008. During the year ended February 28, 2011, the Company disposed of 15,000 of the shares.

Pursuant to an option agreement on the Company's interest in the Simkar Property in Quebec with Eloro Resources Ltd., the Company received 187,500 shares of Eloro Resources Ltd. to earn up to 50% interest in the Simkar Property in Quebec.

An additional 187,500 shares was received from Eloro Resources Ltd. during the year ended February 28, 2011. On August 12, 2011, the shares of Eloro Resources Ltd. were rolled back 4:1. The number of shares of Eloro received reflects the 4:1 rollback.

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with Rio Grande Mining Corp., the Company received 100,000 shares of Rio Grande Mining Corp. as partial consideration for Rio Grande Mining Corp. earning up to 60% interest in the Sedex Zinc Property in BC. An additional 50,000 shares was received from Rio Grande Mining Corp. and then all shares were split on the basis of one old share for two new shares in the year 2011.

As of May 31, 2012, the fair market value of the marketable securities was \$92,250 (February 29, 2012 - \$156,325); Canada Zinc Metals Corp. \$0.45 per share (February 29, 2012 - \$0.52); Eloro Resources Ltd. \$0.04 per share (February 29, 2012 - \$0.10); Rio Grande Mining Corp. \$0.13 per share (February 29, 2012 - \$0.225) based on the closing bid price of shares on the TSX Venture Exchange.

During the three months ended May 31, 2012, the Company recorded \$64,075 as an unrealized loss (May 31, 2011 - unrealized loss of \$69,350) in the market value. The unrealized loss of marketable securities is reflected in other comprehensive loss during the reporting period.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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6. EQUIPMENT

Office equipment		Office equipment	
Cost:		Cost:	
At February 29, 2012	\$ 3,439	At March 1, 2011	\$ 2,588
Additions	-	Additions	851
At May 31, 2012	\$ 3,439	At February 29, 2012	\$ 3,439
Depreciation:		Depreciation:	
At February 29, 2012	1,176	At March 1, 2010	389
Charges for the period	143	Charge for the period	787
Eliminated on disposal	-	Eliminated on disposal	-
At May 31, 2012	1,319	At February 29, 2012	1,176
Net book value:		Net book value:	
At February 29, 2012	2,263	At March 1, 2010	2,199
At May 31, 2012	\$ 2,120	At February 29, 2012	\$ 2,263

7. EXPLORATION AND EVALUATION ASSETS

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

	Sedex Zinc Property		Ralleau Project		Total
	British Columbia, Canada		Quebec, Canada		
Balance of costs					
Total acquisition costs	\$	235,000	\$	96,543	\$ 331,543
Total exploration advance		(183,500)		-	(183,500)
Total cost recovery		(112,000)		(101,120)	(112,000)
Total deferred exploration costs		83,135		568,506	651,641
Balance, February 29, 2012		22,635		563,929	586,564
Acquisition costs:					
Current year acquisition costs		-		-	-
Exploration costs:					
Taxes and assessment fees		11,299		-	11,299
Current year deferred exploration costs		11,299		-	11,299
Cost recovery:					
Total acquisition costs		235,000		96,543	331,543
Total exploration advance		(183,500)		-	(183,500)
Total cost recovery		(112,000)		-	(112,000)
Total deferred exploration costs		94,434		568,506	662,940
Balance, May 31, 2012	\$	33,934	\$	563,929	\$ 597,863

MEGASTAR DEVELOPMENT CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

	<u>Sedex Zinc Property</u>		<u>Ralleau Project</u>		
	<u>British Columbia, Canada</u>		<u>Quebec, Canada</u>		<u>Total</u>
Balance of costs					
Total acquisition costs	\$	235,000	\$	88,222	\$ 323,222
Total exploration advance		(183,500)		-	(183,500)
Total cost recovery		(72,000)		-	(72,000)
Total deferred exploration costs		68,258		564,706	632,964
Balance, February 28, 2011		47,758		652,928	700,686
Acquisition costs					
Cash		-		8,321	8,321
Current year acquisition costs		-		8,321	8,321
Exploration costs					
Reports and field		500		3,800	4,300
Taxes and assessment fees		14,377		-	14,377
Current year deferred exploration costs		14,877		3,800	18,677
Cost recovery					
Quebec mining tax credit received		-		(101,120)	(101,120)
Option payments received					
Shares		(40,000)		-	(40,000)
Current year cost recovery		(40,000)		(101,120)	(141,120)
Balance of costs					
Total acquisition costs		235,000		96,543	331,543
Total exploration advance		(183,500)		-	(183,500)
Total cost recovery		(112,000)		(101,120)	(213,120)
Total deferred exploration costs		83,135		568,506	651,641
Balance, February 29, 2012	\$	22,635	\$	563,929	\$ 586,564

a) Simkar Property, Quebec, Canada

Until August 2009, the Company had a 100% interest in two contiguous mining concessions totalling 557 acres located in Louvicourt Township, Quebec.

On August 14, 2009, the Company entered into a joint venture agreement with Eloro Resources Ltd. ("Eloro") whereby Eloro was granted the option to earn a 50% undivided interest in the Property by making cash payments totalling \$350,000 (received \$150,000); the issuance 4,500,000 common shares (received 1,500,000 shares); and incurring \$4,000,000 in exploration expenditures over six years of which \$750,000 is to be incurred in the first year (incurred), \$1,250,000 in the second year and \$2,000,000 in the third year. Eloro would be the project manager and operator of the joint venture.

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. The transfer of this Property resulted in a gain of \$5,019,024, net of transaction costs of \$109,967.

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7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

b) Ralleau Project, Quebec, Canada

The Company has a 100% interest in 220 mineral claims situated in the Quevillon area of Quebec that are subject to a 2% net smelter royalty return of which 1% can be purchased by the Company at any time for \$1,000,000.

c) Sedex Zinc Property, British Columbia, Canada

At February 28, 2011, the Company had a 100% interest in 33 mineral claims located in the Omineca Mining Division, BC. The claims are subject to a 2% net smelter returns royalty of which the Company can purchase 1% for \$1,000,000. During the year ended February 29, 2012, the Company abandoned 8 mineral claims, leaving the company with a 100% interest in 25 mineral claims, totaling 10,705 hectares.

Pursuant to an agreement dated November 5, 2008 and amended January 19, 2012, the Company granted an option to Rio Grande Mining Corp. ("Rio Grande") whereby Rio Grande could earn up to a 60% interest in the claims.

For Rio Grande Mining Corp to earn a 60% interest in the Sedex claims, it must pay to the Company cash of \$89,055,200,000 common shares and incur \$800,000 in exploration expenditures as follows:

- Pay \$10,000 to the Company (received) within 10 days of execution of the letter of intent;
- Incur minimum exploration expenditures of \$100,000 on or before January 31, 2009;
- Pay \$17,500 to the Company (received) and 50,000 pre-split common shares (received) which were valued at their fair value of \$22,500, on or before the earlier of (i) 7 days after the listing date, or (ii) May 31, 2010;
- Pay \$20,000 to the Company (received) and 50,000 pre-split common shares (received) which were valued at their fair market value of \$12,000, incur minimum exploration expenditures of \$200,000 on or before the earlier of (i) 12 months after the listing date, or (ii) July 31, 2010;
- Pay \$16,555 to the Company (received) on June 1, 2011;
- Issue 100,000 post-split common shares (received) which were valued at their fair market value of \$40,000 within five days of full execution of the Amending Letter Agreement dated January 19, 2012;
- Pay \$25,000 to the Company (outstanding) and incur minimum exploration expenditures of \$500,000 on or before January 31, 2013.

During the year ended February 29, 2012, the Company received the total cash payments of \$64,055 and 300,000 post-split common shares from Rio Grande Mining Corp. (On December 1, 2010, the shares received were split 2:1).

MEGASTAR DEVELOPMENT CORP.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
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8. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issuance of share capital

At May 31, 2012, there were 17,796,716 (February 29, 2012 – 17,796,716) issued and fully paid common shares. All current and comparative share capital amounts have been restated to account for the 4 to 1 common share consolidation.

During the year ended February 29, 2012,

- a) On May 4, 2011, the Company's issued capital was altered by consolidating on a 4:1 basis for all of the 42,127,233 issued common shares without par value into 10,531,807 common shares without par value. The basic and diluted loss per share figures and the weighted average number of shares outstanding have been retroactively restated on the statements of operations. The common share consolidation was approved by the shareholders at the Company's Special Meeting held on December 20, 2010.
- b) On July 22, 2011, the Company closed the non-brokered private placement and raised \$671,527. A total of 6,715,265 units at a price of \$0.10 per unit were issued. Each unit consists of one common share and one transferable share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.135 per share until July 20, 2013. The Company paid share issuance costs of 437,144 units under the same terms as the units above representing 6.5% of the total proceeds raised under the private placement financing. Directors, officers, and insiders of the company subscribed for 37,500 of the offering, representing 375,000 units or 5.6% of the above financing. All shares issued under the offering were subject to a four-month hold period expiring November 21, 2011.
- c) Received \$15,188 as a result of 112,500 warrants being exercised at \$0.135 per share.

Share capital distribution

Pursuant to the Asset Purchase Agreement with Eloro, the Company agreed to distribute the 70,000,000 shares of Eloro to its shareholders on a pro rata basis which were valued at \$6,300,000 at February 28, 2011 based on the trading price of the shares on that date. During year ended February 29, 2012, the Company cancelled all of its issued and outstanding shares and immediately reissued new shares in the same amount together with the Eloro shares, which were distributed at a ratio of 1.6616329869 Eloro shares for each share of the Company held by the shareholders of record on January 7, 2011. The share distribution was settled on March 17, 2011, at which date the Eloro shares were valued at \$5,600,000.

The \$700,000 recorded as a loss relates to the difference between the Eloro shares recorded on the date of the share capital distribution payable and the fair market value of the Eloro shares on the date of distribution.

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8. SHARE CAPITAL (cont'd...)

Share Options

The Company adopted a share option plan (the “Share Option Plan”) under which it may grant options to employees, officers, directors, consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

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

There were no share options transactions for the Company during the three months ended May 31, 2012.

During the year ended February 29, 2012:

On July 22, 2011, the Company granted its directors, officers, and consultants options to purchase 1,050,000 common shares at a price of \$0.25 per share for a period of five years. The fair value of share options granted July 22, 2011 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 131.42%, risk free rate of 1.68%, annual rate of dividends of zero and expected life of 5 years. With these assumptions, the fair value of options was determined to be \$175,350 which has been expensed with a corresponding credit to share-based payment reserve.

A summary of share options outstanding as at May 31, 2012 is as follows:

	Granted date	Number of Options	Weighted Average Exercise Price \$	Weighted Average Number of Years to Expiry
Balance - February 28, 2011		316,250	0.52	1.53
Options forfeited/expired		(160,000)	0.58	
Options granted	July 22, 2011	1,050,000	0.25	
Balance - February 29, 2012 and May 31, 2012		1,206,250	0.28	3.64

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8. SHARE CAPITAL (cont'd...)

Share options (cont'd...)

All share option figures have been adjusted to reflect 4 to 1 consolidation of the Company's common shares during the three months ended May 31, 2012.

As at May 31, 2012, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
62,500	\$ 0.40	October 23, 2012
93,750	\$ 0.52	March 4, 2013
1,050,000	\$ 0.25	July 22, 2016
1,206,250		

Warrants

A summary of changes in warrants outstanding as at May 31, 2012 is as follows:

	Warrants outstanding	Weighted average exercise price -\$-	Weighted average number of year to expiry
Balance, February 28, 2011	375,000	0.40	0.49
Warrants expired	(375,000)		
Warrants exercised	(112,500)		
Warrants granted with private placement	6,715,265	0.135	1.14
Finders fee warrants	437,144	0.135	1.14
Balance, February 29, 2012 and May 31, 2012	7,039,909	0.14	1.14

Warrants have been adjusted to reflect 4 to 1 consolidation of the Company's common shares.

Details of warrants outstanding as at May 31, 2012 are as follows:

Number of Warrants outstanding	Expiry date
6,602,765	July 20, 2013
437,144	July 20, 2013
7,039,909	

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9. RESERVES

Share-based payment reserve

The share-based payment reserve records share options recognized as share-based payments expense until such time that the share options are exercised, at which time the corresponding amount will be transferred to share capital.

Balance, March 1, 2010	\$	148,378
Share based payments - granted March 4, 2010		96,281
Share based payments - granted July 13, 2010		14,555
Share options exercised - 10/12/2010		(8,200)
Share options exercised - 10/22/2010		(3,379)
Share options exercised - 02/28/2011		(50,860)
Share options cancelled/expired		(74,062)
Balance, February 28, 2011	\$	122,713
Share based compensation expense - granted July 22, 2011		175,350
Share Option expired		(72,462)
Balance, February 29, 2012 and May 31, 2012	\$	225,601

10. CAPITAL DISCLOSURE

The Company considers its capital structure to include net residual equity of all assets, less liabilities. Capital is comprised of the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term; (iv) maintain capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to fund the Company's working capital and exploration activities.

11. FINANCIAL INSTRUMENTS AND RISKS

Fair values

Per IFRS 7, a three-level hierarchy that reflects the significance of inputs used in making fair value adjustments is required. The three levels of fair value hierarchy are as follows:

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

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11. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks

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

As at May 31, 2012	
<u>Assets</u>	
Cash	\$ 891,261
Marketable securities	92,250
<u>Total</u>	<u>\$ 983,511</u>
<u>As at February 29, 2012</u>	
<u>Assets</u>	
Cash	\$ 389,758
Marketable securities	156,325
<u>Total</u>	<u>\$ 546,083</u>

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

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at May 31, 2012, the Company had working capital deficiency of \$53,691 as the Company's current assets of \$997,705 were not sufficient to offset its current liabilities of \$1,051,396. The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

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11. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks (cont'd...)

Market risk

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of May 31, 2012, the Company had a cash balance of \$891,261.

Foreign currency risk

The Company does not have any assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

12. RELATED PARTY TRANSACTIONS

The amounts due to related parties are amounts due to directors and officers. The balances are unsecured, non-interest bearing and have no specific terms for repayment. Accordingly, the fair value cannot readily be determined. 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

As at May 31, 2012, \$16,850 (February 29, 2012 - \$15,850) was due to directors and officers of the Company for accrued management fees.

	Three months ended	
	May 31, 2012	February 29, 2012
	- \$ -	- \$ -
Company controlled by CEO	6,000	-
Corporate Secretary	2,000	2,000
Directors	8,850	13,850
	16,850	15,850

During the three months ended May 31, 2012 and 2011, the Company entered into the following transactions with related parties:

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12. RELATED PARTY TRANSACTIONS (cont'd...)

Due to related parties (cont'd...)

	May 31, 2012	May 31, 2011
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former director:		
Management and Directors fees	\$ 25,500	\$ 32,500
Rent	-	4,800
Total	\$ 25,500	\$ 37,300

During the three months ended May 31, 2012, the Company incurred \$25,500 of management fees (May 31, 2011 - \$32,000) to officers and directors of the Company.

During the three month ended May 31, 2012, the Company paid \$Nil rent and office expenses (May 31, 2011 - \$4,800) to a company with a director in common.

Management compensation consisted of the following:

	Three months ended	
	May 31, 2012	May 31, 2011
	- \$ -	- \$ -
Company controlled by CEO	18,000	18,000
CFO	7,500	6,000
Directors	-	8,500
	25,500	32,500

There were no share options were granted to directors and officers during the three months ended May 31, 2012 and 2011.

13. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended May 31, 2012, the Company recognized unrealized losses on marketable securities of \$64,075, and included \$3,367 accounts payable in mineral property evaluation and exploration.

During the three months ended May 31, 2011, the Company recognized unrealized losses on marketable securities of unrealized loss of \$69,350 and a loss from share capital distribution of \$700,000.

14. COMMITMENTS AND CONTINGENCIES

As at May 31, 2012, the Company has consulting and management agreements that can be terminated by the Company by giving 30 days notice. The aggregate amount of these agreements is \$8,500 monthly.

The Company is in arrears on filing certain of its statutory tax forms. The Company has exposure to late filing penalties and related interest. The Company has included a provision of \$9,457 during the year ended February 28, 2011 to accrue for such liabilities.

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15. SEGMENTED INFORMATION

The Company currently operates in a single reportable operating segment –the acquisition, exploration and development of mineral properties is in British Columbia and Quebec, Canada. All of the Company’s assets and expenditures are located in Canada.

16. EVENTS AFTER THE REPORTING PERIOD

On June 5, 2012, the Company closed a non-brokered private placement of 11,000,000 units at a price of \$0.10 per unit for gross proceeds of \$1,100,000. These 11,000,000 units were issued as non-flow through units consisting of one common share and one transferrable share purchase warrant. The share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.135 per share for a period of 24 months.