



**MEGASTAR DEVELOPMENT CORP.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**EXPRESSED IN CANADIAN DOLLARS**

**(Unaudited – Prepared by Management)**

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

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

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

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

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

January 20, 2016

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

	Notes	November 30, 2015	February 28, 2015
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	4	\$ 722,501	\$ 832,973
Taxes recoverable	5	2,216	9,245
Marketable securities	6	15,125	27,643
Prepaid expenses and deposits		7,017	3,454
<b>Total current assets</b>		<b>746,859</b>	<b>873,315</b>
Non-current assets			
Equipment	7	601	776
Exploration and evaluation assets	8	282,254	309,287
<b>Total non-current assets</b>		<b>282,855</b>	<b>310,063</b>
<b>TOTAL ASSETS</b>		<b>\$ 1,029,714</b>	<b>\$ 1,183,378</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable, accrued liabilities and other liabilities	15	\$ 292,203	\$ 307,672
Due to related parties	13	10,450	15,279
<b>Total current liabilities</b>		<b>302,653</b>	<b>322,951</b>
<b>Total liabilities</b>		<b>302,653</b>	<b>322,951</b>
Shareholders' equity			
Share capital	9	5,141,178	5,141,178
Reserves	10	190,023	190,023
Accumulated other comprehensive loss	14	(19,925)	(10,407)
Deficit		(4,584,215)	(4,460,367)
<b>Total shareholders' equity</b>		<b>727,061</b>	<b>860,427</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 1,029,714</b>	<b>\$ 1,183,378</b>

Approved and authorized for issue on behalf of the Board on January 20, 2016

"Dusan Berka" Director  
Dusan Berka

"Jonathan Rich " Director  
Jonathan Rich

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

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

	Notes	Three Months Ended		Nine months ended	
		November 30, 2015	November 30, 2014	November 30, 2015	November 30, 2014
<b>Expenses</b>					
Accounting and audit fees	13	\$ 1,499	\$ 2,516	\$ 4,468	\$ 7,735
Consulting fees		-	-	1,500	-
Depreciation		58	83	175	249
Insurance		2,620	1,913	5,808	5,488
Legal fees		-	4,509	4,336	4,681
Management fees	13	15,000	15,000	45,000	45,000
Office, telephone and miscellaneous		1,063	1,125	2,301	2,354
Rent		3,000	3,000	9,000	9,000
Shareholder information		-	1,768	3,811	2,355
Transfer agent and filing fees		1,151	1,370	7,930	7,533
Travel		1,906	819	2,461	2,452
<b>Loss before other income (expenses)</b>		<b>(26,297)</b>	<b>(32,103)</b>	<b>(86,790)</b>	<b>(86,847)</b>
<b>Other income (expenses):</b>					
Impairment for exploration and evaluation		(39,805)	-	(39,805)	-
Loss on sale of marketable securities	6	-	-	(2,743)	-
Interest expenses related to flow-through shares	15	-	(11,285)	-	(33,855)
Interest income		1,458	2,865	5,490	9,768
<b>Net loss for the period</b>		<b>(64,644)</b>	<b>(40,523)</b>	<b>(123,848)</b>	<b>(110,934)</b>
<b>Other comprehensive loss</b>					
Unrealized loss on marketable securities	6	(6,425)	(21,563)	(9,518)	(21,225)
<b>Total comprehensive loss for the period</b>		<b>(71,069)</b>	<b>(62,086)</b>	<b>(133,366)</b>	<b>(132,159)</b>
<b>Weighted average number of common shares</b>					
outstanding (basic and diluted)		28,996,716	28,996,716	28,996,716	28,996,716
<b>Basic and diluted earnings (loss) per share</b>		<b>\$ (0.002)</b>	<b>\$ (0.001)</b>	<b>\$ (0.004)</b>	<b>\$ (0.004)</b>

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

**MEGASTAR DEVELOPMENT CORP.**

## CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(EXPRESSED IN CANADIAN DOLLARS)

	Share Capital		Reserves		Accumulated other comprehensive income (loss)			
	Number of shares issued	Amount	Warrant reserve	Share-based payments reserve	Unrealized marketable securities gain (loss)	Deficit	Total	
Balance, February 28, 2014	28,996,716	\$ 5,141,178	\$ 52,573	\$ 155,766	\$ 14,761	\$ (4,566,846)	\$	797,432
Net loss for the period	-	-	-	-	-	(110,934)		(110,934)
Unrealized loss on marketable securities	-	-	-	-	(21,225)	-		(21,225)
Fair value of options expired (Note 9 and 10)	-	-	-	(18,316)	-	18,316		-
Balance, November 30, 2014	28,996,716	5,141,178	52,573	137,450	(6,464)	(4,659,464)		665,273
Balance, February 28, 2015	28,996,716	5,141,178	52,573	137,450	(10,407)	(4,460,367)		860,427
Net loss for the period	-	-	-	-	-	(123,848)		(123,848)
Unrealized loss on marketable securities	-	-	-	-	(9,518)	-		(9,518)
Balance, November 30, 2015	28,996,716	\$ 5,141,178	\$ 52,573	\$ 137,450	\$ (19,925)	\$ (4,584,215)	\$	727,061

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

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

	Nine months ended	
	November 30, 2015	November 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (123,848)	\$ (110,934)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation	175	249
Impairment for exploration and evaluation interest	39,805	-
Interest expenses related to flow-through shares	-	33,855
Loss on sale of marketable securities	2,743	-
Interest income	(5,490)	(9,768)
	<u>(86,615)</u>	<u>(86,598)</u>
Net changes in non-cash working capital accounts		
Increase (decrease) in taxes recoverable	7,030	(12,870)
Decrease in prepaid expenses and deposits	(3,563)	(1,163)
Decrease in accounts payable and accrued liabilities	(15,698)	(6,747)
Increase in due to related parties	(4,600)	(400)
Cash used in operating activities	<u>(103,446)</u>	<u>(107,778)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	5,490	9,768
Marketable securities	257	-
Evaluation and exploration expenditures	(12,773)	(86,120)
Cash used in investing activities	<u>(7,026)</u>	<u>(76,352)</u>
Net change in cash and cash equivalents	(110,472)	(184,130)
Cash and cash equivalents, beginning balance for the period	832,973	1,042,037
Cash and cash equivalents, ending balance for the period	<u>\$ 722,501</u>	<u>\$ 857,907</u>

Supplemental cash flows information (Note 14)

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

## **1. NATURE OF OPERATIONS**

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

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 November 30, 2015, the Company had no revenue producing operations and has an accumulated deficit of \$4,584,215 (February 28, 2015 - \$4,460,367) 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.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were 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.

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.

## **2. BASIS OF PRESENTATION**

### **Statement of compliance**

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

The condensed interim financial statements of the Company should be read in conjunction with the Company's 2015 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 condensed interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2015 annual financial statements except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

### **Basis of measurement**

These financial statements have been prepared on an accrual basis and are based on historical costs, 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 audited financial statements**

The financial statements of the Company for the nine months ended November 30, 2015, were authorized for issue on January 20, 2016 by the Board of Directors of the Company.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Significant accounting estimates and assumptions**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may differ from these estimates and assumptions. The 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.

#### **Significant account judgements**

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

##### **i) Exploration and Evaluation Expenditures**

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

##### **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) Flow-Through Share Provisions**

Flow-through share provisions comprise the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring on a timely basis the appropriate amount of qualifying exploration expenditures required related to past flow-through share issuances. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made required exploration expenditures.

Flow-through share provisions have been created based on the Company's internal estimates of the maximum tax penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future potential liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. The final cost of the flow-through share provision may be lower than currently provided for.



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

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

v) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

**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.

**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.

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

**4. CASH AND CASH EQUIVALENTS**

	November 30, 2015	February 28, 2015
Cash at bank	\$ 10,732	\$ 18,588
Term deposits	711,769	814,385
Cash and cash equivalents	\$ 722,501	\$ 832,973

Term deposits of \$711,769 earn interest at annual interest rates between 0.50% and 0.85%, and their terms are within 90 days.

**5. TAXES RECOVERABLE**

	November 30, 2015	February 28, 2015
GST receivable	\$ 1,195	\$ 1,431
QST recoverable	1,021	7,814
	\$ 2,216	\$ 9,245

**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**6. MARKETABLE SECURITIES**

	November 30, 2015		February 28, 2015	
	Fair Value	Cost	Fair Value	Cost
Canada Zinc Metals Corp.	\$ 10,625	\$ 104,975	\$ 21,675	\$ 104,975
Eloro Resources Ltd.	4,500	116,260	5,625	116,260
92 Resources Corp.	-	-	343	74,500
	\$ 15,125	\$ 221,235	\$ 27,643	\$ 295,735

During the year ended February 28, 2015, the Company recorded \$25,168 as an unrealized loss (February 28, 2014 – \$14,761 as an unrealized gain) to the market values. The unrealized gain and loss of marketable securities is reflected in other comprehensive income (loss) during the reporting period.

On July 16, 2015, the Company sold 8,571 shares of 92 Resources Corp. at \$0.03 per share for the net proceeds of \$257, and recorded \$2,743 as a loss on sale of marketable securities.

During the nine months ended November 30, 2015, the Company recorded \$9,518 as an unrealized loss (November 30, 2014 - \$21,225) to the market values. The unrealized gain and loss of marketable securities is reflected in other comprehensive income (loss) during the reporting period.

**7. EQUIPMENT**

Office equipment		Office equipment	
Cost:		Cost:	
At February 28, 2015	\$ 3,439	At February 28, 2014	\$ 3,439
Additions	-	Additions	-
At November 30, 2015	\$ 3,439	At February 28, 2015	\$ 3,439
Depreciation:		Depreciation:	
At February 28, 2015	2,663	At February 28, 2014	2,330
Charges for the period	175	Charges for the period	333
At November 30, 2015	\$ 2,838	At February 28, 2015	\$ 2,663
Net book value:		Net book value:	
At February 28, 2015	\$ 776	At February 28, 2014	\$ 1,109
At November 30, 2015	\$ 601	At February 28, 2015	\$ 776

**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**8. EXPLORATION AND EVALUATION ASSETS**

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

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Total
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	105,857	646,317	752,174
Total cumulative impairment charge	(45,356)	(332,454)	(377,810)
Opening Balance, February 28, 2015	1	309,286	309,287
Exploration costs			
Reports and field	-	10,012	10,012
Others	-	2,760	2,760
Deferred exploration costs	-	12,772	12,772
Impairment charge	-	(39,805)	(39,805)
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	105,857	659,089	764,946
Total cumulative impairment charge	(45,356)	(372,259)	(417,615)
Ending Balance, November 30, 2015	\$ 1	\$ 282,253	\$ 282,254

**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**8. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

	Sedex Zinc Property British Columbia, Canada		Ralleau Project Quebec, Canada		Total
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		105,857		560,197	666,054
Total cumulative impairment charge		(45,356)		(332,454)	(377,810)
Opening Balance, February 28, 2014		1		223,166	223,167
Exploration costs					
Assays and testing		-		6,287	6,287
Reports and field		-		65,292	65,292
Travel and accommodation		-		13,665	13,665
Others		-		876	876
Deferred exploration costs		-		86,120	86,120
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		105,857		646,317	752,174
Total cumulative impairment charge		(45,356)		(332,454)	(377,810)
Ending Balance, February 28, 2015	\$	1	\$	309,286	\$ 309,287

a) Ralleau Project, Quebec, Canada

At November 30, 2015, the Company had a 100% interest in 78 mineral claims, totaling 4,958 hectares, 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.

During the nine months ended November 30, 2015, an impairment charge of \$39,805 was recognized due to the expiry of 11 mineral claims.

b) Sedex Zinc Property, British Columbia, Canada

At November 30, 2015, the Company had a 100% interest in 8 mineral claims, totaling 3,056 hectares, located in the Omineca Mining Division, BC.

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 to earn a 60% interest in the Sedex claims, it would have had to pay to the Company cash of \$89,055, issue 200,000 common shares to the Company 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 (not incurred);

**8. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

b) Sedex Zinc Property, British Columbia, Canada (cont'd...)

- 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 (not incurred);
- 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 and incur minimum exploration expenditures of \$500,000 on or before January 31, 2013 (not incurred).

On July 2, 2015, the Company abandoned one of the Sedex Zinc property claims, leaving the Company with a 100% interest in 8 mineral claims, totalling 3,056 hectares. No further impairment charge was considered as the property was previously written down to a nominal carrying value of \$1.

**9. SHARE CAPITAL**

*Authorized share capital*

Unlimited number of common shares without par value.

*Issuance of share capital*

There were no share capital transactions during the nine months ended November 30, 2015.

**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.

During the nine months ended November 30, 2015,

There were no options granted, cancelled or expired during the nine months ended November 30, 2015.

During the year ended February 28, 2015,

On August 1, 2014, 300,000 share options exercisable at \$0.10 expired unexercised.

On August 22, 2014, 125,000 share options exercisable at \$0.10 expired unexercised.

**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**9. SHARE CAPITAL (cont'd...)**

**Share Options (cont'd...)**

A summary of share options outstanding as at November 30, 2015 and February 28, 2015 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Number of Years to Expiry
Balance, February 28, 2014	1,475,000	\$0.17	1.70
Options expired	(425,000)	\$0.10	
Balance, February 28, 2015 and November 30, 2015	1,050,000	\$0.19	0.46

As at November 30, 2015, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
650,000	\$0.25	July 22, 2016
400,000	\$0.10	January 29, 2016
1,050,000		

**Warrants**

On May 3, 2013, the Company received approval from the TSX Venture Exchange to extend the terms of certain warrants previously issued. The private placements, which these warrants relate to, closed on July 20, 2011 and June 1, 2012, respectively. These warrants initially had expiry dates of July 20, 2013 and June 1, 2014 and were extended for a period of two years and now expire on July 20, 2016 and June 1, 2017 respectively. All other terms of the warrants remain the same.

During the year ended February 28, 2015, 742,500 warrants exercisable at \$0.135 per share expired unexercised.

On June 19, 2015, the Company received approval from the TSX Venture Exchange to extend the terms of certain warrants previously issued. The warrants granted on July 20, 2011 and June 1, 2012 were extended to be expired on July 20, 2016 and June 1, 2017, respectively, from the revised expiry dates of July 20, 2015 and June 1, 2016. All other terms of the warrants remain the same.

A summary of changes in warrants outstanding as at November 30, 2015 and February 28, 2015 is as follows:

	Warrants Outstanding	Weighted average Exercise price	Weighted Average number of years to expiry
Balance, February 28, 2014	18,345,265	\$0.135	1.61
Warrants expired	(742,500)	\$0.135	
Balance, February 28, 2015	17,602,765	\$0.135	0.93
No warrants granted, cancelled or expired	-		
Balance, November 30, 2015	17,602,765	\$0.135	1.18

**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**9. SHARE CAPITAL (cont'd...)**

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

Details of warrants outstanding as at November 310, 2015 are as follows:

Number of Warrants	Exercise Price	Expiry Date
6,602,765	\$0.135	July 20, 2016
11,000,000	\$0.135	June 1, 2017
17,602,765		

**10. 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. Upon cancellation or forfeiture, the amount is transferred to deficit.

Balance, February 28, 2014	\$	155,766
Share option expired		(18,316)
Balance, February 28, 2015 and November 30, 2015	\$	137,450

**Warrant reserve**

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

Balance, February 28, 2014	\$	52,573
No warrants granted		-
Balance, February 28, 2015 and November 30, 2015	\$	52,573

**11. CAPITAL DISCLOSURE**

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to fund the Company's working capital and exploration activities.

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

**12. 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 – Inputs for assets or liabilities that are not based on observable market data.

**Financial Instrument Risks**

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

As at November 30, 2015	
<b>Assets</b>	
Cash and cash equivalents	\$ 722,501
Marketable securities	15,125
<b>Total</b>	<b>\$ 737,626</b>
As at February 28, 2015	
<b>Assets</b>	
Cash and cash equivalents	832,973
Marketable securities	27,643
<b>Total</b>	<b>\$ 860,616</b>

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

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

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

*Credit risk*

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

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company’s ability to continue as a going concern is dependent on management’s ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at November 30, 2015, the Company had a



**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

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**12. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)**

**Financial Instrument Risks (cont'd...)**

working capital of \$444,206 (February 28, 2015 - \$550,364). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

*Market risk*

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

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of November 30, 2015, the Company had cash and cash equivalents balance of \$722,501 of which \$711,769 were in term deposits earning interest at rates between 0.50% and 0.85% per annum. The Company had no interest-bearing debt.

*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.

**13. 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.

As at November 30, 2015, \$10,450 (February 28, 2015 - \$15,279) was due to directors and officers of the Company.

	November 30, 2015		February 28, 2015	
Company controlled by CEO	\$	-	\$	1,429
Company controlled by CFO		1,600		5,000
Director		6,000		6,000
Directors (former)		2,850		2,850
	\$	10,450	\$	15,279

**MEGASTAR DEVELOPMENT CORP.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2015**

**13. RELATED PARTY TRANSACTIONS (cont'd...)**

During the nine months ended November 30, 2015 and 2014, the Company entered into the following transactions with related parties:

	Nine months ended	
	November 30, 2015	November 30, 2014
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and former directors:		
Management and directors fees	\$ 45,000	\$ 45,000
Professional fees	3,079	6,045
	\$ 48,079	\$ 51,045

Management compensation consisted of the following:

	Nine months ended	
	November 30, 2015	November 30, 2014
Company controlled by CEO	\$ 27,000	\$ 27,000
Company controlled by CFO	18,000	18,000
	\$ 45,000	\$ 45,000

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

During the nine months ended November 30, 2015, the Company recognized an unrealized loss on marketable securities of \$9,518 (2014 - \$21,225).

During the year ended February 28, 2015, the Company recognized an unrealized loss on marketable securities of \$25,168 (2014 – unrealized income of \$14,761). The Company reclassified the fair value on expired unexercised share options of \$18,316 (2014 - \$36,330) to deficit.

**15. COMMITMENTS AND CONTINGENCIES**

The Company is in arrears on filing certain of its statutory tax forms. The Company has exposure to late filing penalties and related interest, amounting to \$188,127. The Company may also be required to indemnify flow-through investors for the amount of increased tax payable by the flow-through investor as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flow-through investors. Previously renounced and unspent exploration amounts of \$335,466 relating to the 2006 flow-through shares offering may be subject to such indemnification. As at February 28, 2015, the Company recognized recoveries on the flow-through investor indemnification of \$213,644. The Company estimates that the total potential liability is \$285,832 as at November 30, 2015 and has included a provision for this amount together with the interest and penalty accruals in other liabilities. As at November 30, 2015, other liabilities comprise a total of \$285,832, which includes flow through taxes payable of \$85,042, penalties related to non-filing of \$100,824, and total accumulated interest of \$99,966.

The outcome of the amount of actual claims, if any, is contingent on future assessments to the investors.

**16. SEGMENTED INFORMATION**

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

**17. SUBSEQUENT EVENTS**

On December 13, 2015, the Company abandoned 18 mineral claims at Ralleau Project, Quebec, Canada, leaving the Company with a 100% interest in 60 mineral claims, totalling 4,394 hectares.