

BC FORM 51-901F

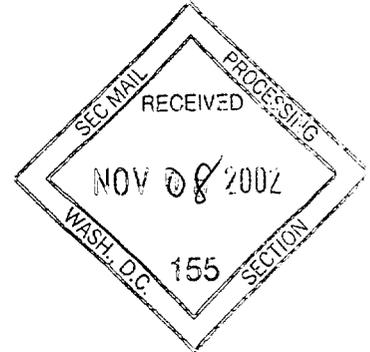


02055793

QUARTERLY REPORT AND YEAR END REPORT

Incorporated as part of:  X  Schedule A

Schedule B & C



ISSUER DETAILS:

NAME OF ISSUER  Megastar Development Corp.

ISSUER'S ADDRESS  Box 865, #5 - 911 Glover Road, Fort Langley, BC V1M 2S2

ISSUER TELEPHONE NUMBER  (604) 888-0786

CONTACT PERSON  Peter Haladin

CONTACT'S POSITION  Director

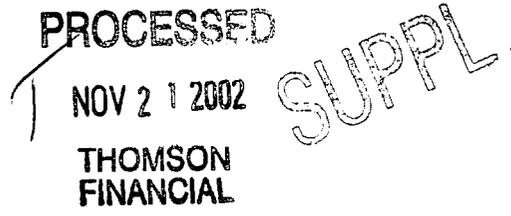
CONTACT TELEPHONE NUMBER  (604) 888-0786

CONTACT EMAIL ADDRESS  N/A  WEBSITE ADDRESS  N/A

FOR QUARTER ENDED  August 31, 2002

DATE OF REPORT  October 16, 2002

82-2553



CERTIFICATE

THE SCHEDULE(S) REQUIRED TO COMPLETE THIS QUARTERLY REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS QUARTERLY REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

"Jerry A. Minni"  Jerry A. Minni  "02/10/23"   
 DIRECTOR'S SIGNATURE PRINT NAME IN FULL DATE SIGNED (YY/MM/DD)

"Peter Haladin"  Peter Haladin  "02/10/23"   
 DIRECTOR'S SIGNATURE PRINT NAME IN FULL DATE SIGNED (YY/MM/DD)

dlw 11/15

---

**MEGASTAR DEVELOPMENT CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2002**

**CONSOLIDATED BALANCE SHEET**

**CONSOLIDATED STATEMENT OF LOSS AND DEFICIT**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED BY MANAGEMENT**

MEGASTAR DEVELOPMENT CORP.

CONSOLIDATED BALANCE SHEET

AUGUST 31, 2002

(UNAUDITED)

ASSETS

	<u>Aug. 31, 2002</u>	<u>Feb. 28, 2002</u>
<b>CURRENT</b>		
Cash	\$ 877	\$ 7,450
Accounts receivable	4,940	2,184
Prepaid expenses and deposit	<u>-</u>	<u>1,340</u>
	5,817	10,974
RESOURCE PROPERTIES (Note 3)	<u>11,323</u>	<u>11,323</u>
	<u>\$ 17,140</u>	<u>\$ 22,297</u>

LIABILITIES

<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 31,669	\$ 40,738
Due to related parties	<u>47,799</u>	<u>-</u>
	<u>79,468</u>	<u>40,738</u>

SHAREHOLDERS' DEFICIENCY

SHARE CAPITAL (Note 4)	4,841,445	4,830,885
DEFICIT	<u>(4,903,773)</u>	<u>(4,849,326)</u>
	<u>(62,328)</u>	<u>(18,441)</u>
	<u>\$ 17,140</u>	<u>\$ 22,297</u>

APPROVED BY THE DIRECTORS:

"Jerry A. Minni" \_\_\_\_\_

"Peter Haladin" \_\_\_\_\_

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

**PREPARED BY MANAGEMENT**

MEGASTAR DEVELOPMENT CORP.  
CONSOLIDATED STATEMENT OF LOSS AND DEFICIT  
FOR THE PERIOD ENDED AUGUST 31, 2002

(UNAUDITED)

	3 months ended August 31,		6 months ended August 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>EXPENSES</b>				
Administration	\$ 6,000	\$ 6,000	\$ 12,000	\$ 12,000
Filing fee	544	3,150	2,865	3,520
Interest and bank charges	28	481	53	481
Investor relations	1,276	13,500	1,276	13,500
Management fees	7,500	7,500	15,000	15,000
Office and miscellaneous	1,908	321	2,042	897
Professional fees	10,511	16,458	13,601	17,658
Project evaluation	-	2,527	-	16,757
Promotion and travel	(26)	5,678	428	5,678
Shareholder information	17	1,290	2,457	1,290
Telephone	419	292	1,229	559
Transfer agent	2,337	1,743	3,496	3,407
	<u>30,514</u>	<u>58,940</u>	<u>54,447</u>	<u>90,747</u>
NET LOSS FOR THE PERIOD	(30,514)	(58,940)	(54,447)	(90,747)
DEFICIT, BEGINNING OF PERIOD	<u>(4,873,259)</u>	<u>(4,623,434)</u>	<u>(4,849,326)</u>	<u>(4,591,627)</u>
DEFICIT, END OF PERIOD	<u>\$(4,903,773)</u>	<u>\$(4,682,374)</u>	<u>\$(4,903,773)</u>	<u>\$(4,682,374)</u>

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

**PREPARED BY MANAGEMENT**

MEGASTAR DEVELOPMENT CORP.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED AUGUST 31, 2002  
(UNAUDITED)

	3 months ended August 31,		6 months ended August 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (30,514)	\$ (58,940)	\$ (54,447)	\$ (90,747)
Non-cash working capital items	<u>31,170</u>	<u>(74,285)</u>	<u>37,314</u>	<u>(42,769)</u>
	<u>656</u>	<u>(133,225)</u>	<u>(17,133)</u>	<u>(133,516)</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from share subscriptions	<u>-</u>	<u>154,738</u>	<u>10,560</u>	<u>154,738</u>
<b>INVESTING ACTIVITIES</b>				
Increase in resource properties	<u>-</u>	<u>-</u>	<u>-</u>	<u>(158)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>656</b>	<b>21,513</b>	<b>(6,573)</b>	<b>21,064</b>
<b>CASH, BEGINNING OF PERIOD</b>	<u>221</u>	<u>1,044</u>	<u>7,450</u>	<u>1,493</u>
<b>CASH, END OF PERIOD</b>	<u>\$ 877</u>	<u>\$ 22,557</u>	<u>\$ 877</u>	<u>\$ 22,557</u>

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

**PREPARED BY MANAGEMENT**

MEGASTAR DEVELOPMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2002

(UNAUDITED – PREPARED BY MANAGEMENT)

1. NATURE OF OPERATIONS

The Company is a development stage public Company whose shares trade on the TSX Venture Exchange. The Company is in the process of exploring its mineral property and has not yet determined whether this property contains mineral reserves that are economically recoverable. These financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has a working capital deficiency of \$73,651 at August 31, 2002 and accumulated losses of \$4,903,773. Its ability to continue as a going concern is dependent upon the continued support of the related parties, the ability of the Company to raise equity financing, the discovery of economically recoverable reserves and the attainment of profitable operations. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Because a precise determination of certain assets and liabilities is dependent on future events, the preparation of the financial statements involves the use of estimates based on careful judgment. The financial statements have, in management's opinion, been prepared within reasonable limits of materiality using the significant accounting policies noted below:

a) Principles of Consolidation

These financial statements include the accounts of Megastar Development Corp. and its wholly-owned subsidiary 1055019 Ontario Limited, ("Ontario Co."). All intercompany transactions have been eliminated.

b) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars using the temporal method. Under this method, monetary items are translated at the balance sheet date exchange rate and non-monetary items are translated at the historical exchange rate. Revenue and expense items are translated at the exchange rates prevailing at the transaction date. Gains or losses arising from the transactions are included in operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Resource Properties – continued

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until the properties are brought into production, at which time the deferred costs are to be amortized on a unit of production basis, or until the properties are abandoned or sold, at which time the deferred costs are written off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The amounts shown as resource properties, which include deferred exploration costs, represent unamortized costs to date and do not necessarily reflect present or future values.

d) General and Administrative Expenses

The Company charges all general and administrative expenses not directly related to exploration activities to operations as incurred.

e) Fair Market Value of Financial Instruments

The carrying value of cash, accounts receivable, prepaid expenses, accounts payable and amounts due to or by related parties approximate fair market value because of the short maturity of those instruments.

f) Loss per Share

Loss per share is not presented as this information is not considered meaningful at the Company's current stage of operations.

3. RESOURCE PROPERTIES

	August 31, <u>2002</u>	Feb 28, <u>2002</u>
Otish Mountain Claim, Quebec		
Acquisition costs	\$ 10,000	\$ 10,000
Deferred exploration costs	<u>1,323</u>	<u>1,323</u>
	<u>\$ 11,323</u>	<u>\$ 11,323</u>

3. RESOURCE PROPERTIES - continued

a) Simkar Property, Quebec, Canada

By agreement dated July 10, 1996, and amended December 31, 1996 and January 13, 1997 the Company acquired 100% of the issued shares of Ontario Co. As consideration, the Company issued 360,001 special warrants at a price of \$1.388885 per warrant and issued 42,453 common shares at a price of \$1.06 per share as a finder's fee. Ontario Co's assets consist of two mining concessions totaling 557 acres located in Louvicourt Township, Quebec. During the year ended February 28, 2001, management of the Company wrote down the property by \$802,025 to its net recoverable value of \$30,000. During the year ended February 28, 2002 management of the Company wrote down the property by \$30,000 to an estimated value of Nil.

b) Jasper Mineral Claim, British Columbia, Canada

By an agreement dated January 18, 2001, the Company acquired a 100% undivided interest in the Jasper mineral claim consisting of 12 units located in the Nanaimo Mining District of British Columbia for cash consideration of \$47,500. During the year ended February 28, 2002, the Company wrote down this property by \$47,500.

c) Cyndi Mineral Claim, British Columbia, Canada

By agreement dated February 28, 2001, the Company acquired a 100% undivided interest in the Cyndi mineral claim consisting of 16 units located in the Nanaimo Mining District of British Columbia. As consideration, the Company issued 120,000 common shares at \$0.16 per share. During the year ended February 28, 2002, the Company wrote down this property by \$19,200.

d) Otish Mountain Property, Quebec, Canada

During the year ended February 28, 2002, the Company acquired a 100% interest in 2,500 hectares in Otish Mountain region of Quebec from Quebec Ministry of National Resources for cash of \$10,000.

MEGASTAR DEVELOPMENT CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 AUGUST 31, 2002  
 (UNAUDITED – PREPARED BY MANAGEMENT)

4. SHARE CAPITAL

a) Authorized

100,000,000 Common shares without par value.

b) Issued and Fully Paid

	<u>Number of Shares</u>	<u>Amount</u>
Balance, February 28, 2001	4,877,020	\$ 4,649,747
Issued pursuant to exercise of stock options	220,000	26,400
Issued pursuant to a private placement	1,430,000	185,900
Share issuance costs	-	<u>(31,162)</u>
Balance, February 28, 2002	6,527,020	4,830,885
Issued pursuant to exercise of stock options	<u>88,000</u>	<u>10,560</u>
Balance, August 31, 2002	<u>6,615,020</u>	<u>\$ 4,841,445</u>

c) Shares Held in Escrow

As at August 31, 2002, 131,250 shares of the Company are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without regulatory consent.

d) Stock Options

As at August 31, 2002, the following stock options are outstanding:

<u>Number of shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
218,000	\$0.12	December 29, 2005
326,351	\$0.10	February 6, 2007
<u>100,000</u>	\$0.14	April 18, 2007
<u>644,351</u>		

MEGASTAR DEVELOPMENT CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2002  
(UNAUDITED – PREPARED BY MANAGEMENT)

Page 5

4. SHARE CAPITAL - continued

e) Warrants

As at August 31, 2002 the following warrants are outstanding:

<u>Number of shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
375,000	\$0.19	February 15, 2003

5. RELATED PARTY TRANSACTIONS

- a) During the period the Company paid management and administrative fees of \$27,000 (2001 - \$27,000) to the directors and a company belonging to a director.
- b) During the period the Company paid \$2,700 (2001-\$1,000) and accrued \$1,500 (2001-\$1,000) for accounting fees to a firm belonging to a director.
- c) Accounts payable at August 31, 2002 included \$1,605 (2001-\$1,070) due to an accounting firm in which a director is a partner.
- d) The amount due to related parties are unsecured, non-interest bearing and have no specific terms for repayment.

# 4BC FORM 51-901F

## QUARTERLY REPORT AND YEAR END REPORT

Incorporated as part of: \_\_\_\_\_ Schedule A

  X   Schedule B & C

### ISSUER DETAILS:

NAME OF ISSUER   Megastar Development Corp.  

ISSUER'S ADDRESS   Box 865, #5 - 911 Glover Road, Fort Langley, BC V1M 2S2  

ISSUER'S TELEPHONE NUMBER   (604) 888-0786  

CONTACT PERSON   Peter Haladin  

CONTACT'S POSITION   Director  

CONTACT TELEPHONE NUMBER   (604) 888-0786  

CONTACT EMAIL ADDRESS   N/A   WEBSITE ADDRESS   N/A  

FOR QUARTER ENDED   August 31, 2002  

DATE OF REPORT   October 16, 2002  

### CERTIFICATE

THE SCHEDULE(S) REQUIRED TO COMPLETE THIS QUARTERLY REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS QUARTERLY REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

<u>  "Jerry A. Minni."  </u>	<u>  Jerry A. Minni  </u>	<u>  "02/10/23"  </u>
DIRECTOR'S SIGNATURE	PRINT NAME IN FULL	DATE SIGNED (YY/MM/DD)

<u>  "Peter Haladin"  </u>	<u>  Peter Haladin  </u>	<u>  "02/10/23"  </u>
DIRECTOR'S SIGNATURE	PRINT NAME IN FULL	DATE SIGNED (YY/MM/DD)

**MEGASTAR DEVELOPMENT CORP.**  
**QUARTERLY REPORT - FORM 51-901F**  
August 31, 2002

---

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

1. Analysis of expenses and deferred costs:

- a) Breakdown of expenditures by major category:  
See Schedule A - Financial Statements

2. Related party transactions:

- a) The aggregate amount of expenditures made to parties not at arm's length from the issuer:  
See Schedule A - Financial Statements - Note 5

3. Summary of securities issued and options granted during the period:

- a) Securities issued during the period:

<u>Issue Date</u>	<u>Type of Issue</u>	<u>Quantity</u>	<u>Price</u>	<u>Proceeds</u>
April 29, 2002	Stock options exercised	88,000	\$0.12	\$10,560

- b) Options granted during the period:

<u>Date granted</u>	<u>Name</u>	<u>Quantity</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
April 18, 2002	James Reamsbottom	100,000	\$0.14	April 18, 2007

4. Summary of securities at the end of the reporting period:

- a) Authorized capital stock:  
See Schedule A - Financial Statements - Note 4
- b) Issued capital stock:  
See Schedule A - Financial Statements - Note 4
- c) Options, warrants and convertible securities outstanding:  
See Schedule A - Financial Statements - Note 4
- d) Shares in escrow of subject pooling:  
See Schedule A - Financial Statements - Note 4

5. List of directors and officers

- a) Directors:

Peter Haladin  
Jerry A. Minni  
James Reamsbottom  
Julia Harrod

- b) Officers:

President - Peter Haladin  
Secretary - James Reamsbottom

## **SCHEDULE C: MANAGEMENT DISCUSSION**

### **Description of Business**

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for the mineral property and related deferred costs is dependent upon discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production.

### **Discussion of Operations and Financial Conditions**

During the period under review the Company did not incur any exploration expenditures.

The Company is evaluating several mineral properties in South Africa but has not finalized a deal on any properties.

The Company did not earn any income during the period while incurring expenses of \$54,447 as compared to expenses of \$90,747 during the comparative period. For a detailed analysis of expenditures refer to the financial statements.

There were no legal proceedings against the Company during the period.

The Company had terminated the investor relations agreement with Arlitt Financial Corporation in February, 2002.

The Company did not enter into any other material contracts during the period.

### **Subsequent Events**

See Schedule A – Financial Statements – None

### **Financings, Principal Purposes and Milestones**

\$10,560 was raised by the Company during the period from the 88,000 stock options exercised at \$0.12 per share.

### **Liquidity and Solvency**

The Company had a working capital deficit of \$73,651 at August 31, 2002.