



**Management's Discussion & Analysis
Form 51-102F1**

For the Three and Six Months ended June 30, 2009



MANAGEMENT'S DISCUSSION & ANALYSIS **For the Three and Six Months ended June 30, 2009**

Date of Report: August 28, 2009

Corporate Overview

Mega Silver Inc. (the "Corporation" or "Mega Silver") is a junior Canadian-based exploration and development Corporation with exploration projects in Canada. The principal business of the Corporation is the acquisition, exploration and development of high value mineral properties. Mega Silver is considered a development stage company, as defined by Accounting Guideline 11 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

General

The following Management's Discussion and Analysis ("MD&A") of Mega Silver Inc. (the "Corporation" or "Mega") should be read in conjunction with the unaudited interim financial statements for the three months ended June 30, 2009 and the notes thereto. The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars. This MD&A was prepared as of August 28, 2009, and all information is current as of such date. Readers are encouraged to read the Corporation's public information filings on SEDAR at www.sedar.com.

This discussion provides management's analysis of Mega's historical financial and operating results and provides estimates of Mega's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance.

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be inaccurate and, as such, reliance should not be placed on forward-looking statements. Mega's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, if any, that Mega will derive there from. Mega disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by applicable law.

Transaction with Skybridge Development Corp.

On May 26, 2009, the Corporation announced that it had combined with Skybridge Development Corp. through an all share transaction (the "Transaction"). Under the terms of the Transaction, shareholders of Skybridge received one (1) Mega common share in exchange for each two and one-half (2.5) Skybridge common shares held. Upon completion of the Transaction, Mega issued an aggregate of 8,105,488 common shares to Skybridge shareholders, representing approximately 23% of the 35,058,972 outstanding Mega common shares immediately following the transaction. The Transaction was effected by way of a three-cornered amalgamation, whereby a wholly-owned subsidiary of Mega consolidated with Skybridge. The resulting company is a wholly-owned subsidiary of Mega and continues to carry out the business of Skybridge. The common shares of Skybridge ceased trading on the TSX-V as of close of trading on May 26, 2009.



The allocation of the purchase price related to the Skybridge transaction is preliminary and will be refined as information relating to the valuation of the fair value of net assets and the determination of certain tax values of those assets are finalized. The preliminary allocation of the purchase consideration totaling \$7,093,052 is as follows:

Cash	\$165,612
Accounts receivable	44,615
Prepays	24,173
Short term investments	75,000
Equipment	4,439
Mineral properties	8,671,730
Accounts payable	(90,826)
Future tax payable	(1,772,292)
Long term tax payable	(29,399)
Total net assets	7,093,052
Purchase consideration:	
8,105,488 common shares issued	6,370,914
Obligation to issue shares	722,138

OPERATIONAL HIGHLIGHTS

ONTARIO

During 2008 and the first half of 2009, the Corporation actively assessed numerous prospective Red Lake Properties exploring new opportunities, and made inquiries to various companies with expressions-of-interest to option or joint-venture their gold projects in the Red Lake gold camp in northwestern Ontario, Canada. In 2009, the Corporation conducted regional-scale gold system evaluations with the aid of lithological geochemical sampling in attempts to focus and identify properties of greatest potential. The Corporation's Red Lake Projects are comprised of the Laverty Option, the East My-Ritt Option as well as regional reconnaissance investigations. With the merger transaction completed in the end of May, field activities could commence in early June.

Laverty Project, Red Lake, Ontario

The Laverty property comprised of six (6) patented mining claims is host to two distinct gold-systems within three kilometers southwest of downtown Red Lake. The Dyke Zone is a north-northwest trending dyke hosting up to 3.08 g/t gold over 7.62m in historic drilling conducted by Wilanour in 1981. A second zone that needs to be assessed has returned valises up to 7.74 g/t gold over 11.2m in historic drilling completed by Laverty Red Lake Mines between 1947 and 1951. During the second quarter of 2009, the Corporation commenced the cutting of survey grids in preparation for INSIGHT Gradient and deep penetrating INSIGHT Section IP survey, geological mapping, mechanically stripping and channel sampling to expose any potential mineralized systems in preparation for drill testing the gold systems on the property.

East My-Ritt Project, Red Lake, Ontario

The East My-Ritt property, comprised of eight (8) contiguous patented mining claims totaling approximately 129 ha, adjoining the Laverty Option, is located 1.5km west of the town site of Red Lake, Ontario. The property is contiguous with the historic Laverty Property and adjacent to the historic Hasaga and Howey gold mine properties which produced approximately 640,000 ounces of gold within similar host rock to those located on the East My-Ritt and Laverty claims.



The Corporation has initiated exploration on a 1.5km portion of a promising northeast-trending structure traversing the East My-Ritt and Laverty properties. Gold occurrences spatially associated with the structure included diamond drill intersections grading 18.2 g/t gold over 3.5m and 7.43 g/t gold over 1.0m on the East My-Ritt Project property and historic drill intersections grading up to 7.74 g/t gold over 11.2m on the Laverty portion of the structure. The Corporation is not treating historic intersections as compliant with NI 43-101 and such information should not be relied upon. Future drilling will attempt to twin all such historic drill intercepts and determine the continuity between them. The Corporation initiated geological and geophysical compilation work on the East My-Ritt Property in preparation for an upcoming drill program to be conducted under NI 43-101 quality assurance and quality control reporting.

NUNAVUT

Blue Caribou Project – Kitikmeot Region

As a result of the Mega diamond drill program in 2008, the Blue Caribou Copper Zone is reported to contain an estimated inferred mineral resource of 2.77 million tonnes at a weighted average grade of 2.82% copper, 0.06% Molybdenum, 31.26 g/t silver and 0.20 g/t gold using a 1% cut-off grade for the copper and using a minimum true width of 2 metres. This National Instrument 43-101 compliant, resource estimate was completed in-house and vetted by G.A.Harron and Associates, a third-party independent geological consultant.

During 2008, Mega actively explored the Blue Caribou copper and gold property in Western Nunavut region of Canada. The Blue Caribou Project is host to a quartz-rich, high-grade copper prospect with accessory molybdenum, silver and gold where individual surface grab samples taken in 2007, returned grades up to 9.60% copper, up to 0.67% molybdenum, up to 110.66 g/tonne silver and up to 3.22 g/tonne gold. The target structure has been mapped on surface for more than one kilometre and the drill-indicated potential resource area is approximately 960m in length. Ground geophysical surveying by the Corporation confirms excellent coincidence of the highest grade copper samples with strong electromagnetic anomalies. The main Blue Caribou structure was never previously drill tested. In 2008, the exploratory drill program consisted of 37 diamond drill holes totaling 3614.8m on the Blue Caribou Project. The Blue Caribou Copper Zone had 33 holes completed totaling 2790.8m of drilling focused on the Main Copper occurrence as a preliminary test of the size and grade potential of the Blue Caribou structure. Four other drill holes were completed on the Blue Caribou Deformation Zone, host of several surface gold occurrences. This drilling confirmed a new high grade copper discovery in the Arctic.

During the 2nd quarter, utilizing knowledge gained from the Blue Caribou drilling program, the Copper Zone, and a significantly larger MEGATEM anomaly situated 2 km southeast of the Copper Zone is being evaluated with several detailed ground geophysical techniques in preparation for possible drill testing in the third quarter.

Also, a relatively new remote sensing tool, ASTER (Advanced Spaceborne Thermal Emission and Reflection Radiometer) is being employed to help map minerals and alteration assemblages extrapolated from the Blue Caribou Copper Zone and Gold Zone, to direct additional exploration efforts elsewhere on the sizable Blue Caribou land package.

YUKON

In September 2007, the Corporation entered in four acquisition transactions as part of its change of business to become a silver exploration and development Corporation which was completed early in 2008. In the third quarter of 2008, the Corporation decided to return to the respective optionors the Promontorio and Montoros properties in Durango State, Mexico, the Virginia Silver property in British Columbia, Canada and the Selwyn Project in the Yukon, Canada. The Corporation retains no rights or interests in these properties.

In 2008, The Corporation acquired by option or purchase, mineral claims in the Keno Hill area, Mayo Mining District, Yukon, Canada. These properties are referred to collectively as the Eagle Project.



Eagle Project

Spider-man Property, Keno, Yukon

Pursuant to an agreement dated as of March 10, 2008 ("The Spider-mann Purchase"), the Corporation purchased five Quartz Mineral Claims in the Keno Hill mining camp in the Mayo Mining District, Yukon. The Corporation paid a one time cash payment of \$20,000 for a 100% interest in the Spider, Man, Ag Blue and One claims.

Fisher Property, Keno, Yukon

On July 7, 2008, Mega Silver entered into an option agreement with StrataGold Corporation (SGVTSX) to earn the exclusive right and option to acquire a 100% title and interest in the Fisher claims in the historic Keno Hill silver district that has produced over 200 million ounces of silver. The Fisher property is comprised of 67 contiguous quartz mining claims totaling 1,620 hectares on the southeast end of Galena Hill. Acquisition of the Fisher property compliments Mega Silver's March 12, 2008 purchase of the Spiderman claims.

To fully exercise the option Mega must:

- Incur Exploration Costs totaling \$4 million over four years.
- Make total cash payments of \$625,000 over four years to StrataGold.
- Issue 1 million common shares of Mega over four years to StrataGold.
- In addition Mega shall grant StrataGold a 2% Net Smelter Royalty (NSR). At any time Mega may purchase 1% of the NSR by paying StrataGold \$1 million.

Eagle Property, Keno, Yukon

On November 12, 2008, Mega entered into an option agreement with Avino Silver & Gold Mines Ltd. to earn the exclusive right and option to acquire a 100% title and interest in the Eagle property located on the upper east slope of Galena Hill near Keno City, Yukon. The Eagle property is comprised of 14 Quartz Mining Leases totalling 209.8 hectares in three adjacent blocks, extending along roughly 4 kilometres of the projected strike of the Eagle Vein.

To earn a 75% interest in the Eagle Property, Mega must:

- Incur Exploration Costs totaling \$7.1 million over five years.
- Make total cash payments of \$400,000 over five years to Avino.
- Issue 500,000 common shares of Mega in Years 4 and 5 to Avino.

Subject to an April 1, 2009 amendment to the agreement to clarify terms, Mega may either elect after earning a 75% interest to form a Joint Venture with Avino, or within 6 months of the fifth anniversary earn an additional 25% interest, whereby Mega must:

- Take the property into production within 5 years, subject to a 2.5% Net Smelter Return and minimum \$200,000 annual advance royalty payments payable for 5 years or until production begins.

Each of the optionors and vendor under the above agreements is at arm's length with the Corporation. Each of Stratagold and Avino are public companies whose shares are listed on the TSXV. Additional information with respect to each of Stratagold and Avino is available under their respective profiles at www.sedar.com.

Exploration Work Programs

Eagle Project, Keno, Yukon

The Eagle Project is comprised of the Spiderman property, the Fisher property and the recently acquired Eagle property in the historic Keno Hill silver district that has produced over 214 million ounces of silver. Mega Silver's total land position now covers 1,595.8 hectares in two adjacent claim blocks of 74 claims and 10 claims each on the southeast slope of Galena Hill. The Eagle project includes historic surface trenches that expose the silver-lead-zinc mineralized Eagle Vein. The Eagle Vein is the only known significant, mineralized, transverse vein-fault hosted in Keno Hill Quartzite on Galena Hill that has not been developed and explored by underground drifting, in spite of repeated past recommendations to do so. The Eagle Vein is located roughly 1.5 kilometres south of and parallel to the vein structures of the Hector-Calumet Mine, which produced almost half of all metal produced in the Keno Hill camp from 1935 to 1972. The Eagle vein varies from 0.6 to 4.9 metres wide with mineralized lenses of silver-rich galena, sphalerite and tetrahedrite in a siderite, pyrite and quartz gangue. First discovered in the early 1920s, the Eagle Vein has been the focus of three periods of detailed exploration work. In the 1950-51 the vein was exposed by bulldozer trenching. In 1963-64, Jersey Consolidated Mines Ltd. ("Jersey Consolidated") exposed over 120 metres of the vein. An 11.6 metre section of the vein, based on 9 chip samples at 1 to 2 metre intervals, reportedly averaged

442.3 g/t silver, 6.5% lead and 3.9% zinc across an average width of 0.46 metres (includes a 1.2 metre section that averages 1,570.3 g/t silver across 0.55 metres; cited by: Archer, 1979). Preliminary geochemical results from select grab samples collected in 2008 by Mega Silver included: 990.3 g/t, 845.6 g/t and 600.6 g/t silver (samples EAG-DT-R001, - 002 & -003, respectively). Historic weekly drill reports (Jersey Consolidated; 1964), reports (Archer; 1973, 1978, 1979) and Yukon Government files (MinFile 105M 021) report that a total of 35 holes totalling 3,075.5 metres have been drilled along 300 metres of vein strike in two programs (1964 and 1978/79). Of the 29 holes drilled in 1964, 12 were drilled to less than 25 metres depth immediately below the trench exposure and an additional 8 holes failed to reach target depth due to ground conditions. Poor recoveries are reported to have been common in the vein, notably along the hanging wall contact. Drilling intersected both the main vein and a more northerly striking splay vein in the hanging wall.

The contiguous Spider, Man and Ag claims are located on Galena Hill immediately to the east and along trend of the Eagle Vein. A 1971 geochemical soil survey completed by United Keno Hill Mines Ltd. (UKHM) of the property outlined a 300 metre lead-silver anomaly extending along strike from trenches exposing the Eagle Vein. The anomaly has not been explained by trenching, nor has it been drill tested. The Fisher claims overly historic hand dug shafts where M. Philpot of Bema Industries Limited reported in 1980 that a sample of galena-quartz vein material found in dumps assayed 22,311 g/t silver. The claim area has been the subject of various geochemical work programs in the late 1970s. Work completed by StrataGold in 2006 on the Fisher claims has outlined a moderate silver soil geochemical anomaly (values to 2.5 g/t Ag) extending a kilometre northeast from the historic shafts along a strong linear (McLeod fault?) towards and intersecting with the Eagle vein-fault structure.

The 2008 Mega Silver Work Program included the following:

- A 610 line-kilometre airborne magnetic gradiometer and VLF-EM survey was flown over the entire Eagle Project area. Preliminary interpretation of the magnetic survey has indicated the continuation of a number of possible structures in the area of the Eagle vein and McLeod linear.
- A detailed geochemical soil survey of the Spider, Man and Ag claims (249 samples), confirming the 1971 United Keno Hill Mines Ltd. The survey produced a strong linear, coincident, multielement (Ag-Pb-Zn-As-Sb) anomaly extending more than 350 metres east across the Man claim along the trend of the Eagle vein. The core of the anomaly is highlighted by 14 samples ranging between 403 and 4,036 ppm lead, and 2.1 to 3.5 ppm silver.
- Four trenches were attempted in 2008 to test the Fisher anomaly, but failed to penetrate through thick permafrost frozen overburden.
- A total of 253 soil samples were collected on the Fisher grid area, increasing sample density and confirming the anomaly in the grid area, and expanding to the grid to the west over the area of the historic workings.
- Geological mapping was limited, largely due to thick overburden on the south slope of Galena Hill.

The final assessment report for 2008 work on the Fisher property was submitted to the Mayo Mining Recorder in March, 2009.

The 2009 work program currently underway is focused on:

- Core drill testing 3,500 metres along the Eagle vein structure, Man geochemical anomaly area and structures indicated by the 2008 geophysical survey.
- Soil sampling testing, trenching and RAB surficial drill was completed on the projected intersection of the Eagle structure and the McLeod fault.
- Follow-up the Fisher geochemical anomaly with a 42 hole, 1,600 metre RAB surficial drilling program was completed.
- Geochemical soil sampling on the northeast extension of the Fisher soil anomaly.

BRITISH COLUMBIA

Toon Property, British Columbia

On January 26, 2009, The Corporation acquired by staking the 5,350 hectare Toon 1 to 12 claims in the Skeena Mining Division of British Columbia. The Toon claims were acquired to cover meta-volcanic rock package considered to have potential to host volcanic massive sulphide mineralization. No work is currently planned for the Toon property.



Summary of Quarterly Results

The following table sets out selected quarterly financial data for the most recently completed interim quarters:

	2009	2009	2008	2008	2008	2008	2007	2007
Quarter	Second	First	Fourth	Third	Second	First	Fourth	Third
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	54,971	60,777	100,763	121,944	130,751	112,500	51,046	9,570
Expenses	798,552	745,754	233,718	4,557,983	1,357,501	796,793	245,023	11,508
Net Loss	(688,610)	(684,977)	(132,955)	(4,436,039)	(1,226,750)	(684,293)	(193,977)	(1,938)
Net loss per common share (basic and diluted)	0.02	0.03	0.00	0.17	0.05	0.03	0.02	0.00

Overall Performance

Net loss for the three months ended June 30, 2009 was \$688,810 as compared to \$1,226,750 for the same period of the previous year. The decrease in net loss was due to the minimal activity taking place in Mega during the second quarter of 2009 as a part of the amalgamation with Skybridge.

The Corporation recorded \$54,971 in interest revenue on its investments, compared to \$130,751 in the same period of the previous year. Of the \$798,552 in operating expenses incurred during the three months ended June 30, 2009, \$9,587 related to non-cash charges for amortization. Of the remaining \$788,965 in operating expenses, \$364,434 was related to stock compensation, \$338,171 related to general and administrative expenses, \$47,748 to professional fees, \$17,007 to flow through interest expense, and \$21,605 to exploration expenses. The major components of administrative costs include consulting and management fees of \$172,781, office costs of \$56,007 and salaries of \$78,406.

Exploration and development programs during the three months ended June 30, 2009 resulted in \$628,528 in related expenditures.

Liquidity and Capital Resources

The Corporation's cash and cash equivalents balance was \$1,791,606 at June 30, 2009 compared to \$199,064 at December 31, 2008. Current assets at June 30, 2009 were \$11,061,046 compared to \$11,627,669 at December 31, 2008 and total assets at June 30, 2009 were \$20,937,730 compared to \$12,147,725 at December 31, 2008. The \$8,790,005 increase in total assets relates primarily to the acquisition of with Skybridge.



At June 30, 2009, the Corporation had mineral property assets of \$9,754,716, with the breakdown as follows:

<i>Mineral Property Exploration and Development Expenditures</i>	<i>At June 30, 2009</i>
<i>Ontario</i>	
East My-Ritt property	\$ 263,000
Lavery property	184,135
<i>Nunavut</i>	
Blue Caribou property	8,568,483
<i>Yukon</i>	
Eagle property	165,894
Fisher property	431,700
Spider-man	94,399
Other	47,105
Total	9,754,716

Operating activities

During the three months ended June 30, 2009, the Corporation reported \$124,947 in cash used in relation to operating activities. The most significant non-cash charge to earnings was the stock compensation of \$364,434, and future tax recovery of 298,605.

The Corporation has financed the majority of its exploration activities with flow-through share issuances. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share issuances are renounced to investors in accordance with income tax legislation. When these expenditures are renounced to investors, temporary taxable differences created by the renunciation reduce share capital.

Financial Instruments

Financial instruments consist of cash and cash equivalents, investments, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to the short term to maturity, unless otherwise noted.

Outstanding share data

Common Shares

The Corporation's shares are listed on the TSX Venture Exchange under the symbol "MSR". Authorized share capital consists of an unlimited number of common shares without par value. As at June 30, 2009, 35,333,972 common shares were issued and outstanding. As at June 30, 2009 a total of 3,802,090 common shares and 297,000 warrants were held in escrow.

Warrants

At June 30, 2009 the Corporation had 825,800 broker warrants with an exercise price of \$1.00 expiring January 22, 2010, 137,500 broker warrants with an exercise price of \$1.50 expiring January 29, 2010, and 6,816,000 share purchase warrants with an exercise price of \$1.50, expiring January 22, 2010 and 1,375,000 share purchase warrants with an exercise price of 1.50, expiring January 29, 2010.



Stock Options

The following table reflects the stock options outstanding as at June 30, 2009:

Expiry Date	Exercise Price	Options Granted	Options Vested
October 2, 2010	0.30	50,000	50,000
October 10, 2010	0.30	25,000	25,000
January 11, 2011	1.25	100,000	100,000
February 20, 2013	1.55	400,000	400,000
February 27, 2013	1.79	953,332	816,667
November 13, 2013	0.50	100,000	100,000
June 11, 2014	1.15	1,550,000	-
		3,178,332	1,491,667

On June 11, 2009 the Corporation issued 1,550,000 options to various directors and employees at an exercise price of \$1.15, vesting equally for six consecutive quarters (18 months) and expiring in 5 years. The value assigned was estimated using the Black-Scholes option pricing model with the following assumptions: no dividends to be paid, volatility 156%, risk free rate 2.07%, and an expected life of 5 years. As a result the fair value of the options was estimated at \$1,643,000, and will be recognized over the vesting period, with \$57,174 recognized in the current period.

The Corporation applies the fair value method of accounting for all stock based compensation awards and accordingly \$364,434 was recorded as compensation for the 250,604 stock options that vested in the current period [2008 - \$1,678,300 was recorded as compensation for the 1,066,945 stock options that vested]. For purposes of the options vested during the period the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions: no dividends are to be paid, expected volatility of between 151% and 156%, risk-free interest rate of between 2.07% and 3.29%, expected life of 5 years [2008 - no dividends are to be paid, expected volatility of 44%, risk-free interest rate of 3.50%, expected life of 5 years].

Related Party Transactions

The following are the related party transactions recorded at the exchange amount as agreed to by the parties:

[a] Included in general and administrative expenses are amounts totaling \$6,716 (2008 - \$8,292) for corporate secretarial services provided to the Corporation by companies related to the Corporation through a common officer.

[b] Included in general and administrative expenses are amounts totaling \$30,205 (2008 - \$nil) for rent, facilities related charges, and accounting and management services provided by a company related to the Corporation through a common officer.

[c] Included in general and administrative expenses are amounts totaling \$50,000 (2008 - \$30,000) for management fees to a former director and officer of the Corporation.

[d] Included in general and administrative expenses are amounts totaling \$28,500 (2008 - \$15,000) for administrative and accounting fees to a company owned by a former officer of the Corporation.

[e] Included in project costs are amounts totaling \$1,464 (2008 - \$nil) for geological supplies purchased from a company related to the Corporation through a common director.



Commitments

The Corporation has commitments relating to a contract for rent, facilities related charges, and management and accounting services expiring June 2011. The following is a summary of the commitments of the Corporation as at June 30, 2009:

	2009	2010	2011	TOTAL
Contracts	180,810	361,620	180,810	723,240

Flow-through renunciation

As at December 31, 2008, the Corporation and its subsidiary renounced 100% of its flow-through related resource expenditures to investors. The Corporation and its subsidiary had until February 1, 2009 to incur the expenditures before monthly interest charges began to accrue on unspent funds. Interest charges incurred by the Corporation and its subsidiary as a result of this income tax legislation are charged to income in the period incurred. Of the \$3,025,000 raised in 2008 by the Corporation, \$1,324,212 in expenditures have been incurred, and therefore the Corporation must incur an additional \$1,700,788 in exploration expenditures to fulfil its obligation by December 31, 2009. Of the \$437,500 in flow-through financing raised in 2008, the Corporation's subsidiary has incurred \$437,500, therefore fulfilling its obligation in relation to the flow through share renunciation.

Obligation to issue shares

Pursuant to the business combination with Skybridge Development Corp. (the "Agreement"), the Corporation has committed to issuing up to 1,663,912 common shares in relation to Skybridge options and warrants granted prior to the date of the Agreement. The fair value of the stock options and warrants in the amount of \$722,138 was determined using the Black-Scholes option pricing model using the following assumptions: exercise price of \$1.37, stock price of issuance of \$0.78, expected volatility of 132%, expected life of 1.88 years, risk free rate of 1.19%, and no dividends to be paid.

Critical Accounting Estimates

The Corporation's consolidated financial statements have been prepared in accordance with Canadian GAAP. A discussion of the Corporation's significant accounting policies is contained in the notes to the audited consolidated financial statements for the year ended December 31, 2008. The Corporation's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

Significant Accounting Policies

The unaudited interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles applicable for audited annual consolidated financial statements. Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the 2008 audited consolidated financial statements.

Mineral properties

The cost of mineral properties includes all direct exploration costs including administrative expenses and certain deferred costs that can be directly related to specific projects. Exploration and associated costs relating to non specific projects / properties are expensed in the period incurred. Significant property acquisition, exploration costs relating to specific properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned or placed into production. Costs related to properties abandoned are written-off when it is determined that the property has no continuing value.



All of the Corporation's properties are in the exploration stage and have not yet attained commercial production. The ultimate realization of the carrying value of properties in the exploration stage is dependent upon the successful development or sale of these properties.

Business Combinations / Consolidated Financial Statements / Non-Controlling Interests

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". It was announced that these sections would be applied prospective to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. These new sections were created to converge Canadian GAAP to IFRS. Mega has chosen early adoption of sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests". These sections have been applied concurrently in the financial statements.

Future accounting changes

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly listed companies to use IFRS, which will replace Canadian GAAP.

The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Corporation for the year ended December 31, 2010. While the Corporation has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Off-Balance Sheet Arrangements

The Corporation did not have any off-balance sheet arrangements during the three months ended June 30, 2009 or as of the date of this report.

Risk Factors

An investment in the Corporation involves a number of risks. You should carefully consider the following risks and uncertainties in addition to other information in this report in evaluating the Corporation and its business before making any investment decision in regards to the common shares of the Corporation. The Corporations' business, operating and financial condition could be harmed due to any of the following risks. The risks described below are not the only ones facing the Corporation. Additional risks not presently known to us may also impair business operations.

Exploration and Mining Risks

The Corporation is engaged in mineral exploration and development activities. Mineral exploration and development involves a high degree of risk and few properties which are explored are ultimately developed into producing mines. The long-term profitability of our operations will be in part directly related to the cost and success of our exploration programs, which may be affected by a number of factors beyond our control.

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Corporation has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of mineral resources, any of which could result in work stoppages, damage to property, and possible environmental damage.



Hazards such as unusual or unexpected formations and other conditions such as formation pressures, fire, power outages, labour disruptions, flooding, explorations, cave-ins, landslides and the inability to obtain suitable machinery, equipment or labour are involved in mineral exploration, development and operation. We may become subject to liability for pollution, cave-ins or hazards against which we cannot insure or against which we may elect not to insure. The payment of such liabilities may have a material, adverse effect on our financial position.

The Corporation relies upon consultants and others for exploration and development expertise. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, allowable production, importing and exporting of minerals and environmental protection.

Financing Risks

The Corporation is limited in financial resources, and as a mineral exploration company has no source of operating cash flow. The Corporation has no assurance that additional funding will be available to us for further exploration and development of our projects or to fulfill our obligations under any applicable agreements. There can be no assurance that we will be able to obtain adequate financing in the future, or that the terms of such financing will be favourable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of our projects with the possible loss of such properties.

Regulatory Requirements

Even if our mineral properties are proven to host economic reserves of mineral resources, factors such as governmental expropriation or regulation may prevent or restrict mining of any such deposits or repatriation of profits. The Corporation may acquire other properties in other jurisdictions or countries. Any changes in regulations or shifts in political conditions are beyond the control of the Corporation and may adversely affect our business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, and expropriation of property, environmental legislation and mine safety.

Uninsurable Risks

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Corporation may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Corporation.

No Assurance of Titles

It is possible that any of our properties may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

Permits and Licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. There can be no assurance that such licenses and permits as may be required to carry out exploration, development and mining operations at our projects will be granted.

Competition

The mineral industry is intensely competitive in all its phases. We compete with many companies possessing greater financial resources and technical facilities than the Corporation for the acquisition of mineral concessions, claims,



leases and other mineral interests as well as for the recruitment and retention of qualified employees.

In addition, there is no assurance that a ready market will exist for the sale of commercial quantities of ore. Factors beyond the control of the Corporation may affect the marketability of any substances discovered. These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Corporation not receiving an adequate return on invested capital or losing our investment capital.

Environmental Regulations

Our operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. There is no assurance that future changes in environmental regulation, if any, will not adversely affect our operations.

Stage of Development

The Corporation is in the business of exploring for, with the ultimate goal of producing, mineral resources from our mineral exploration properties. None of our properties have commenced commercial production and we have no history or earnings or cash flow from our operations. As a result of the foregoing, there can be no assurance that we will be able to develop any of our properties profitably or that our activities will generate positive cash flow. We are unlikely to enjoy earnings or pay dividends in the immediate or foreseeable future. A prospective investor in the Corporation must be prepared to rely solely upon the ability, expertise, judgment, discretion, integrity and good faith of our management in all aspects of the development and implementation of our business activities.

Markets for Securities

There can be no assurance that an active trading market in our securities will be established and sustained. The market price for our securities could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of our peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the securities of the Corporation. The stock market has from time to time experienced extreme price and volume fluctuations, particularly in the mining sector, which have often been unrelated to the operating performance of particular companies.

Reliance on Key Individuals

Our success depends to a certain degree upon certain key members of the management. It is expected that these individuals will be a significant factor in our growth and success. The loss of the service of members of the management and certain key employees could have a material adverse effect on the Corporation.

Geopolitical risks

The Corporation may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on future exploitation and production, price controls, export controls, currency availability, income taxes, delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental and other non-governmental organizations, expropriation of property, ownership of assets, environmental legislation, labour relations, limitations on mineral exports, increased financing costs, and site safety. In addition, legislative enactments may be delayed or announced without being enacted and future political action that may adversely affect the Corporation cannot be predicted. Any changes in regulations or shifts in political attitudes that may result, among other things, in significant changes to mining laws or any other national legal body of regulations or policies are



beyond the control of the Corporation and may adversely affect its business. The possibility that future governments may adopt substantially different policies, which might extend to the expropriation of assets, cannot be ruled out.



Additional Information

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com, or on the Corporation's web-site at www.Megasilver.ca

(Signed) Steve Filipovic, CA

Chief Financial Officer

Thunder Bay, Canada

August 28, 2009