



CellStop Systems Inc.

May 31, 2012 and 2011

Condensed Interim Unaudited Consolidated Financial Statements

(Stated in Canadian Dollars)

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CELLSTOP SYSTEMS INC.

Suite 302
1620 West 8th Avenue
Vancouver, British Columbia
V6J 1V4
Canada
Tel. (604) 639-4457
Fax. (604) 639-4458

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of CellStop Systems Inc. and the accompanying condensed interim consolidated balance sheet as at May 31, 2012, and the condensed interim consolidated statements of earnings, retained earnings and cash flows for the nine and three month period then ended are the responsibility of the Company's management. The Condensed Interim Consolidated Financial Statements (Unaudited) have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgments. Management has reviewed the financial information presented throughout this report and has ensured it is consistent with the Condensed Interim Consolidated Financial Statements (Unaudited).

The Company's independent auditor, Watson, Dauphinee & Masuch has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements on behalf of the shareholders by the independent external auditors of the Company.

"Michelle Gahagan"
M. Gahagan
Chief Executive Officer

"Henry Bromley"
H. W. Bromley
Chief Financial Officer

CELLSTOP SYSTEMS INC.

Condensed Interim Consolidated Balance Sheets - Amended

As at May 31, 2012 and 2011

(Unaudited)

	May 31, 2012	August 31, 2011	September 1, 2010
	\$	\$	\$
	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
CURRENT			
Cash	5,794	13,209	1,018
Term deposit	251,270	362,765	-
HST recoverable	3,820	4,282	2,142
Prepaid expenses	5,678	5,602	-
	266,562	385,858	3,160
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	52,977	55,187	64,957
Loan payable	-	-	89,534
	52,977	55,187	154,491
SHAREHOLDERS' EQUITY			
Share capital (Note 5(b))	7,792,497	7,792,497	7,201,210
Contributed surplus	184,286	184,286	184,286
Deficit	(7,763,198)	(7,646,112)	(7,536,827)
	213,585	330,671	(151,331)
	266,562	385,858	3,160

Nature of operations (Note 1)

Commitments (Note 6)

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

Approved on behalf of the Board and authorized for issue on July 19, 2012:

“Michelle Gahagan”
M. Gahagan, Director

“Gerald Tuskey”
G. Tuskey, Director

CELLSTOP SYSTEMS INC.

Condensed Interim Consolidated Statements of Operations

For the Period Ended May 31, 2012 and 2011

(Unaudited)

	May 31, 2012	May 31 2011	May 31, 2012	May 31, 2011
	3 Months	3 Months	9 Months	9 Months
	\$	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
EXPENSES				
Administration and management fees (Note 8(a))	7,500	7,500	22,500	22,500
Auditing and legal	4,750	4,000	15,301	10,866
Consulting fees (Note 5)	6,000	6,000	22,767	18,000
Filing and transfer agent fees	3,177	897	10,438	9,313
Interest and financing fee (Note 4)	-	-	-	14,904
Office	634	724	3,485	2,393
Rent (Note 8(c))	15,000	-	45,000	-
	37,061	19,121	119,491	77,976
LOSS BEFORE OTHER ITEMS	(37,061)	(19,121)	(119,491)	(77,976)
OTHER ITEMS				
Interest Income	714	1,059	2,405	2,014
	714	1,059	2,405	2,014
NET LOSS FOR THE PERIOD	(36,347)	(18,062)	(117,086)	(75,962)
WEIGHTED AVERAGE NUMBER OF POST-CONSOLIDATION COMMON SHARES OUTSTANDING (Note 7(b)(ii))				
	25,058,195	25,058,195	25,058,195	24,008,134
BASIC AND DILUTED LOSS PER POST-CONSOLIDATION COMMON SHARE	(0.00)	(0.00)	(0.00)	(0.00)

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

CELLSTOP SYSTEMS INC.

Condensed Interim Consolidated Statements of Changes in Equity - Amended For the Period Ended May 31, 2012 and 2011 (Unaudited)

	Share Capital		Contributed	Deficit	Total
	Number	Amount	Surplus		
Balance August 31, 2010	18,391,528	\$7,201,210	\$184,286	\$(7,536,827)	\$(151,331)
Private placement, net of share issuance costs	5,555,556	491,287	-	-	491,287
Shares issued for debt settlement	1,111,111	100,000	-	-	100,000
Loss for the period	-	-	-	(75,962)	(57,900)
Balance May 31, 2011	25,058,195	7,792,497	184,286	(7,612,789)	382,056
Loss for the period	-	-	-	(33,323)	(51,385)
Balance August 31, 2011	25,058,195	7,792,497	184,286	(7,646,112)	330,671
Loss for the period				(117,086)	(80,739)
Balance May 31, 2012	25,058,195	\$7,792,497	\$184,286	\$(7,763,198)	\$249,932

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

CELLSTOP SYSTEMS INC.

Interim Consolidated Statements of Comprehensive Loss

For the Nine and Nine Months ended May 31, 2012 and 2011

	May 31, 2012 3 Months \$ (Unaudited)	May 31, 2011 3 Months \$ (Unaudited)	May 31, 2012 9 Months \$ (Unaudited)	May 31, 2011 9 Months \$ (Unaudited)
NET LOSS FOR THE PERIOD	(36,347)	(18,062)	(117,086)	(75,962)
Other Comprehensive Income for the period	-	-	-	-
COMPREHENSIVE LOSS FOR THE PERIOD	(36,347)	(18,062)	(117,086)	(75,962)

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

CELLSTOP SYSTEMS INC.

Condensed Interim Consolidated Statements of Cash Flows

For the Nine and Three Months ended May 31, 2012 and 2011

	May 31, 2012 3 Months \$ (Unaudited)	May 31, 2011 3 Months \$ (Unaudited)	May 31, 2012 9 Months \$ (Unaudited)	May 31, 2011 9 Months \$ (Unaudited)
CASH WAS PROVIDED FROM, (UTILIZED FOR):				
OPERATING ACTIVITIES				
Net loss for the period	(36,347)	(18,062)	(117,086)	(75,962)
Non-cash item:				
Amortization of Interest and financing fee	-	-	-	13,644
Changes in non-cash working capital accounts:				
Change in HST/GST recoverable	658	(335)	461	603
Change in prepaid expenses	(75)	(853)	(75)	(853)
Change in accounts payable and accrued liabilities	5,053	4,297	(2,210)	(10,425)
	(30,711)	(14,953)	(118,910)	(72,993)
INVESTING ACTIVITY				
Term Deposit	29,413	(1,059)	111,495	(402,014)
FINANCING ACTIVITIES				
Proceeds from private placement	-	-	-	500,000
Share issuance costs	-	-	-	(8,713)
	-	-	-	491,287
INCREASE (DECREASE) IN CASH FOR THE PERIOD	1,298	(16,102)	(7,415)	16,280
CASH, BEGINNING OF PERIOD	7,092	33,310	13,209	1,018
CASH, END OF PERIOD	5,794	17,298	5,794	17,298
SUPPLEMENTARY CASH FLOW INFORMATION				
Interest paid	-	-	-	4,438
Income taxes paid	-	-	-	-

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

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 1 – NATURE AND CONTINUANCE OF OPERATIONS

CellStop Systems Inc. (the “Company”) was incorporated on April 29, 1982 under the laws of the Province of British Columbia. The Company currently has no active operations and is analyzing project opportunities.

The address of the Company’s registered office is Suite 302, 1620 West 8th Avenue, Vancouver, British Columbia, V6J 1V4, Canada

The Company is a publicly traded company and the Company’s listing on the TSX Venture Exchange (“Exchange”) was transferred to the NEX board of the Exchange effective July 02, 2010 due to the Company’s lack of operations. The NEX board allows the Company’s shares to continue trading while it analyzes project opportunities and resume active business. The Company is subject to restrictions on share issuances and certain types of payments as set out in NEX policies.

The Company was previously in the business of providing wireless telemetry solutions utilizing the GSM network. On September 01, 2007, the Company ceased its operations, being the development and marketing of automotive security using wireless GSM technology, upon the sale of its subsidiary, CellStop International Limited.

The condensed consolidated annual financial statements were authorized for issue by the Board of Directors on July 19, 2012.

NOTE 2 – BASIS OF PREPARATION

a) **Statement of Compliance**

These unaudited condensed interim consolidated financial statements are prepared on the historical cost basis using International Financial Reporting Standards (IFRS) using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended August 31, 2011 and are summarized below: These are the Group’s first condensed interim consolidated financial statements prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

These unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 10.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and in effect as of July 19, 2012, the date the Board of Directors approved the condensed consolidated interim financial statements. Any subsequent changes to IFRS or their interpretation that are given effect in the Company’s annual financial statements for the year ended August 31, 2012 could result in restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on changeover to IFRS.

b) **Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

c) **Use of Estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 2 – BASIS OF PREPARATION (Continued)

c) Use of Estimates (continued)

assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of net recoverable amount of assets, the estimated amount of accrued liabilities, and the realization of future income tax assets. Actual results could differ from such estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned inactive subsidiaries: The Buddy Systems Inc., Palm Coast Solutions Inc. (“PCSI”) and Group West Systems (Massachusetts) Ltd. All significant intercompany transactions and balances have been eliminated. As part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after September 1, 2009. In respect of acquisitions prior to September 1, 2009, any goodwill represents the amount recognized under previous Canadian GAAP.

b) Foreign Currency Translation

The Company’s functional and reporting currency is the Canadian dollar.

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction date. All exchange gains or losses are recognized in earnings.

Monetary assets and liabilities of foreign subsidiaries are translated at period-end exchange rates. Non-monetary assets, liabilities, revenues and expenses are translated at the rate of exchange in effect at the transaction date. Exchange gains and losses arising from this translation are recognized in earnings.

c) Financial Instruments

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company’s financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial Instruments (continued)

Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income and reported in shareholders' equity.

The Company classifies cash and term deposit as held-for-trading which is carried at their fair value; and accounts payable and accrued liabilities and loan payable as other financial liabilities which are carried at their amortized cost.

e) Share Capital

The Company records proceeds from share issuances net of commissions and issuance costs. Shares issued for other than cash consideration are valued at the quoted price on the NEX Venture Exchange based on the earlier of: (i) the date the shares are issued, and (ii) the date the agreement to issue the shares is reached.

f) Stock Based Compensation

The Company has a stock option plan for its directors, officers and employees. Under this plan, stock options are not issued at less than their fair market value.

The Company recognizes compensation cost for options and other stock-based awards under the fair value-based method. Compensation cost is measured using the Black-Scholes option pricing model at the date of the grant and is expensed over the vesting period of the equity instrument awarded, with the offsetting amounts credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus amount is transferred to share capital. As at May 31, 2012 and August 31, 2011, the Company had no stock options outstanding.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

h) Loss Per Share

Basic loss per share is calculated using the weighted average number of shares issued and outstanding during the period. Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of share purchase options and warrants is anti-dilutive.

i) Comprehensive Income

Comprehensive income is comprised of the Company's net income and other comprehensive income. Other comprehensive income represents changes in shareholders' equity during a period arising from non-shareholder source, and includes foreign exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations.

As at August 31, 2010, the accumulated other comprehensive income of \$194,768 represented the accumulated foreign currency translation gain of the Company's foreign subsidiaries previously classified as

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Comprehensive Income (continued)

self-sustaining operations. In accordance with IFRS, the Company elected to setoff this difference against deficit. Effective September 01, 2008, the Company reclassified these inactive subsidiaries as integrated operations due to their inactivity, and adopted the temporal translation method prospectively to provide more relevant financial information.

j) Income Taxes

The Company accounts for income taxes using the liability method, whereby future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax assets, including the benefit of income tax losses available for carry forward, are only recognized to the extent that it is more likely than not that the Company will ultimately realize those assets.

k) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period. These reclassifications have no effect on the audited consolidated net loss for the periods ended May 31, 2012 and August 31, 2011.

l) Future Accounting Standard Changes

Standards issued but not yet effective up to the date of issuance of the Company's interim consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The following pronouncements are being assessed to determine their impact on the Company's results and financial position:

(i) IFRS 9, Financial Instruments - Classification and Measurement ("IFRS 9"):

IFRS 9 reflects the first phase of the International Accounting Standards Board's ("IASB") work on the replacement of IAS 39 - Financial Instruments, Recognition and Measurement, and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held-to-maturity, available-for-sale, and loans and receivables. The new classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013.

(ii) IFRS 10 - Consolidated Financial Statements:

The amendment establishes a single control model that applies to all entities. These changes will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent, compared with the former requirements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

(iii) IFRS 13 - Fair Value Measurement:

In May 2011, the IASB published IFRS 13 - Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Future Accounting Standard Changes (continued)

market participants at the measurement date, i.e., an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains "how" to measure fair value when it is required or permitted by other IFRS.

NOTE 4 – RELATED PARTY TRANSACTION

- a) The Company paid \$6,000 (May 31, 2011 – \$6,000) to an officer of the Company for management services provided, of which \$2,000 (May 31, 2011 – \$2,000) remained outstanding in accounts payable and accrued liabilities as at May 31, 2012.
- b) The Company paid \$nil (May 31, 2011 – \$nil) to an officer of the company for legal services provided.

NOTE 5 – SHARE CAPITAL

a) Authorized Share Capital

Unlimited number of common shares without par value.

b) Issued and Outstanding Share Capital

	Number of Shares	\$
Balance, August 31, 2010	18,391,528	7,201,210
Private placement, net of share issuance costs (i)	5,555,556	491,287
Shares issued for debt settlement (ii)	1,111,111	100,000
	<hr/>	<hr/>
Balance, August 31, 2011	25,058,195	7,792,497
Movement during the period	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Balance, May 31, 2012	25,058,195	7,792,497

- (i) During the year ended August 31, 2011, the Company completed a private placement of 5,555,556 units at \$0.09 per unit for gross proceeds of \$500,000. Each unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one additional common share at \$0.12 per share for a term of one year. These warrants expired on October 13, 2011.
- (ii) During the year ended August 31, 2011, the Company issued 1,111,111 units at \$0.09 per unit to settle the outstanding principal amount of the loan payable of \$100,000 (Note 5). Each unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one additional common share at \$0.12 per share for a term of one year. These warrants expired on October 13, 2011.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 5 – SHARE CAPITAL (CONTINUED)

c) Share Purchase Warrants

	Number of Warrants	Exercise Price \$
Balance, August 31, 2010	2,500,000	0.20
Warrants issued for debt settlement (Note 5(b)(ii))	1,111,111	0.12
Warrants issued for private placement (Note 5(b)(i))	5,555,556	0.12
Warrants expired	(2,500,000)	0.20
Balance, August 31, 2011	6,666,667	0.12
Warrants expired (i)	(6,666,667)	(0.12)
Balance, May 31, 2012	-	-

(i) The warrants expired on October 13, 2011.

NOTE 6 – COMMITMENTS

- a) Effective March 01, 2008, the Company entered into a business advisory and administration agreement with an arm's length party for an open term of \$2,500 per month. The Company may terminate the agreement at any time for cause, or on 30-day written notice without cause.
- b) Effective May 01, 2009, the Company entered into a management agreement with an officer of the Company for an open term of \$2,000 per month. The Company may terminate the agreement at any time for cause, or on 30-day written notice without cause.
- c) Effective June 01, 2011, the Company entered into an office rental agreement of \$5,000 per month with an arm's length party. The agreement expires on July 31, 2012.

NOTE 7 – INCOME TAXES

a) Future Income Taxes

The tax effects of temporary differences that give rise to future income tax assets as at May 31, 2012 and August 31, 2011 are as follows:

	May 31, 2012 9 Months	August 31, 2011 12 Months
	\$	\$
Future income tax assets resulting from:		
Non-capital losses carry-forward	984,466	960,953
Capital losses carry-forward	314,953	314,953
Tax value in excess of net book value	13,143	14,132
Tax deductible share issuance costs	3,668	3,668
	1,316,230	1,293,705
Valuation allowance	(1,316,230)	(1,293,705)
Net future income tax assets	-	-

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 7 – INCOME TAXES (continued)

a) Future Income Taxes (continued)

The Company has Canadian non-capital losses available for carry-forward to offset future taxable income. These losses expire as follows:

Year	
2014	287,378
2015	288,924
2026	354,537
2027	249,713
2028	2,179,474
2029	165,743
2030	153,430
2031	164,615
2032	94,054
	3,937,868

The Company has Canadian capital losses of \$2,539,137, which can be carried forward indefinitely and may be applied against future capital gains.

Future tax benefits which may arise as a result of these losses have not been recognized in these consolidated financial statements due to the uncertainty of their realization, and accordingly these tax benefits have been offset by a valuation allowance.

b) Provision for Income Taxes

A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

Expected income tax recovery	(44,522)	(29,509)
Tax deductible costs	(2,899)	(2,139)
Items not deductible for tax	12,979	(12,801)
Effect of change in tax rates	11,798	3,295
Unrecognized tax benefits of non-capital losses	22,644	41,154
	-	-
Income tax expense	-	-

NOTE 8 – FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks:

a) Fair value

The carrying values of cash, term deposit, accounts payable and accrued liabilities, and loan payable approximate their respective fair values due to the short-term nature of these instruments.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 8 – FINANCIAL INSTRUMENTS (continued)

b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. To the extent that the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity funding. The ability of the Company to arrange such financing will depend in part upon prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms acceptable to the Company.

If additional financing is raised by the issuance of shares from treasury, control of the Company may change and shareholders may suffer dilution. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures and remain in business.

c) Foreign Exchange Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company has no active operations and has minimum cash denominated in United States dollar. The Company has not entered into any forward exchange contracts or other derivative instrument to hedge against foreign exchange risk.

d) Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and term deposit balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada. Management believes that the credit risk with respect to receivables is remote.

e) Interest Rate Risk

Interest on the Company's loan payable is based on a fixed rate and therefore does not expose the Company to interest rate risk.

NOTE 9 – CAPITAL MANAGEMENT

The Company manages its common shares as capital, which as at May 31, 2012 was \$7,792,497 (August 31, 2011 – \$7,792,497). The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue project opportunities for the benefit of its shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may attempt to issue new shares or debt, or adjust the amount of cash. There can be no assurance that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company is not subject to any externally imposed capital requirements. The Company prepares annual expenditure budgets and updates these as required throughout the year which it uses as the primary tool for assessing its capital requirements.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 9 – CAPITAL MANAGEMENT (CONTINUED)

Risk Management

The Company may be exposed to risks of varying degrees of significance that could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

Capital Risk

The Company manages its capital to ensure that there are adequate capital resources for the Company in order to make further developments or take advantage of unanticipated opportunities.

Market Risk

The Company is presently analyzing various opportunities to invest its capital. Any potential opportunity will be affected by a market risk.

Key Personnel and Future Staffing Requirements Risk

The Company's success will also be dependent on its ability to identify, recruit, motivate and retain highly qualified executives, management and technical support personnel.

NOTE 10 – TRANSITION TO IFRS

These are the Company's second condensed interim consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the interim consolidated financial statements for the three and nine-month period ended May 31, 2012, and the year ended August 31, 2011, and in the preparation of an opening IFRS statement of financial position as at September 1, 2010 (the Company's date of transition) and as at August 31, 2011.

Elected exemptions from full retrospective application:

IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. In preparing these condensed consolidated interim financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions of IFRS. The Company has also applied the following optional exemptions from full retrospective application of IFRS to its opening statement of financial position as at September 1, 2010:

Business Combinations:

The Company has applied the business combination exemption in IFRS 1 to not apply IFRS 3, Business Combinations ("IFRS 3"), retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date.

Consolidated and Separate Financial Statements:

In accordance with IFRS 1, if a company elects to apply IFRS 3 prospectively, IAS 27, Consolidated and Separate Financial Statements must also be applied prospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

In preparing its opening IFRS condensed consolidated interim statement of financial position, in accordance with IFRS 1, the Company has adjusted amounts reported previously in the condensed consolidated interim financial

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NOTE 10 – TRANSITION TO IFRS (continued)

statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The transition from Canadian GAAP to IFRS has not had a material impact on the condensed consolidated interim financial statements of cash flows. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.

The September 1, 2010 Canadian GAAP condensed consolidated interim financial position and equity has been reconciled to IFRS as follows:

CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 1 2010.

	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
ASSETS			
CURRENT			
Cash	1,018	-	1,018
HST/GST recoverable	2,142	-	2,142
	<u>3,160</u>	<u>-</u>	<u>3,160</u>
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	64,957	-	64,957
Loan payable	89,534	-	89,534
	<u>154,491</u>	<u>-</u>	<u>154,491</u>
SHAREHOLDERS' DEFICIENCY			
Share capital	7,201,210		7,201,210
Contributed surplus	184,286		184,286
Accumulated other comprehensive income (NOTE A)	194,768	(194,768)	-
Deficit	(7,731,595)	194,768	(7,536,827)
	<u>(151,331)</u>	<u>-</u>	<u>(151,331)</u>
	<u>3,160</u>	<u>-</u>	<u>75,451</u>

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Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 10 – TRANSITION TO IFRS (continued)

The May 31, 2011 Canadian GAAP condensed consolidated interim financial position and equity has been reconciled to IFRS as follows:

CONDENSED INTERIM BALANCE SHEET AS AT MAY 31, 2011.

	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
CURRENT			
Cash	419,312	-	419,312
HST/GST recoverable	1,539	-	1,539
Prepaid expenses	853		853
	421,704	-	421,704
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	57,710	-	57,710
Loan payable	-	-	-
	57,710	-	57,710
SHAREHOLDERS' DEFICIENCY			
Share capital	7,792,497		7,792,497
Contributed surplus	184,286		184,286
Accumulated other comprehensive income (NOTE A)	194,768	(194,768)	-
Deficit	(7,807,557)	194,768	(7,612,789)
	363,994	-	363,994
	421,704	-	421,704

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Notes to the Condensed Interim Consolidated Financial Statements - Amended
For the Nine Months Ended May 31, 2012 and 2011
(Unaudited)

NOTE 10 – TRANSITION TO IFRS (continued)

Canadian GAAP condensed consolidated interim statements of comprehensive income for the nine and three-month period ended May 31, 2011 have been reconciled to IFRS as follows:

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE THREE - MONTH PERIOD ENDED May 31, 2011.

	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
EXPENSES			
Administration and management fees	7,500	-	7,500
Auditing and legal	4,000	-	4,000
Consulting fees	6,000	-	6,000
Filing and transfer agent fees	897	-	897
Interest and financing fee	-	-	-
Office	724	-	724
	19,121	-	19,121
LOSS BEFORE OTHER ITEMS	(19,121)	-	(19,121)
OTHER ITEMS			
Interest income	1,0595	-	1,059
NET LOSS FOR THE PERIOD	(18,062)	-	(18,062)
WEIGHTED AVERAGE NUMBER OF POST-CONSOLIDATION COMMON SHARES OUTSTANDING			
	25,058,195	-	25,058,195
BASIC AND DILUTED LOSS PER POST-CONSOLIDATION COMMON SHARE			
	(0.00)	-	(0.00)

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended
For the Nine Months Ended May 31, 2012 and 2011
(Unaudited)

NOTE 10 – TRANSITION TO IFRS (continued)

Canadian GAAP condensed consolidated interim statements of comprehensive income for the nine and three-month period ended May 31, 2011 have been reconciled to IFRS as follows:

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE NINE - MONTH PERIOD ENDED MAY 31, 2011.

	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
EXPENSES			
Administration and management fees	22,500	-	22,500
Auditing and legal	10,866	-	10,866
Consulting fees	18,000	-	18,000
Filing and transfer agent fees	9,313	-	9,313
Interest and financing fee	14,904	-	14,904
Office	2,393	-	2,393
	77,976	-	77,976
LOSS BEFORE OTHER ITEMS	(77,976)	-	(77,976)
OTHER ITEMS			
Interest income	2,014	-	2,014
NET LOSS FOR THE PERIOD	(75,962)	-	(75,962)
WEIGHTED AVERAGE NUMBER OF POST-CONSOLIDATION COMMON SHARES OUTSTANDING			
	24,008,134	-	24,008,134
BASIC AND DILUTED LOSS PER POST-CONSOLIDATION COMMON SHARE			
	(0.00)	-	(0.00)

CELLSTOP SYSTEMS INC.

Notes to the Condensed Interim Consolidated Financial Statements - Amended For the Nine Months Ended May 31, 2012 and 2011 (Unaudited)

NOTE 10 – TRANSITION TO IFRS (continued)

The August 31, 2011 Canadian GAAP condensed consolidated interim financial position and equity has been reconciled to IFRS as follows:

CONDENSED INTERIM BALANCE SHEET AS AT AUGUST 31, 2011

	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
ASSETS			
CURRENT			
Cash	13,209	-	13,209
Term deposit	362,765	-	362,765
HST recoverable	4,282	-	4,282
Prepaid rent	5,602	-	5,602
	385,858	-	385,858
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	55,187	-	55,187
Loan payable	-	-	-
	55,187	-	55,187
SHAREHOLDERS' EQUITY			
Share capital	7,792,497	-	7,792,497
Contributed surplus	184,286	-	184,286
Accumulated other comprehensive income (Note A)	194,768	(194,768)	-
Deficit	(7,840,880)	194,768	(7,646,112)
	330,671		330,671
	385,858		385,858

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Notes to the Condensed Interim Consolidated Financial Statements - Amended
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(Unaudited)

NOTE 10 – TRANSITION TO IFRS (continued)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR YEAR ENDED AUGUST 31, 2011.

	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
EXPENSES			
Auditing and legal	15,466	-	15,466
Consulting fees	17,500	-	17,500
Filing and transfer agent fees	15,211	-	15,211
Interest and financing fee	14,904	-	14,904
Office	4,264	-	4,264
Rent	15,000	-	15,000
LOSS BEFORE OTHER ITEMS	112,345	-	112,345
OTHER ITEMS			
Settlement of legal claim	-	-	-
Interest income	3,060	-	3,060
NET LOSS FOR THE YEAR	(109,285)	-	(109,285)
WEIGHTED AVERAGE NUMBER OF POST-CONSOLIDATION COMMON SHARES OUTSTANDING	24,272,807	-	24,272,807
BASIC AND DILUTED LOSS PER POST-CONSOLIDATION COMMON SHARE	(0.0051)	-	(0.0051)

NOTE A

In accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates the Company elected to classify certain translation differences as a separate component of equity. The Company deemed the cumulative translation account for all foreign operations to be nil at the date of transition, and reclassified such amounts determined in accordance with previous GAAP at that date to retained earnings.