CELLSTOP SYSTEMS INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended August 31, 2012
Dated December 20, 2012

The following management discussion and analysis (“MD&A”) should be read in conjunction with the CellStop Systems Inc.’s (the “Company”) consolidated financial statements for the fiscal years ended August 31, 2012 and 2011 and the notes thereto.

The financial statements and comparative information have been prepared by management in accordance with International Financial Reporting Standard (“IFRS”), as issued by the International Accounting Standards Board (“IAS”). The Company’s accounting policies and estimates used in the preparation of these financial statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process. This analysis contains forward-looking statements about the Company’s future prospects that involve certain risks and uncertainties and the Company provides no assurances that actual results will meet management’s expectations. This document is current in all material respects as of December 20, 2012.

Management is responsible for the preparation and integrity of the consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls to ensure that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable.

FORWARD-LOOKING STATEMENTS

This management discussion and analysis (MD&A) contains or incorporates by reference forward-looking statements. All statements other than statements of historical fact included or incorporated by reference and that address activities, events or developments that we expect or anticipate may or will occur in the future are forward-looking statements. While any forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business; actual results may vary, sometimes materially, from any estimates, predictions, projections, assumptions or other suggestions of future performance herein. Undue reliance should not be placed on these forward-looking statements, which are based upon our assumptions and are subject to known and unknown risks and uncertainties and other factors, including those discussed under "Risk and Uncertainties" in this MD&A, some of which are beyond our control, which may cause actual results, levels of activity and achievements to differ materially from those estimated or projected and expressed in or implied by such statements. We undertake no obligation to update publicly or revise any forward-looking statements contained herein, and such statements are expressly qualified by this cautionary statement. See "Risk and Uncertainties".

NATURE OF OPERATIONS

The Company is presently analyzing various opportunities to invest its capital. Previously the Company was 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.

OVERVIEW

The Company is a public company incorporated under the laws of British Columbia. The Company is a reporting issuer in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario and its shares are now listed and quoted for trading on the NEX under the trading symbol KNO.H.

OVERALL PERFORMANCE

The Company has no active operations at this time other than analyzing various opportunities in which to invest its capital.

SELECTED INFORMATION

	Year ended August 31, 2012 $	Year ended August 31, 2011 $	Year ended August 31, 2010 $
REVENUE	-	-	-
COST OF SALES	-	-	-
GROSS PROFIT (LOSS)	-	-	-
EXPENSES :			
General and administrative	94,535	76,881	80,316
Interest and financing charges	-	14,904	9,534
Salaries, wages and consulting fees	28,767	17,500	30,500
Settlement of legal claim	-	-	1,992
LOSS FOR THE YEAR	(123,302)	(109,285)	(122,342)
(DEFICIT), BEGINNING OF YEAR	(7,461,826)	(7,352,541)	(7,230,199)
(DEFICIT), END OF YEAR	(7,585,128)	(7,461,826)	(7,352,541)
BASIC AND DILUTED LOSS PER COMMON SHARE	(0.01)	(0.01)	(0.01)
TOTAL ASSETS	231,802	385,858	3,160
TOTAL LONG TERM LIABILITIES	-	-	-

Discussion of the variation of these numbers for the comparative years follows:

RESULTS OF OPERATIONS

Fiscal Year ended August 31, 2012 compared to the year ended August 31, 2011

Revenue, Cost of Sales and Gross profit
The Company does not have any active operations other than analyzing investments in which to invest its capital. Therefore no revenue was recorded during the year ended August 31, 2012 and 2011.

General and Administration
General and administration expenses from operations of $94,535, has increased by 23% for the year ended August 31, 2012, compared to general and administration expenses of $76,881 in the prior year. The increase in general and administration expenses compared to prior year is due to an increase in rental expense. This increase is reduced by the gains from the extinguishment of long outstanding payables in 2012.

Interest and financing charges
During the year ended August 31, 2010, the Company received a loan of $100,000. The loan bears interest at 10% per annum payable quarterly, is unsecured, and matures on May 07, 2011. Pursuant to the loan agreement dated April 28, 2010, the Company issued 400,000 common shares to the lender with a deemed value of $20,000 in connection to the debt financing. The Company recorded this financing fee as an adjustment to the carrying amount of the loan payable, and amortized the fee over the term of the loan.

During the year ended August 31, 2011, the Company settled the outstanding principal amount of the loan payable of $100,000 by issuing 1,111,111 common shares at $0.09 per share and 1,111,111 share purchase warrants at $0.12 per share for a term of one year.

During the year ended August 31, 2012, the Company accrued interest of $nil (2011 – $1,260) and recorded an amortization of financing fee of $nil (2011 – $13,644) totaling $nil (2011 - $14,904).

Salaries, Wages and Consulting fees
Salaries, wages and consulting fees from operations of $28,767 for the year ended August 31, 2012, compared to salaries, wages and consulting fees from continuing operations of $17,500 in the prior year. The increase in salaries, wages and consulting fees in fiscal 2012 is due to the increase in consultants.

SUMMARY OF QUARTERLY RESULTS

CONTINUING OPERATIONS	Sales $	Net Income (Loss) $	Basic income (loss) per share $
4th quarter end August 31, 2012	$-	($6,216)	($0.000)
3rd quarter ended May 31, 2012	$-	($36,347)	($0.001)
2nd quarter ended February 29, 2012	$-	($44,784)	($0.002)
1st quarter ended November 30, 2011	$-	($35,955)	($0.001)
4th quarter ended August 31, 2011	$-	($33,323)	($0.001)
3rd quarter ended May 31, 2011	$-	($18,062)	($0.001)
2nd quarter ended February 28, 2011	$-	($19,084)	($0.001)
1st quarter ended November 30, 2010	$-	($38,816)	($0.002)

1st quarter ended November 30, 2010
The net loss of $38,816 has increased for the quarter ended November 30, 2010, compared to net loss of $23,820 in the first quarter of fiscal 2010 and an increase compared to net loss of $33,463 for the fourth quarter of 2010. The increase in net loss compared to the net loss for the first quarter of fiscal 2010 is due to the amortization of the financing fee as a result of the conversion of the loan to shares of the Company.

2nd quarter ended February 28, 2011
The net loss of $19,084 has decreased for the quarter ended February 28, 2011, compared to net loss of $27,882 in the second quarter of fiscal 2010 and decreased compared to net loss of $38,816 for the first

quarter of fiscal 2011. The decrease in net loss compared to the net loss for the second quarter of fiscal 2010 is due a decrease in operational expenses.

3rd quarter ended May 31, 2011
The net loss of $18,062 has decreased for the quarter ended May 31, 2011, compared to net loss of $37,177 in the third quarter of fiscal 2010 and decreased compared to net loss of $19,084 for the second quarter of fiscal 2011. The decrease in net loss compared to the net loss for the third quarter of fiscal 2010 is due a decrease in operational expenses.

4th quarter ended August 31, 2011
The net loss of $33,323 has decreased for the quarter ended August 31, 2011, compared to net loss of $33,463 in the fourth quarter of fiscal 2010 and an increased compared to net loss of $18,062 for the third quarter of fiscal 2011. The increase in net loss for the quarter ended August 31, 2011, is due to renting office space.

1st quarter ended November 30, 2011
The net loss of $35,955 has decreased for the quarter ended November 30, 2011, compared to net loss of $38,816 in the first quarter of fiscal 2011 and an increase compared to net loss of $33,323 for the fourth quarter of 2011. The decrease in net loss compared to the net loss for the first quarter of fiscal 2011 is due interest expense incurred during the quarter ended November 30, 2010. The increase in net loss compared to the net loss for the fourth quarter of fiscal 2011 is due to higher operational expenses.

2nd quarter ended February 29, 2012
The net loss of $44,784 has increased for the quarter ended February 29, 2012, compared to net loss of $19,084 in the second quarter of fiscal 2011 and increased compared to net loss of $35,955 for the first quarter of fiscal 2012. The increase in net loss compared to the net loss for the second quarter of fiscal 2011 is due an increase in operational expenses and additional consulting costs incurred.

3rd quarter ended May 31, 2012
The net loss of $36,347 has increased for the quarter ended May 31, 2012, compared to net loss of $18,062 in the third quarter of fiscal 2011 and decreased compared to net loss of $44,784 for the second quarter of fiscal 2012. The increase in net loss compared to the net loss for the third quarter of fiscal 2011 is due an increase in operational expenses incurred.

4th quarter ended August 31, 2012
The net loss of $6,216 has decreased for the quarter ended August 31, 2012, compared to net loss of $33,323 in the fourth quarter of fiscal 2011 and decreased compared to net loss of $36,347 for the third quarter of fiscal 2012. The decrease in net loss compared to the net loss for the fourth quarter of fiscal 2011 is due the extinguishment of long outstanding payables.

LIQUIDITY AND CAPITAL RESOURCES

The Company does not currently have an adequate source of reliable, long-term revenue to fund operations. As a result, the Company is reliant on outside sources of funding. There can be no assurances that the Company will in the future achieve a consistent and reliable revenue stream adequate to support continued operations in the future. In addition, there are no assurances that the Company will be able to secure adequate sources of new capital, whether it be in the form of capital, debt, or other financing sources.

The future cash requirements of the Company will be dependant on the Company's success in identifying an acquisition or otherwise establishing or renewing operations. The Company's ability to develop and maintain a new financially viable business plan is uncertain.

Working capital on August 31, 2012, was $207,369 compared to working capital of $330,671 as at August 31, 2011. The decrease in working capital was due to operation expenses which were incurred for the Company to move forward.

In the year ended August 31, 2012, the Company generated negative cash outflow of $154,540 compared to negative cash outflow of $116,331 in the prior year. This increase in negative cash flow is as a result of an increase in operational expenses.

As at August 31, 2012, the Company had the following contractual obligations.

Contractual Obligation	Total	Less than 1 year	1 – 3 years	Mote than 3 years
Management agreements (1)	$2,500	$2,500	$-	$-
Employment contracts (2)	$2,000	$2,000	$-	$-
Rental agreement (3)	$175,000	60,000	$115,000	$-
Total Contractual obligations	$179,500	$64,500	$115,000	$-

1. The Company has a one-month rolling management agreement for administration services for $2,500 per month.
2. The Company has a one-month rolling employment agreement for management and consulting services for $2,000 per month.
3. Effective August 01, 2012, 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, 2015.
4.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

All related party transactions were in the ordinary course of business and were measured at their exchange amount.

a) The Company paid $24,000 (2011 – $24,000) to an officer of the Company for management services provided (note 7(b)), of which $2,000 (2011 – $2,000) remained outstanding in accounts payable and accrued liabilities as at August 31, 2012.

b) The Company paid $4,023 (2011 – $600) to an officer of the company for legal services provided of which $1,609 (2011 – $nil) remained outstanding in accounts payable as at August 31, 2012.

PROPOSED TRANSACTIONS

The Company continues to seek to strengthen its board of directors and management, to find new business opportunities, and to raise capital.

SUBSEQUENT EVENTS

There are no subsequent events.

CRITICAL ACCOUNTING ESTIMATES

The Company has no active operations at this time other than analyzing various opportunities in which to invest its capital. Therefore currently the Company does not have any critical accounting estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

Standards issued but not yet effective up to the date of issuance of the Company's 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:

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

IFRS 9 reflects the first phase of IASB's 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.

(b) 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.

(c) 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 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.

(d) IAS 1, Presentation of Financial Statements ("IAS 1"):

The IASB amended IAS 1 by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012, with early adoption permitted. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company does not have any financial instruments, other than cash deposited with a reputable banking institution.

RISKS AND UNCERTAINTIES

Political and Regulatory Risk

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder. These may include responding to orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Limited Operational History

The Company does not have any significant operations. As a result, there is no assurance that the Company will earn profits in the future or that profitability, if achieved, will be sustained.

Additional Financing

The Company will require additional financing in order to make further developments or take advantage of unanticipated opportunities. 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 satisfactory to it. 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.

Key Personnel and Future Staffing Requirements

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

Price Volatility of Public Stock

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance or underlying net asset values of such companies.

OTHER MD&A REQUIREMENTS

Outstanding Share Data as at December 20, 2012:	
Share Capital	$7,792,497
Common shares issued	25,058,196
Stock options outstanding	Nil
Warrants outstanding	Nil

Additional Information

Additional information relating the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

Directors and Officers

The Company's directors and officers as at December 20, 2012, are:

Directors:	**Officers:**
Michael Curtis	Michelle Gahagan, Chief Executive Officer
Gerald R. Tuskey	Henry Bromley, Chief Financial Officer
Lucas Marchak	Leah Martin, Corporate Secretary
Michelle Gahagan	

Board Approval

The contents of this management's discussion and analysis have been approved and its mailing has been authorized by the Board of Directors of the Company.

ON BEHALF OF THE BOARD OF DIRECTORS

/s/ Michelle Gahagan
Michelle Gahagan