



CellStop Systems Inc.

February 28, 2013 and February 29, 2012

Condensed Interim Unaudited Consolidated Financial Statements

(Stated in Canadian Dollars)

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- ◆ Condensed Consolidated Interim Statements of Loss
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Loss
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- ◆ Notes to the Condensed Consolidated Interim Financial Statements

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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The financial statements of CellStop Systems Inc. and the accompanying condensed consolidated interim balance sheet as at February 28, 2013, and the condensed consolidated interim statements of earnings, retained earnings and cash flows for the six and three month period then ended are the responsibility of the Company's management. The Condensed Consolidated Interim 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 Consolidated Interim 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 Consolidated Interim Statements of Financial Position

As at February 28, 2013 and August 31, 2012

(Unaudited)

	February 28, 2013 \$ (Unaudited)	August 31, 2012 \$ (Audited)
ASSETS		
CURRENT		
Cash	-	6,832
Term deposit	140,313	214,602
HST recoverable	5,917	4,690
Prepaid expenses	5,600	5,678
	<u>151,830</u>	<u>231,802</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	16,099	24,433
Bank overdraft	3,351	-
	<u>19,450</u>	<u>24,433</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	7,792,497	7,792,497
Deficit	(7,660,117)	(7,585,128)
	<u>132,380</u>	<u>207,369</u>
	<u>151,830</u>	<u>231,802</u>

Nature of operations (Note 1)

Commitments (Note 7)

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

Approved on behalf of the Board and authorized for issue on April 29, 2013:

"Michelle Gahagan"
M. Gahagan, Director

"Gerald Tuskey"
G. Tuskey, Director

CELLSTOP SYSTEMS INC.

Condensed Interim Consolidated Statements of Operations

For the Period Ended February 29, 2012 and February 28, 2011

(Unaudited)

	February 28, 2013 3 Months \$ (Unaudited)	February 29, 2012 3 Months \$ (Unaudited)	February 28, 2013 6 Months \$ (Unaudited)	February 29, 2012 6 Months \$ (Unaudited)
EXPENSES				
Administration and management fees (Note 7(a))	7,500	7,500	15,000	15,000
Auditing and legal	5,160	4,750	9,724	10,551
Consulting fees (Note 7(b))	6,000	10,767	12,000	16,767
Filing and transfer agent fees	5,579	5,430	7,429	7,261
Office	1,066	2,111	1,668	2,851
Rent (Note 7(c))	15,000	15,000	30,000	30,000
	40,305	45,558	75,821	82,430
LOSS BEFORE OTHER ITEMS	(40,305)	(45,558)	(75,821)	(82,430)
OTHER ITEMS				
Interest Income	359	774	832	1,691
	359	774	832	1,691
NET LOSS FOR THE PERIOD	(39,946)	(44,784)	(74,989)	(80,739)
WEIGHTED AVERAGE NUMBER OF POST-CONSOLIDATION COMMON SHARES OUTSTANDING				
	25,058,195	25,058,195	25,058,195	25,058,195
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 Consolidated Interim Statements of Changes in Equity For the Period Ended February 28, 2013 and February 29, 2012

	Number of Common Shares	Share Capital	Deficit	Total
		\$	\$	\$
Balance, August 31, 2012	25,058,196	\$7,792,497	\$(7,585,128)	\$207,369
Loss for the period	-	-	(74,989)	(74,989)
Balance, February 28, 2013	25,058,196	\$7,792,497	\$(7,660,117)	\$132,380
Balance, August 31, 2011	25,058,196	\$7,792,497	\$(7,461,826)	\$330,671
Loss for the period	-	-	(80,739)	(80,739)
Balance, February 29, 2012	25,058,196	\$7,792,497	\$(7,542,565)	\$249,932

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

CELLSTOP SYSTEMS INC.

Condensed Consolidated Interim Statements of Comprehensive Loss For the Six and Three Months ended February 28, 2013 and February 29, 2012

	February 28, 2013 3 Months \$ (Unaudited)	February 29, 2012 3 Months \$ (Unaudited)	February 28, 2013 6 Months \$ (Unaudited)	February 29, 2012 6 Months \$ (Unaudited)
NET LOSS FOR THE PERIOD	(39,946)	(44,784)	(74,989)	(80,739)
Other Comprehensive Income for the period	-	-	-	-
COMPREHENSIVE LOSS FOR THE PERIOD	<u>(39,946)</u>	<u>(44,784)</u>	<u>(74,989)</u>	<u>(80,739)</u>

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

CELLSTOP SYSTEMS INC.

Condensed Consolidated Interim Statements of Cash Flows For the Six and Three Months ended February 28, 2013 and February 29, 2012

	February 28, 2013 3 Months \$ (Unaudited)	February 29, 2012 3 Months \$ (Unaudited)	February 29, 2013 6 Months \$ (Unaudited)	February 29, 2012 6 Months \$ (Unaudited)
CASH WAS PROVIDED FROM, (UTILIZED FOR):				
OPERATING ACTIVITIES				
Net loss for the period	(39,946)	(44,784)	(74,989)	(80,739)
Non-cash item:				
Changes in non-cash working capital accounts:				
HST recoverable	(2,202)	1,369	(1,227)	(197)
Prepaid expenses			78	
Accounts payable and accrued liabilities	(11,311)	(13,036)	(8,334)	(7,263)
	(53,459)	(56,451)	(84,472)	(88,199)
INVESTING ACTIVITY				
Term Deposit	46,515	57,757	74,289	82,082
	-	-	-	-
FINANCING ACTIVITIES				
	-	-	-	-
(DECREASE) INCREASE IN CASH FOR THE PERIOD	(6,944)	1,306	(10,183)	(6,117)
CASH, BEGINNING OF PERIOD	3,593	5,786	6,832	13,209
(BANK OVERDRAFT) CASH, END OF PERIOD	(3,351)	7,092	(3,351)	7,092
SUPPLEMENTARY CASH FLOW INFORMATION				
Interest paid	-	-	-	4,438
Income taxes paid	-	-	-	-
	-	-	-	-
(DECREASE) INCREASE IN CASH FOR THE PERIOD		(3,239)	(7,423)	
CASH, BEGINNING OF THE PERIOD		6,832	13,209	
CASH, END OF THE PERIOD		3,593	5,786	

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

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

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 unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on April 29, 2013.

These unaudited condensed consolidated interim financial statements have been prepared on a “going concern” basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. Currently, the Company has no active operations and no source of operating cash flows. The Company incurred a net loss of \$39,946 for the period ended February 28, 2013, and, as of that date, had accumulated losses of \$7,660,117 since inception.

The Company has relied mainly upon the issuance of share capital to finance its activities. Future capital requirements will depend on many factors including the Company’s ability to execute its business plan. The Company intends to continue to rely upon the issuance of share capital to finance its future activities but there can be no assurance that such financing will be available to the Company. Inability to secure future financing would have a material adverse effect on the Company’s business, results of operations, and financial condition.

Failure to continue as a going concern may require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

NOTE 2 - BASIS OF PREPARATION

These consolidated financial statements are prepared using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and accounting policies we adopted in accordance with International Financial Reporting Standards (“IFRS”).

The notes presented in these unaudited condensed consolidated interim financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 2 - BASIS OF PREPARATION (Continued)

a) Statement of Compliance (Continued)

The accounting policies applied in these consolidated financial statements are based on the IFRS and International Financial Reporting Interpretations Committee interpretations issued and in effect for the period ended February 28, 2013.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and in effect as of April 29, 2013, the date the unaudited condensed consolidated interim financial statements were authorized for issuance by the Board of Directors.

b) Basis of Measurement

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for financial instruments classified as held for trading that have been measured at fair value. Cost is the fair value of consideration given in exchange for net assets.

c) Significant Accounting Judgments, Estimates and Assumptions

In the application of the Company's accounting policies which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in these consolidated financial statements include:

Deferred Tax Assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned inactive subsidiaries: The Buddy Systems Inc., Palm Coast Solutions Inc., and Group West Systems (Massachusetts) Ltd. (Collectively the "Company"). On August 29, 2012, The Buddy Systems Inc. and CellStop Systems Inc. merged together to form one entity. All significant intercompany transactions and balances have been eliminated.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation

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

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items period-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

c) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

i) Financial Assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

- **Financial assets at fair value through profit or loss** – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash and term deposit fall into this category of financial instruments.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Instruments (Continued)

- **Loans and receivables** – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company currently does not hold financial assets in this category.
- **Held-to-maturity investments** – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.
- **Available-for-sale financial assets** – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

ii) Financial Liabilities

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- **Financial liabilities at fair value through profit or loss** – Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.
- **Other financial liabilities** – Other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's accounts payable and accrued liabilities and loan payable fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled, or expired.

(d) 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.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Share-Based Payments

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 share-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 share-based payment reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payment reserve amount is transferred to share capital. As at February 28, 2013 and August 31, 2012, the Company had no stock options outstanding.

(f) 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.

(g) 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.

h) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity.

i) Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred Income Tax

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 4 - ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's condensed consolidated interim 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 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.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 5 - 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 \$6,000 (February 29, 2012 – \$6,000) to an officer of the Company for management services provided (Note 7(b)), of which \$2,000 (February 29, 2012 – \$2,000) remained outstanding in accounts payable and accrued liabilities as at February 28, 2013.
- b) The Company paid \$179 (February 29, 2012 – \$nil) to an officer of the company for legal services provided of which \$nil (February 29, 2012 – \$nil) remained outstanding in accounts payable as at February 28, 2013.

NOTE 6 – SHARE CAPITAL

a) Authorized Share Capital

Unlimited number of common shares without par value.

b) Issued and Outstanding Share Capital

There were no issuances of shares during the period ended February 28, 2013

c) Share Purchase Warrants

	Number of Warrants	Exercise Price \$
Balance, August 31, 2011	6,666,667	0.12
Warrants expired	(6,666,667)	(0.12)
Balance, August 31, 2012	-	-
Movement during the period	-	-
Balance, February 28, 2013	-	-

NOTE 7 – 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 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.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 8 – INCOME TAXES

a) Deferred Income Taxes

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	February 28, 2013 6 Months	August 31, 2012 12 Months
Non-capital losses carry-forward	4,057,878	4,001,211
Capital losses carry-forward	2,539,137	2,539,137
Tax deductible share issuance costs	1,834	8,162
Tax value in book value of intangible asset	48,891	52,571
	<hr/>	<hr/>
	6,647,740	6,601,081

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

Year	
2013	287,378
2014	288,924
2025	354,537
2026	249,713
2027	2,179,474
2028	165,743
2029	153,430
2030	164,615
2031	157,397
2032	56,667
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	4,057,878

The Company has Canadian capital losses of \$2,519,622, which can be carried forward indefinitely and may be applied against future capital gains.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 8 – INCOME TAXES (CONTINUED)

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:

	February 28, 2013 6 Months \$	August 31, 2012 12 Months \$
Expected income tax recovery	(19,122)	(31,442)
Tax deductible costs	(937)	(1,944)
Items not deductible for tax	(5,609)	(6,750)
Effect of change in tax rates	503	787
Unrecognized tax benefits of non-capital losses	25,165	39,349
	<hr/>	<hr/>
Income tax expense	-	-

NOTE 9 – 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.

The Company uses the following hierarchy for determining fair value measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The Company's financial instruments measured at fair value and other financial liabilities use the Level 1 valuation technique during the period ended February 28, 2013 and August 31, 2012.

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.

CELLSTOP SYSTEMS INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Periods Ended February 28, 2013 and February 29, 2012

NOTE 9 – FINANCIAL INSTRUMENTS (CONTINUED)

b) Liquidity Risk (Continued)

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 rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

NOTE 10 – CAPITAL MANAGEMENT

The Company manages its common shares as capital, which as at February 28, 2013 was \$7,792,497 (August 31, 2012 – \$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.

a) 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.

b) 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.

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Notes to the Condensed Consolidated Interim Financial Statements
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NOTE 10 – CAPITAL MANAGEMENT (Continued)

c) Market Risk

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

d) 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.