

# **CELLSTOP SYSTEMS INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the year ended August 31, 2014**

**Dated December 12, 2014**

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, 2014 and 2013 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 12, 2014.

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**

	<b>Year ended August 31, 2014</b>	<b>Year ended August 31, 2013</b>	<b>Year ended August 31, 2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>	-	-	-
<b>COST OF SALES</b>	-	-	-
<b>GROSS PROFIT (LOSS)</b>	-	-	-
<b>EXPENSES :</b>			
General and administrative	126,428	118,854	94,535
Interest and financing charges	-	-	-
Salaries, wages and consulting fees	24,000	24,000	28,767
<b>LOSS FOR THE YEAR</b>	(150,428)	(142,854)	(123,302)
<b>(DEFICIT), BEGINNING OF YEAR</b>	(7,727,982)	(7,585,128)	(7,461,826)
<b>(DEFICIT), END OF YEAR</b>	<u>(7,878,410)</u>	<u>(7,727,982)</u>	<u>(7,585,128)</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>
<b>TOTAL ASSETS</b>	<u>4,041</u>	<u>80,919</u>	<u>231,802</u>
<b>TOTAL LONG TERM LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>

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

## RESULTS OF OPERATIONS

### Fiscal Year ended August 31, 2014 compared to the year ended August 31, 2013

#### 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, 2014 and 2013.

#### General and Administration

General and administration expenses from operations of \$126,428, has increased by 6% for the year ended August 31, 2014, compared to general and administration expenses of \$118,854 in the prior year. In fiscal 2014 there was an increase in rent paid.

#### Salaries, Wages and Consulting fees

Salaries, wages and consulting fees from operations of \$24,000 for the year ended August 31, 2014, compared to salaries, wages and consulting fees from continuing operations of \$24,000 in the prior year.

## SUMMARY OF QUARTERLY RESULTS

	Sales \$	Net Income (Loss) \$	Basic income (loss) per share \$
<b>CONTINUING OPERATIONS</b>			
4 <sup>th</sup> quarter ended August 31, 2014	\$-	(\$36,568)	(\$0.001)
3 <sup>rd</sup> quarter ended May 31, 2014	\$-	(\$40,735)	(\$0.002)
2 <sup>nd</sup> quarter ended February 28, 2014	\$-	(\$38,360)	(\$0.002)
1 <sup>st</sup> quarter ended November 30, 2013	\$-	(\$34,765)	(\$0.001)
4 <sup>th</sup> quarter ended August 31, 2013	\$-	(\$30,574)	(\$0.001)
3 <sup>rd</sup> quarter ended May 31, 2013	\$-	(\$37,291)	(\$0.001)
2 <sup>nd</sup> quarter ended February 28, 2013	\$-	(\$39,946)	(\$0.002)
1 <sup>st</sup> quarter ended November 30, 2012	\$-	(\$35,043)	(\$0.001)

#### 1<sup>st</sup> quarter ended November 30, 2012

The net loss of \$35,043 has decreased for the quarter ended November 30, 2012, compared to net loss of \$35,955 in the first quarter of fiscal 2012 and an increase compared to net loss of \$6,216 for the fourth quarter of 2012. The decrease in net loss compared to the net loss for the first quarter of fiscal 2012 is due a decrease in operational costs incurred during the quarter ended November 30, 2012. The increase in net loss compared to the net loss for the fourth quarter of fiscal 2012 is due the extinguishment of long outstanding payables in the fourth quarter of fiscal 2012.

#### 2<sup>nd</sup> quarter ended February 28, 2013

The net loss of \$39,946 has decreased for the quarter ended February 28, 2013, compared to net loss of \$44,784 in the second quarter of fiscal 2012 and an increase compared to net loss of \$35,043 for the first quarter of 2013. The decrease in net loss compared to the net loss for the second quarter of fiscal 2012 is due a decrease in operational costs incurred during the quarter ended February 28, 2013. The increase in net loss compared to the net loss for the first quarter of fiscal 2013 is due to an increase in operational costs.

#### 3<sup>rd</sup> quarter ended May 31, 2013

The net loss of \$37,291 has increased for the quarter ended May 31, 2013, compared to net loss of \$36,347 in the third quarter of fiscal 2012 and a decrease compared to net loss of \$39,946 for the second quarter of 2013. The increase in net loss compared to the net loss for the third quarter of fiscal 2012 is due an increase in operational costs incurred during the quarter ended May 31, 2013. The decrease in net loss compared to the net loss for the second quarter of fiscal 2013 is due to a decrease in operational costs.

#### 4<sup>th</sup> quarter ended August 31, 2013

The net loss of \$30,574 has increased for the quarter ended August 31, 2013, compared to net loss of \$6,216 in the fourth quarter of fiscal 2012 and a decrease compared to net loss of \$37,291 for the third

quarter of 2013. The increase in net loss compared to the net loss for the fourth quarter of fiscal 2012 is due an increase in operational costs incurred during the quarter ended August 31, 2013. The decrease from the third quarter of fiscal 2013 is due to a decrease in accrued fees.

**1<sup>st</sup> quarter ended November 30, 2013**

The net loss of \$34,765 has decreased for the quarter ended November 30, 2013, compared to net loss of \$35,043 in the first quarter of fiscal 2013 and an increase in net loss compared to net loss of \$30,574 for the fourth quarter of 2013. The decrease in net loss compared to the net loss for the first quarter of fiscal 2013 is due a decrease in operational costs incurred during the quarter ended November 30, 2013. The increase in net loss compared to the net loss for the fourth quarter of fiscal 2013 is due to a decrease in accrued fees in the fourth quarter of fiscal 2013.

**2<sup>nd</sup> quarter ended February 28, 2014**

The net loss of \$38,360 has decreased for the quarter ended February 28, 2014, compared to net loss of \$39,946 in the second quarter of fiscal 2013 and an increase in net loss compared to net loss of \$34,765 for the first quarter of 2014. The decrease in net loss compared to the net loss for the second quarter of fiscal 2013 is due a decrease in operational costs incurred during the quarter ended February 28, 2014. The increase in net loss compared to the net loss for the first quarter of fiscal 2014 is due to an increase in public company operational expenses in the second quarter of fiscal 2014.

**3<sup>rd</sup> quarter ended May 31, 2014**

The net loss of \$40,735 has increased for the quarter ended May 31, 2014, compared to net loss of \$37,291 in the third quarter of fiscal 2013 and an increase compared to net loss of \$38,360 for the second quarter of 2014. The increase in net loss compared to the net loss for the third quarter of fiscal 2013 and the second quarter of fiscal 2014 is due an increase in operational costs incurred during the quarter ended May 31, 2014.

**4<sup>th</sup> quarter ended August 31, 2014**

The net loss of \$36,568 has increased for the quarter ended August 31, 2014, compared to net loss of \$30,574 in the fourth quarter of fiscal 2013 and a decrease compared to net loss of \$40,735 for the third quarter of 2014. The increase in net loss compared to the net loss for the fourth quarter of fiscal 2013 is due an increase in operational costs incurred during the quarter ended August 31, 2014. The decrease compared to the third quarter of fiscal 2014 is due a decrease in operational costs incurred during the quarter ended August 31, 2014.

**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 deficit on August 31, 2014, was (\$85,913) compared to working capital of \$64,515 as at August 31, 2013. 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, 2014, the Company generated negative cash outflow of \$92,975 compared to negative cash outflow of \$147,521 in the prior year. This decrease in negative cash flow is as a result of a decrease in operational expenses.

As at August 31, 2014, the Company had the following contractual obligations.

<b>Contractual Obligation</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>Mote than 3 years</b>
Rental agreement (1)	\$60,500	\$60,500	\$-	\$-
Total Contractual obligations	\$60,500	\$60,500	\$-	\$-

1. Effective August 1, 2012, the Company entered into an office rental agreement of \$5,500 per month with an arm's length party. The agreement expires on July 31, 2015.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements.

#### **RELATED PARTY TRANSACTIONS**

The value of transactions and outstanding balances relating to key management personnel were as follows:

- a) The Company paid \$24,000 (2013 – \$24,000) to an officer of the Company for consulting services provided, of which \$6,300 (2013 – \$2,100) remained outstanding in accounts payable and accrued liabilities as at August 31, 2014.
- b) The Company paid \$6,417 (2013 – \$361) to an officer of the Company for legal services provided of which \$4,009 (2013 – \$1,609) remained outstanding in accounts payable and accrued liabilities as at August 31, 2014.

#### **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 – Financial Instruments is intended to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments, and is effective for annual periods beginning on or after January 1, 2015, with

earlier adoption permitted. In November 2009 and October 2010, IFRS 9 (2009) and IFRS 9 (2010) were issued, respectively, which address the classification and measurement of financial assets and financial liabilities. IFRS 9 (2009) requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 (2010) requires that financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as fair value through profit or loss, financial guarantees and certain other exceptions.

**(b) IFRS 15, Revenue from contracts with customers ("IFRS 15")**

IFRS 15, Revenue from contracts with customers, was issued in May 2014. This standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. It specifies how and when a Company will recognise revenue as well as requiring the entity to provide users of financial statements with more informative, relevant disclosures. It further provides a principles based five-step model to be applied to all contracts with customers. This standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

**(c) IAS 24 Related Party Disclosures**

The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014.

**(d) IAS 32 – Financial Instruments: Presentation ("IAS 32")**

IAS 32 was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

**(e) IAS 36 – Impairments of Assets ("IAS 36")**

IAS 36 was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014.

**(f) IFRIC 21 – Levies**

IFRIC 21 – Levies clarifies the timing for the accounting of a liability that is imposed by governments should be based on the activity in the legislation that triggers the payment. This standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2014, with earlier adoption permitted. The adoption of this standard is not expected to have an 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 12, 2014:

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](http://www.sedar.com).

### **Directors and Officers**

The Company's directors and officers as at December 12, 2014, are:

#### **Directors:**

Michael Curtis  
Michelle Gahagan  
Virginia Olnick  
Gerald R. Tuskey

#### **Officers:**

Henry Bromley, Chief Financial Officer  
Michelle Gahagan, President and Chief Executive Officer  
Leah Martin, Corporate Secretary

### **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