



MANAGEMENT'S DISCUSSION AND ANALYSIS

(Expressed in Canadian Dollars)

**Nine Month Period Ended
May 31, 2016**

Report Date - June 14, 2016

CELLSTOP SYSTEMS INC.
Management's Discussion and Analysis
Nine Month Period Ended May 31, 2016

Introduction

CellStop Systems Inc. ("CellStop" or the "Company") is a public traded company incorporated on April 29, 1982, under the laws of British Columbia, Canada. The Company is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, and its common shares are listed and posted for trading on the NEX Board of the TSX Venture Exchange (the "Exchange") under the trading symbol "KNO.H". The Company was transferred to the NEX board of the Exchange effective July 2, 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 to 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's registered and head offices are located at 302 - 1620 West 8th Avenue, Vancouver, BC, V6J 1V4.

In accordance with Form 51-102F1, the following Management's Discussion & Analysis ("MD&A") provides a review of activities, results of operations and financial condition of CellStop for the nine month period ended May 31, 2016. The following discussion and analysis should be read in conjunction with the Company's condensed interim consolidated financial statements for the nine month period ended May 31, 2016 and the audited annual consolidated financial statements for the year ended August 31, 2015 which were prepared in accordance with IFRS. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars.

Overall Performance and Results of Operations

The Company has no active operations at this time, but is currently evaluating and analyzing various opportunities in the travel and leisure sector in which to invest its capital.

Three Month Period Ended May 31, 2016

During the three month period ended May 31, 2016, the Company incurred a loss and comprehensive loss of \$21,098 as compared to \$34,065 for the three month period ended May 31, 2015. Operating expenses declined by \$12,967 (38%) over the prior year period primarily due to a reduction in office rent.

Nine Month Period Ended May 31, 2016

During the nine month period ended May 31, 2016, the Company incurred a loss and comprehensive loss of \$61,737 as compared to \$110,786 for the nine month period ended May 31, 2015. Operating expenses declined during the current year period by \$49,049 (44%) due to a decline in management fees, consulting fees, transfer and filing fees and office rent. These declines represent the reduced operating activity in the Company and a concerted effort by management to cut costs and conserve financial resources.

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Summary of Quarterly Results

The following table sets out selected unaudited consolidated financial information for the eight most recently completed quarters:

Three Months Ended	May 31, 2016	February 29, 2016	November 30, 2015	August 31, 2015
	(\$)	(\$)	(\$)	(\$)
Total Revenue	Nil	Nil	Nil	Nil
Loss from Operations	(21,098)	(19,269)	(21,370)	(23,920)
Loss and Comprehensive Loss Basic and Diluted	(21,098)	(19,269)	(21,370)	(22,110)
Loss per Share ¹	(0.00)	(0.00)	(0.00)	(0.00)

Three Months Ended	May 31, 2015	February 28, 2015	November 30, 2014	August 31, 2014
	(\$)	(\$)	(\$)	(\$)
Total Revenue	Nil	Nil	Nil	Nil
Loss from Operations	(34,065)	(37,591)	(40,380)	(36,568)
Loss and Comprehensive Loss Basic and Diluted	(34,065)	(37,591)	(40,380)	(36,568)
Loss per Share ¹	(0.01)	(0.02)	(0.02)	(0.01)

¹ CellStop completed a 1:10 share consolidation on March 10, 2015 so all comparable data has been adjusted to reflect this consolidation.

There were no significant variations in the results of the most recent eight quarters except for the quarter ended August 31, 2015. The Company has implemented certain costs cutting efforts during the quarter to reduce its operating costs, including reduced office rent and management fees.

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Selected Annual Information

The following table sets out selected annual financial information for the last three financial years ended August 31, 2015, 2014, and 2013. The financial data has been prepared in accordance with IFRS:

Years Ended	August 31, 2015	August 31, 2014	August 31, 2013
	(\$)	(\$)	(\$)
Total Revenue	Nil	Nil	Nil
Operating Loss	(135,956)	(150,607)	(144,189)
Loss and Comprehensive Loss	(134,146)	(150,428)	(142,854)
Basic and Diluted Loss per Share	(0.04)	(0.06)	(0.06)
Total Assets	3,617	4,041	80,919
Total Non-Current Financial Liabilities	Nil	Nil	Nil
Cash Dividends Declared	Nil	Nil	Nil

Capital Resources and Liquidity

The Company had a cash position of \$777 and a working capital deficiency of \$85,916 as at May 31, 2016, compared to \$95,279 as at August 31, 2015. The improvement in the Company's working capital deficiency was a direct result of issuing long term unsecured debt to fund operations during the period. Since the Company does not generate any revenue from its existing assets it must fund all of its operational expenditures through the issuance of debt and equity.

During the nine month period ended May 31, 2016, the Company issued three year unsecured notes payable for gross proceeds of \$71,100. The notes bear interest at 10% per annum, compounded annually, and are payable quarterly in cash.

During the year ended August 31, 2015, the Company completed a non-brokered private placement of 2,500,000 units at a price of \$0.05 per unit for gross proceeds of \$125,000. A portion of the funds raised were used to repay \$27,000 owing under unsecured notes payable.

Off Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements or transactions.

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Disclosure of Outstanding Share Data

The authorized capital of the Company consists of an unlimited number of common shares without par value.

Shares Issued and Outstanding

On March 10, 2015, the Company consolidated its then issued and outstanding common shares at a ratio of one new common share for every ten old common shares. All comparable data has been adjusted for the aforementioned consolidation. As at the Report Date there were 5,005,793 common shares issued and outstanding.

During the year ended August 31, 2015, the Company completed a non-brokered private placement of 2,500,000 units at a price of \$0.05 per unit for gross proceeds of \$125,000. Each unit was comprised of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase an additional common share at a price of \$0.10 until March 31, 2016. All of these share purchase expired without being exercised.

Warrants

As at the Report Date, the Company had no share purchase warrants outstanding.

Stock Options

As at the Report Date, the Company had no stock options outstanding.

Commitments and Contingencies

On August 1, 2015, the Company entered into a cost sharing arrangement agreement for the provision of office space and various administrative services. Under the terms of the agreement, the Company will pay \$1,500 plus GST per month commencing on September 1, 2015 and continuing until the expiration of the underlying head lease on July 31, 2018.

<u>Fiscal Year</u>	<u>Amount</u>
	(\$)
2016	4,500
2017	18,000
2018	16,500

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Transactions with Related Parties

The following summarizes the Company's related party transactions during the nine month periods ended May 31, 2016 and 2015:

	2016	2015
	(\$)	(\$)
Professional fees paid or accrued to a corporation controlled by Gerald Tuskey, a director of the Company.	515	1,498
Office sharing and occupancy costs paid or accrued to a corporation which David Hughes, Chief Financial Officer ("CFO") of the Company, is a director.	13,500	-
	14,015	1,498

Key Management Compensation

	2016	2015
	(\$)	(\$)
Management fees paid or accrued to a corporation controlled by David Hughes, CFO of the Company.	4,000	-
Consulting fees paid or accrued to a corporation controlled by Henry Bromley, former CFO of the Company.	-	18,000
Total	4,000	18,000

- i) As at May 31, 2016, a total of \$4,150 (August 31, 2015 - \$Nil) was included in accounts payable and accrued liabilities owing to a corporation controlled by David Hughes, CFO of the Company, for management fees.
- ii) As at May 31, 2016, a total of \$12,600 (August 31, 2015 - \$12,600) was included in accounts payable and accrued liabilities owing to a corporation controlled by Henry Bromley, former CFO of the Company, for consulting fees.
- iii) As at May 31, 2016, a total of \$35,100 (August 31, 2015 - \$57,750) was included in accounts payable and accrued liabilities owing to a corporation which David Hughes, CFO of the Company, is a director for office sharing and occupancy costs.

Proposed Transactions

Currently there are no proposed transactions, however, the Company continues to seek new business opportunities and to raise capital as required.

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New Accounting Policies Adopted

New standards, amendments and interpretations to existing standards

The following standard was adopted during the period:

IFRS 7, Financial Instruments – Disclosure

Amended to require additional disclosures on transition from IAS 39 to IFRS 9.

The adoption of this revised standard did not have a material effect on these condensed interim consolidated financial statements.

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 pronouncements are being assessed to determine their impact on the Company's results and financial position.

New standards, amendments and interpretations to existing standards not yet effective

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2016 but are not yet effective:

IFRS 11, Joint arrangements

This standard was amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.

IAS 16, Property, plant and equipment and IAS 38, Intangible assets

These standards were amended to prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets.

IAS 27, Separate financial statements

IAS 27 was amended to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

IAS 12, Income Taxes

Amendments to IAS 12 to clarify the recognition of a deferred tax asset for unrealized losses.

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New Accounting Policies Adopted (continued)

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2018 but are not yet effective:

IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial statements that will replace IAS 39, *Financial Instruments - Recognition and Measurement*.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

The Company has not yet assessed the potential impact of the application of these standards, nor determined whether it will adopt the standards early.

Financial Risk Management

Financial risk management

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, accounts payable and accrued liabilities and notes payable.

The fair value of cash is measured on the statement of financial position using level 1 of the fair value hierarchy. The fair values of accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

The carrying amounts of the notes payable approximate fair value as the interest rates were negotiated between the Company and an arm's length third party.

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Financial Risk Management (continued)

Financial instrument risk exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company manages this credit risk by ensuring that cash is placed with a major financial institution with strong investment grade ratings by a primary ratings agency. The Company's receivables consist primarily of amounts due from a government agency. Management believes that the credit risk with respect to receivables is remote.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company endeavors to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts which are available on demand. However, the Company does not have sufficient cash to meet its current obligations, and it is exposed to liquidity risk.

Interest rate risk

The Company is nominally exposed to interest rate risk. The Company's bank account earns interest income at variable rates. The Company does not have any variable interest rate liabilities.

Foreign exchange risk

The Company is not exposed to significant foreign currency risk.

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Risks and Uncertainties

a) 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.

b) 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.

c) 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.

d) 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.

e) Price Volatility of a Public Stock

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 exploration or 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.

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Management of Capital

The Company considers items included in shareholders' equity as capital. 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.

There have been no changes to the Company's approach to capital management during the nine month period ended May 31, 2016.

Management's Responsibility for Financial Statements

The Company's management is responsible for the presentation and preparation of these financial statements and the MD&A. The consolidated financial statements have been prepared in accordance with IFRS. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators.

Forward-Looking Statements

Except for statements of historical fact, this MD&A contains certain "forward-looking information" within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. In particular, forward-looking information in this MD&A includes, but is not limited to, statements with respect to future events and is subject to certain risks, uncertainties and assumptions. Although we believe that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. We cannot guarantee future results, performance or achievements. Consequently, there is no representation that the actual results achieved will be the same, in whole or in part, as those set out in the forward-looking information.

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Forward-Looking Statements (continued)

Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking information. Some of the risks and other factors could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in commodity prices; governmental regulation of the mining industry, including environmental regulation; geological, technical and drilling problems; unanticipated operating events; competition for and/or inability to retain drilling rigs and other services; the availability of capital on acceptable terms; the need to obtain required approvals from regulatory authorities; stock market volatility; volatility in market prices for commodities; liabilities inherent in mining operations; changes in tax laws and incentive programs relating to the mining industry; and the other factors described herein under "Risks and Uncertainties" as well as in our public filings available at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. We undertake no duty to update any of the forward-looking information to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.

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Corporate Information

Directors: Michael Curtis
Michelle Gahagan
Virginia Olnick
Gerald R. Tuskey

Officers: Michelle Gahagan, President and CEO
David Hughes, CFO
Leah Martin, Corporate Secretary

Auditor: Davidson and Company LLP
Chartered Professional Accountants
Suite 1200 – 609 Granville Street
Vancouver, BC, V7Y 1G6

Legal Counsel: Macdonald Tuskey
Suite 409 – 221 West Esplanade
North Vancouver, BC V7M 3J3

Transfer Agent: Computershare Trust Company of Canada
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