



Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years Ended

August 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
CellStop Systems Inc.

We have audited the accompanying consolidated financial statements of CellStop Systems Inc., which comprise the consolidated statements of financial position as at August 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of CellStop Systems Inc. as at August 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about CellStop Systems Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

December 13, 2016

CellStop Systems Inc.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	August 31, 2016	August 31, 2015
	(\$)	(\$)
ASSETS		
Current assets		
Cash	399	2,204
GST receivable	565	996
Prepaid expenses	417	417
	1,381	3,617
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	95,899	98,896
	95,899	98,896
Notes payable (Note 6)	80,100	-
	175,999	98,896
Shareholders' deficiency		
Share capital (Note 7)	7,917,277	7,917,277
Deficit	(8,091,895)	(8,012,556)
	(174,618)	(95,279)
	1,381	3,617

Nature of operations and going concern (Note 1)

Commitments (Note 8)

These consolidated financial statements were authorized for issue by the Board of Directors on December 13, 2016. They are signed on behalf of the Board of Directors by:

"Michelle Gahagan"

Director

"Michael Curtis"

Director

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

CellStop Systems Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year Ended August 31, 2016	Year Ended August 31, 2015
	(\$)	(\$)
EXPENSES		
Consulting fees (Note 9)	5,000	22,000
Interest expense (Note 6)	5,480	1,323
Investor relations	163	-
Management fees	15,022	16,250
Office and miscellaneous	122	2,533
Professional fees (Note 9)	18,450	5,608
Rent (Note 9)	18,000	66,000
Transfer agent and filing fees	17,102	22,242
Loss from operations	(79,339)	(135,956)
Gain on forgiveness of accrued interest (Note 6)	-	1,810
Loss and comprehensive loss	(79,339)	(134,146)
Basic and diluted loss per common share	(0.02)	(0.04)
Weighted average common shares outstanding	5,005,793	3,560,588

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

CellStop Systems Inc.

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian Dollars)

	Number of Shares	Amount (\$)	Deficit (\$)	Total Shareholders' Deficiency (\$)
Balance at August 31, 2014	2,505,793	7,792,497	(7,878,410)	(85,913)
Common shares issued for cash	2,500,000	125,000	-	125,000
Share issuance costs	-	(220)	-	(220)
Loss and comprehensive loss	-	-	(134,146)	(134,146)
Balance at August 31, 2015	5,005,793	7,917,277	(8,012,556)	(95,279)
Loss and comprehensive loss	-	-	(79,339)	(79,339)
Balance at August 31, 2016	5,005,793	7,917,277	(8,091,895)	(174,618)

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

CellStop Systems Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year Ended August 31, 2016	Year Ended August 31, 2015
	(\$)	(\$)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the year	(79,339)	(134,146)
Items not affecting cash:		
Accrued interest	5,480	-
Changes in non-cash working capital items:		
Decrease in GST receivable	431	726
Decrease in prepaid expenses	-	964
Increase (decrease) in accounts payable and accrued liabilities	(8,477)	28,942
Cash used in operating activities	(81,905)	(103,514)
FINANCING ACTIVITIES		
Proceeds from private placement	-	125,000
Share issuance costs	-	(220)
Repayment of notes payable	-	(27,000)
Proceeds from notes payable	80,100	7,000
Cash provided by financing activities	80,100	104,780
Change in cash during the year	(1,805)	1,266
Cash, beginning of the year	2,204	938
Cash, end of the year	399	2,204

During the years ended August 31, 2016 and 2015 the Company had no significant non-cash investing and financing transactions.

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

CELLSTOP SYSTEMS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

YEAR ENDED AUGUST 31, 2016

1. NATURE OF OPERATIONS AND GOING CONCERN

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 head office and registered office is Suite 302, 1620 West 8th Avenue, Vancouver, British Columbia, V6J 1V4, Canada.

The Company is publicly traded and is currently listed on the NEX Board ("NEX") of the TSX Venture Exchange ("Exchange") due to the Company's lack of operations. The NEX 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.

These consolidated 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 loss of \$79,339 for the year ended August 31, 2016, and, as of that date, had accumulated losses of \$8,091,895 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.

These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. 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.

2. BASIS OF PRESENTATION

These consolidated financial statements, including comparatives, are prepared using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

CELLSTOP SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED AUGUST 31, 2016

2. BASIS OF PRESENTATION (continued)

These consolidated financial statements were approved by the Audit Committee and Board of Directors of the Company on December 13, 2016.

a) Basis of Measurement

These consolidated 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.

b) 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 that affect the application of accounting policies and reported amounts of assets and liabilities, revenue and expenses and are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and management's assessment of current events 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.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned inactive subsidiary, US incorporated Palm Coast Solutions Inc. (collectively the "Company"). All significant intercompany transactions and balances have been eliminated.

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 re-measurement of monetary items at year-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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial Instruments (continued)

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 falls into this category of financial instruments.
- **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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial Instruments (continued)

i) Financial Assets (continued)

- **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 profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's accounts payable, accrued liabilities and notes payable fall into this category of financial instruments.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Share Capital

The Company records proceeds from share issuances, net of commissions and issuance costs, as share capital.

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. The equity financings may involve the issuance of common shares or units. Warrants that are a part of units are assigned a value based on the residual value, if any, and included in reserves.

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 compensatory awards under the fair value 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. For the years presented, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

j) Deferred Income Tax

Deferred income taxes are calculated based 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.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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 interesting in a joint operation that is a business.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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 and IFRS 1, First-time adoption of IFRS

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.

IFRS 1 was amended to permit the use of the business combinations exemption for investments in subsidiaries accounted for using the equity method in the separate financial statements of the first-time adopter.

The following standards, amendments to standards and interpretations have been issued for annual periods beginning on or after January 1, 2017 but are not yet effective:

IAS 12, Income Taxes

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

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 following standard has been issued for annual periods beginning on or after January 1, 2019 but is not yet effective:

IFRS 16, Leases

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

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

CELLSTOP SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED AUGUST 31, 2016

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
	(\$)	(\$)
Trade payables	26,109	78,296
Related party payables (Note 9)	56,050	12,600
Accrued interest (Note 6)	5,480	-
Accrued liabilities	8,260	8,000
Total	95,899	98,896

6. NOTES PAYABLE

During the year ended August 31, 2016, the Company issued a total of \$80,100 (2015 - \$7,000) in unsecured notes payable which bear interest at 10% per annum, compounded annually, and are payable quarterly in cash. As at August 31, 2016, the outstanding notes payables are as follows:

Issue Date	Maturity Date	Interest Rate	Amount
		(%)	(\$)
October 15, 2015	October 15, 2018	10	26,800
November 23, 2015	November 23, 2018	10	13,700
December 15, 2015	December 15, 2018	10	21,500
January 28, 2016	January 28, 2019	10	5,000
April 15, 2016	April 15, 2019	10	800
April 29, 2016	April 29, 2019	10	3,300
July 13, 2016	July 13, 2019	10	7,000
August 30, 2016	August 30, 2019	10	2,000

During the year ended August 31, 2016, the Company recorded \$5,480 (2015 - \$1,323) as interest expense. As at August 31, 2016, there was a total of \$80,100 (2015 - \$Nil) in notes payable outstanding and a total of \$5,480 (2015 - \$Nil) in accrued interest outstanding.

During the year ended August 31, 2015, the Company repaid \$27,000 in unsecured loans and recorded gain on the forgiveness of \$1,810 of accrued interest.

CELLSTOP SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED AUGUST 31, 2016

7. SHARE CAPITAL

a) Authorized share capital

An unlimited number of common shares without par value.

b) Issued share capital

Year ended August 31, 2016

There was no share capital activity.

Year ended August 31, 2015

On March 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 entitles the holder to purchase one common share at a price of \$0.10 per share until March 31, 2016. No finder's fees or commissions were paid in connection with this equity placement.

c) Stock options

The Company has an option plan (the "Plan") in compliance with the Exchange's policies. The number of Common Shares reserved and authorized for issuance pursuant to options granted under the Plan while listed on the NEX is limited to 500,579, representing 10% of the total number of issued and outstanding common shares in the Company. The exercise price of each stock option shall not be less than the market price of the Company's stock at the date of grant. Vesting terms are at the discretion of the directors.

During the years ended August 31, 2016 and 2015, there was no stock option activity.

As at August 31, 2016, there were no stock options outstanding.

d) Share purchase warrants

A continuity schedule of outstanding share purchase warrants is as follows:

	Number Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Time to Expiry (years)
Balance – August 31, 2014	-	-	-
Issued	2,500,000	0.10	1.00
Balance – August 31, 2015	2,500,000	0.10	0.58
Expired	(2,500,000)	0.10	-
Balance – August 31, 2016	-	-	-

As at August 31, 2016, there were no share purchase warrants outstanding.

CELLSTOP SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED AUGUST 31, 2016

8. COMMITMENTS

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.

Fiscal Year	Amount (\$)
2017	18,000
2018	16,500

9. RELATED PARTY TRANSACTIONS

The Company's key management personnel consist of directors, officers and companies owned or controlled in whole or in part by officers and directors. The following summarizes the Company's related party transactions during the years ended August 31, 2016 and 2015:

Key Management Compensation

	2016 (\$)	2015 (\$)
Consulting fees paid or accrued to a corporation controlled by the Chief Financial Officer ("CFO") of the Company.	5,000	-
Consulting fees paid or accrued to a corporation controlled by the former CFO of the Company.	-	22,000
Professional fees paid or accrued to a corporation controlled by a director of the Company.	515	1,498
Total	5,515	23,498

Other Related Party Transactions

	2016 (\$)	2015 (\$)
Office sharing and occupancy costs paid or accrued to a corporation that shares management in common with the Company (Note 8).	18,000	-
Total	18,000	-

- i) As at August 31, 2016, a total of \$5,200 (2015 - \$Nil) was included in accounts payable and accrued liabilities owing to a corporation controlled by the CFO of the Company for consulting fees.
- ii) As at August 31, 2016, a total of \$12,600 (2015 - \$12,600) was included in accounts payable and accrued liabilities owing to a corporation controlled by the former CFO of the Company for consulting fees.
- iii) As at August 31, 2016, a total of \$38,250 (2015 - \$Nil) was included in accounts payable and accrued liabilities owing to a corporation that shares management in common with the Company for office sharing and occupancy costs.

10. FINANCIAL INSTRUMENTS AND 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.

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 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. The Company 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 effect of a 1% change in interest rates is nominal.

The Company does not have any variable interest rate liabilities.

CELLSTOP SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED AUGUST 31, 2016

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign exchange risk

The Company is not exposed to significant foreign currency risk.

11. Management of Capital

The Company considers items included in shareholders' deficiency 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. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets. 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 year ended August 31, 2016.

12. SEGMENTED INFORMATION

The Company is currently evaluating its future business opportunities. All of the Company's assets are located in Canada.

13. INCOME TAXES

a) Deferred Income Taxes

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

	2016	2015
	(\$)	(\$)
Non-capital losses carry-forward	922,000	993,000
Capital losses carry-forward	527,000	527,000
Canadian eligible capital	14,000	14,000
	1,463,000	1,534,000
Unrecognized deferred tax asset	(1,463,000)	(1,534,000)
Net deferred tax asset	-	-

CELLSTOP SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED AUGUST 31, 2016

13. INCOME TAXES (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	2016	Expiry Date Range
	(\$)	
Canadian eligible capital	53,000	No expiry date
Allowable capital losses	2,028,000	No expiry date
Non-capital losses available for future periods	3,546,000	2017 to 2036
Canada	3,546,000	2017 to 2036

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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:

	2016	2015
	(\$)	(\$)
Expected income tax recovery	(21,000)	(35,000)
Change in statutory, foreign tax, foreign exchange rates and other	-	(3,000)
Expiry of non-capital losses	92,000	141,000
Change in unrecognized deductible temporary differences	(71,000)	(103,000)
Income tax expense	-	-