



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Expressed in Canadian Dollars)

**Year Ended  
August 31, 2019**

**Report Date -December 19, 2019**

**CELLSTOP SYSTEMS INC.**  
**Management's Discussion and Analysis**  
**Year Ended August 31, 2019**

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**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 ("NEX") 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 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 8<sup>th</sup> 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 year ended August 31, 2019. The following discussion and analysis should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended August 31, 2019 and 2018 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 and is currently evaluating and analyzing opportunities in various business sectors.

Year Ended August 31, 2019

During the year ended August 31, 2019, the Company incurred a loss of \$136,159 and a comprehensive loss of \$133,951 as compared to a loss and comprehensive loss of \$251,107 for the year ended August 31, 2018, representing a decrease in loss of \$117,156. The decrease in loss is primarily due to the following:

- Proposed transaction expenses decreased from \$126,252 during the year ended August 31, 2018 to \$Nil during the year ended August 31, 2019. During the previous fiscal year, the Company incurred significantly more legal costs pursuant to a proposed corporate transaction which has since been put on hold.

Three Month Period Ended August 31, 2019

During the three-month period ended August 31, 2019, the Company incurred a loss and comprehensive loss of \$30,314 as compared to \$43,018 for the three-month period ended August 31, 2018, representing a decrease in loss of \$12,704. The decrease in loss is primarily due to the Company remaining inactive during the current year, as opposed to the prior year when legal fees were being incurred pursuant to a proposed corporate transaction which has been postponed until further notice.

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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:

<b>Three Months Ended</b>	<b>August 31, 2019</b>	<b>May 31, 2019</b>	<b>February 28, 2019</b>	<b>November 30, 2018</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Total Revenue	Nil	Nil	Nil	Nil
Loss from Operations	(32,522)	(32,099)	(39,206)	(32,332)
Loss and Comprehensive Loss	(30,314)	(32,099)	(39,206)	(32,332)
Basic and Diluted Loss per Share <sup>1</sup>	(0.00)	(0.00)	(0.01)	(0.00)

<b>Three Months Ended</b>	<b>August 31, 2018</b>	<b>May 31, 2018</b>	<b>February 28, 2018</b>	<b>November 30, 2017</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Total Revenue	Nil	Nil	Nil	Nil
Loss from Operations	(46,763)	(132,782)	(47,613)	(23,949)
Loss and Comprehensive Loss	(43,018)	(180,395)	(47,613)	(23,949)
Basic and Diluted Loss per Share <sup>1</sup>	(0.04)	(0.04)	(0.00)	(0.00)

**Selected Annual Information**

The following table sets out selected annual financial information for the last three financial years ended August 31, 2019, 2018, and 2017. The financial data has been prepared in accordance with IFRS:

<b>Years Ended</b>	<b>August 31, 2019</b>	<b>August 31, 2018</b>	<b>August 31, 2017</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Total Revenue	Nil	Nil	Nil
Operating Loss	(136,159)	(251,107)	(79,359)
Loss and Comprehensive Loss	(133,951)	(251,107)	(79,359)
Basic and Diluted Loss per Share	(0.03)	(0.05)	(0.02)
Total Assets	19,886	15,229	4,072
Total Non-Current Liabilities	116,025	74,825	131,200
Cash Dividends Declared	Nil	Nil	Nil

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**Capital Resources and Liquidity**

The Company had a cash position of \$1,144 and a working capital deficiency of \$523,010 as at August 31, 2019, compared to \$2,562 and \$430,259 as at August 31, 2018, respectively. The Company's working capital deficiency continues to increase since the Company does not generate any revenue from its existing assets. As a result, it must fund all of its operational expenditures through the issuance of debt and equity.

During the year ended August 31, 2019 the Company issued unsecured notes payable for gross proceeds of \$32,100 (August 31, 2018 - \$23,725) and repaid a total of \$20,000 (August 31, 2018 - Nil). The notes bear interest at 10% per annum, compounded annually.

During the year ended August 31, 2019, the Company entered into various extension agreements with the creditors to extend the maturity of its existing \$80,100 notes payable for two years from fiscal 2019 to fiscal 2021.

During the year ended August 31, 2019, the Company received an unsecured loan of \$80,000 from a creditor to be used to pay expenses which were incurred pursuant to a proposed corporate transaction between the creditor and the Company. The loan bears interest at 10% per annum and matures on or before December 31, 2019, unless the creditor determines not to proceed with the proposed corporate transaction with the Company, in which case the loan and any accrued interest will be forgiven by the creditor.

**Off Balance Sheet Arrangements**

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

**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

As at the Report Date, the Company had 5,005,793 common shares outstanding.

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.

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**Commitments**

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 \$7,000 plus GST per month effective December 1, 2017, increasing to \$7,700 per month on February 1, 2019 until the expiration of the underlying head lease on July 31, 2021.

<u>Fiscal Year</u>	<u>Amount</u> <u>(\$)</u>
2020	92,400
<u>2021</u>	<u>84,700</u>

**Transactions with Related Parties**

The following summarizes the Company's related party transactions during the year ended August 31, 2019 and 2018:

Key Management Compensation

	<u>2019</u> <u>(\$)</u>	<u>2018</u> <u>(\$)</u>
Consulting fees paid or accrued to a corporation controlled by the Chief Financial Officer ("CFO") of the Company.	-	4,000
<b>Total</b>	<b>-</b>	<b>4,000</b>

Other Related Party Transactions

	<u>2019</u> <u>(\$)</u>	<u>2018</u> <u>(\$)</u>
Office sharing and occupancy costs paid or accrued to a corporation that shares management in common with the Company.	89,600	78,000
	<b>89,600</b>	<b>78,000</b>

- i) As at August 31, 2019, a total of \$13,400 (August 31, 2018 - \$13,400), was included in accounts payable and accrued liabilities owing to a corporation controlled by the CFO of the Company for management fees.
- ii) As at August 31, 2019, a total of \$229,980 (August 31, 2018 - \$148,150) 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.

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**Accounting Standards Adopted and Issued**

Adoption of New or Amended Accounting Standards

*IFRS 9, Financial Instruments: Classification and Measurement* - The Company adopted all of the requirements of IFRS 9 for the annual period beginning on September 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Financial assets:		
Cash:	FVTPL	FVTPL
Financial liabilities:		
Accounts payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost

*IFRS 15, Revenue from Contracts with Customers* - IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It has replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has adopted the amendments to IFRS 15 in its financial statements for the annual period beginning on September 1, 2018 with no resulting adjustments.

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

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.

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The Company expects an increase in total assets and total liabilities as a result of the adoption of IFRS 16. The Company is continuing to assess the overall impact of the new standard, including the required changes to the disclosures in its consolidated financial statements.

**Proposed Transactions**

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

**Financial Instruments and Risk Management**

*Fair Values and Classification*

The Company's financial instruments consist of cash, accounts payable and notes payable. Financial instruments are classified into one of the following categories: FVTPL, FVTOCI, or amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

<b>Financial Instrument</b>	<b>Category</b>	<b>August 31, 2019</b>	<b>August 31, 2018</b>
		<b>(\$)</b>	<b>(\$)</b>
Cash	FVTPL	1,144	2,562
Accounts payable	Amortized cost	355,405	324,009
Notes payable	Amortized cost	247,025	154,925

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 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 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 Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

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*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.

*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 Company does not have any variable interest rate liabilities.

*Foreign exchange risk*

The Company is not exposed to significant foreign currency risk.

**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, 2019.



## **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.

## **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 condensed interim 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.

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**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.

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](http://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.

**Corporate Information**

Directors: Michael Curtis  
Michelle Gahagan  
Brian Tingle

Officers: Michelle Gahagan, President and CEO  
David Hughes, CFO  
Kelsey Chin, Corporate Secretary

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Auditor: Manning Elliott LLP  
Chartered Professional Accountants  
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Legal Counsel: Tingle Merrett LLP  
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Transfer Agent: Computershare Trust Company of Canada  
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