

CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
FIRST QUARTER REPORT
MARCH 31, 2006

Unaudited

CANNASAT THERAPEUTICS INC.
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March 31, 2006

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CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
Interim Balance Sheets

	March 31, 2006 <u>(unaudited)</u>	December 31, 2005 <u>(audited)</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,971,735	\$ 632,219
Sundry receivables	<u>210,046</u>	<u>178,631</u>
	2,181,781	810,850
CAPITAL ASSETS (Note 3)	11,339	2,615
LONG-TERM INVESTMENT (Note 4)	1,518,316	1,539,689
DEFERRED COSTS (Note 5)	-	207,308
DEFERRED COMPENSATION EXPENSE	280,000	304,000
OTHER INTANGIBLE ASSETS (Note 7)	200,000	200,000
	<u>\$ 4,191,436</u>	<u>\$ 3,064,462</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 395,877	\$ 399,838
Current portion of notes payable (Note 8)	<u>120,900</u>	<u>100,000</u>
	516,777	499,838
NOTES PAYABLE (Note 8)	-	20,900
	<u>516,777</u>	<u>520,738</u>
COMMITMENTS (Notes 4, 6 and 11)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	6,452,823	4,954,753
CONTRIBUTED SURPLUS (Note 6(e))	349,361	248,206
DEFICIT	<u>(3,127,525)</u>	<u>(2,659,235)</u>
	3,674,659	2,543,724
	<u>\$ 4,191,436</u>	<u>\$ 3,064,462</u>

APPROVED ON BEHALF OF THE BOARD:

(Signed) "A.D.C. Ryley", Director

(Signed) "Rochelle Stenzler", Director

Unaudited; See accompanying notes to the financial statements.

CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
Interim Statements of Operations and Deficit

	Three Months Ending March 31,	
	2006	2005
REVENUE		
Interest income	\$ 11,577	\$ 11,727
EXPENSES		
General and administrative	210,977	230,597
Research and development	168,453	68,198
Amortization of capital assets	277	-
Stock option compensation expense (Note 6)	78,789	85,231
	458,496	384,026
LOSS BEFORE EQUITY LOSS	(446,919)	(372,299)
LOSS FROM EQUITY ACCOUNTED INVESTMENT	(21,373)	(15,078)
NET LOSS FOR THE PERIOD	(468,292)	(387,377)
DEFICIT, BEGINNING OF PERIOD	(2,659,235)	(755,483)
DEFICIT, END OF THE PERIOD	\$ (3,127,527)	\$ (1,142,860)
LOSS PER SHARE - basic and diluted	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	54,728,240	41,191,390

Unaudited; See accompanying notes to the financial statements.

CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
Interim Statement of Cash Flows

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	Three Months Ending March 31,	
	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss for the year	\$ (468,292)	\$ (387,377)
Items not affecting cash		
Loss from equity accounted investment	21,373	15,078
Shares issued for services	-	-
Amortization of capital assets	277	-
Stock option compensation expense	78,789	85,231
	(367,853)	(287,068)
Changes in non-cash operating working capital items		
Sundry receivable	(31,415)	(17,033)
Accounts payable and accrued liabilities	(3,960)	113,627
	(403,228)	(190,474)
INVESTING		
Acquisition of capital assets	(9,000)	-
Long-term investment	-	-
	(9,000)	-
FINANCING		
Deferred costs	207,308	-
Notes payable	-	-
Common shares issued	1,544,437	-
Class A common shares issued	-	188,850
Class A common share purchase warrants issued	-	-
	1,751,745	188,850
NET INCREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD	1,339,517	(1,624)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	632,218	991,283
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 1,971,735	989,659

SUPPLEMENTARY CASH FLOW INFORMATION (Note 12)

Unaudited; See accompanying notes to the financial statements.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

March 31, 2006

1. DESCRIPTION OF BUSINESS

Cannasat Therapeutics Inc. (the “Company”) is a research and development company committed to the development of novel cannabinoid-based prescription medicines for patients with unmet medical needs. Cannasat Pharmaceuticals Inc. was incorporated under the Canada Business Corporations Act on January 16, 2004 and changed its name from Cannasat Pharmaceuticals Inc. to Cannasat Therapeutics Inc. on January 25, 2005. Cannasat Therapeutics Inc. (“Cannasat”) and Lonsdale Public Ventures Inc. (“Lonsdale”) were amalgamated on March 15, 2006 under the Business Corporations Act (Canada) and continued as one company with the name “Cannasat Therapeutics Inc.”.

2. BASIS OF ACCOUNTING

These interim financial statements are unaudited and have not been reviewed by the Company’s auditors. The management of the Company has prepared these financial statements in accordance with Canadian Generally Accepted Accounting Principles. These statements should be read in conjunction with the audited financial statements of Cannasat for the year ended December 31, 2005. The disclosure in these interim financial statements does not conform in all respects to Generally Accepted Accounting Principles in Canada for annual financial reporting.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the first quarter may not be indicative of the results that may be expected for the full year ending December 31, 2006.

3. CAPITAL ASSETS

	March 31, 2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 5,746	\$ 1,993	\$ 3,753
Furniture and Fixtures	7,650	64	7,586
Total	13,396	2,057	11,339

	December 31, 2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 4,396	\$ 1,781	\$ 2,615

Capital assets are recorded at cost and are amortized on the diminishing balance method based on their estimated useful life as follows:

Computer equipment	-	30% per annum
Furniture and Fixtures	-	20% per annum

(Formerly Cannasat Pharmaceuticals Inc.)**Notes to the Unaudited Interim Financial Statements****March 31, 2006**

4. LONG-TERM INVESTMENT

	March 31, <u>2006</u>	December 31, <u>2005</u>
268,585 Class A common shares representing 16.06% of voting shares, and 140,000 Class A common share purchase warrants exercisable at \$2.00 per share of Prairie Plant Systems Inc., recorded on an equity basis	\$ 1,038,316	\$ 1,059,689
Loan receivable, 7%, convertible to Class A common shares of Prairie Plant Systems Inc.	<u>480,000</u>	<u>480,000</u>
	<u>\$ 1,518,316</u>	<u>\$ 1,539,689</u>

In August 2004, Cannasat acquired 268,585 Class A common shares and 140,000 Class A common share purchase warrants of Prairie Plant Systems Inc. at a purchase price of \$1,120,001. The warrants are for additional Class A common shares and are exercisable at \$2.00 per share expiring May 14, 2006. In April 2006 the Company notified Prairie Plant Systems Inc. that it did not intend to exercise these options.

The loan receivable due from Prairie Plant Systems Inc. is secured by a general security agreement. The loan has no fixed principal repayment terms and may be converted into Class A common shares at \$4.17 per share up to July 31, 2007. Interest is payable monthly on the principal balance at an annual rate of 7%.

On August 17, 2004, Cannasat entered into a strategic alliance agreement with Prairie Plant Systems Inc. In order to maintain this strategic alliance agreement, Cannasat has made an on-going commitment to, commencing in the fiscal year of Prairie Plant Systems Inc. ending October 31, 2005, spend or contribute at least \$250,000 per fiscal year on one or more of the following cannabis or cannabinoid related activities: product development, clinical trials, pursuit of other strategic relationships, public relations, regulatory affairs, communications, marketing, and/or other such activities as the parties may reasonably agree upon. The initial term of the strategic alliance expires on October 31, 2016.

The difference between the cost of the investment and the underlying net book value of the assets acquired was approximately \$952,000 and has been allocated to property in the amount of \$36,000, contracts in the amount of \$566,000 and goodwill of \$350,000. The underlying depreciable contracts will be amortized at an annual rate of approximately \$81,000.

5. DEFERRED COSTS

At December 31, 2005, Cannasat had deferred costs totaling \$207,308 which consisted primarily of professional fees related to the amalgamation and private placement disclosed in Note 13. These deferred charges were allocated to the deficit upon completion of the amalgamation and financing transaction on March 15, 2006.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

March 31, 2006

6. SHARE CAPITAL

a) *Authorized*
 Unlimited numbers of
 Common shares with no par value

b) *Issued*
 A summary of the foregoing common shares, Class A common shares and Class A common share purchase warrants issued is as follows:

	Number of Shares #	Net Proceeds \$
March 31, 2006		
Common	61,758,777	6,227,562
Common share purchase warrants	1,500,000	225,261
		<u>6,452,823</u>
December 31, 2005		
Common	12,000,000	60,000
Class A common	9,449,238	4,669,492
Class A common share purchase warrants	1,500,000	225,261
		<u>4,954,753</u>

Amalgamation

On March 15, 2006, Cannasat amalgamated with Lonsdale pursuant to an Amalgamation Agreement under the Canada Business Corporations Act and to continue as one corporation with the name “Cannasat Therapeutics Inc.”.

Lonsdale was a capital pool company traded on the TSX Venture Exchange (the “Exchange”) whose principal business was to identify and evaluate assets or businesses with a view to completing a Qualifying Transaction. The amalgamation between Cannasat and Lonsdale constituted the Qualifying Transaction for Lonsdale pursuant to the policies of the Exchange.

In accordance with the Amalgamation Agreement, holders of Lonsdale Common Shares were issued 6,532,662 Common Shares of the Company. In addition, the holders of Lonsdale’s options (1,155,000) are entitled to acquire 967,336 Common Shares of the Company.

In accordance with the Amalgamation Agreement, the security holders of Cannasat received an aggregate of 55,226,115 Common Shares of the Company, and replacement warrants (2,090,000) to acquire 9,405,000 Common Shares of the Company and replacement options (1,525,000) to acquire 4,575,000 Common Shares of the Company.

Immediately following the amalgamation, 35,058,879 Common Shares of the Company were subject to escrow and are to be released over a period of 72 months on the basis of 5% six months after the final Exchange bulletin (March 23, 2006), 5% every six months thereafter for the next 18 months and 10% every six months thereafter for the next 48 months. A further 705,000 Common Shares of the Company were subject to escrow and are to be released over a period of 36 months on the basis of 10% on the date of the final Exchange bulletin and 15% every six months thereafter.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

March 31, 2006

6. SHARE CAPITAL (continued)

b) Issued (continued)

Share issuance costs related to the Common Shares and share purchase warrants has been charged to equity on a pro-rata basis. There have been no dividends paid or declared to date.

The following common shares Class A common shares and Class A common share purchase warrants were issued for the proceeds noted.

Date	Number of shares #	Amalgamation - replacement common shares #	Proceeds \$	Share Issuance Costs \$	Net Proceeds \$
<u>Common shares</u>					
February 28, 2004	12,000,000	23,049,390	60,000	-	60,000
<u>Class A common shares</u>					
August 18, 2004	3,000,000	9,000,000	2,760,000	169,496	2,590,504
September 30, 2004	2,610,000	7,830,000	526,535	-	526,535
October 7, 2004 to December 3, 2004	280,000	840,000	280,000	17,195	262,805
February 14, 2005	240,000	720,000	240,000	18,500	221,500
April 14, 2005	480,000	1,440,000	480,000	32,650	447,350
August 31, 2005	2,103,750	6,311,250	21,038	5,000	16,038
September 9, 2005	117,648	352,945	100,000	-	100,000
September 9, 2005	164,663	493,990	139,964	-	139,964
September 9, 2005	453,177	1,359,532	385,201	20,405	364,796
	9,449,238	28,347,717	4,932,738	263,246	4,669,492
February 8, 2006	1,276,336	3,829,008	1,148,703	56,000	1,092,703
	10,725,574	32,176,725	6,081,441	319,246	5,762,195
Total Shares (Cannasat)	22,725,574	55,226,115	6,141,441	319,246	5,822,195
March 15, 2006 (Lonsdale)	7,800,000	6,532,662	779,151	-	779,151
<u>Amalgamation costs</u>				373,784	(373,784)
Total Shares (Cannasat and Lonsdale)	30,525,574	61,758,777	6,920,592	693,030	6,227,562
<u>Class A common share purchase warrants</u>					
August 18, 2004	1,500,000	1,500,000	240,000	14,739	225,261
			7,160,592	707,769	6,452,823

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

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6. SHARE CAPITAL (continued)

c) *Class A common shares and share purchase warrants*

The fair value of the Cannasat A warrants has been estimated to be \$240,000, which value has been segregated from the proceeds of the initial issuance of the Class A common shares.

d) *Employee and non-employee stock options and warrants*

During the first quarter, 361,084 compensation options were issued to the Agents that were engaged in the private placement forming a part of the Qualifying Transaction. Each option entitles the holder to purchase one common share of the Company at a price of \$0.30 per common share. These options expire on March 15, 2007.

A summary of the status of the options and warrants as of December 31, 2005 and changes during the period is as follows:

	Weighted Exercise Price	# Shares issuable on exercise of options
Options outstanding at December 31, 2005	0.269	4,575,000
Lonsdale Options	0.239	967,336
Granted during the period	0.300	361,086
Cancelled or expired	-	-
Outstanding and exercisable as at March 31, 2006	0.266	5,903,422

Fair value of the options granted during the period has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 75%, risk-free interest rate 4% and expected life of 2 years.

In consideration of the provision of the services of certain consultants, Cannasat granted the consultants warrants entitling the consultants to acquire up to an aggregate of 577,500 Class A common shares at \$1.00 per share ("Cannasat B warrants") and 12,500 Class A common shares at \$1.25 per share ("Cannasat C warrants").

Fair value of the options and warrants granted to non-employees has been estimated on the date of issue using management's estimate of the value of the consulting services provided. Compensation related to consulting services in the amount of \$111,375 was expensed during the year ended December 31, 2005 (2004 - \$41,625).

Details of the Cannasat B and Cannasat C warrants are as follows:

Number of Warrants	Expiry Date	Exercise Price
12,500	August 18, 2009	\$1.25
55,000	August 18, 2009	\$1.00
22,500	September 1, 2009	\$1.00
<u>500,000</u>	September 27, 2007	\$1.00
<u><u>590,000</u></u>		

(Formerly Cannasat Pharmaceuticals Inc.)**Notes to the Unaudited Interim Financial Statements****March 31, 2006**

6. SHARE CAPITAL (continued)*e) Contributed surplus*

Contributed surplus represents the fair value of stock option compensation earned by directors, officers, employees and certain consultants of the Company as follows:

Closing Balance, December 31, 2005	\$	248,206
For the period ended March 31, 2006		101,155
<hr/>		
Balance, March 31, 2006	\$	349,361

7. OTHER INTANGIBLE ASSETS

On June 10, 2005, Cannasat entered into a licence agreement with a research and development company. In order to acquire the licence Cannasat executed and delivered two promissory notes on June 30, 2005 (see Note 8) in the aggregate principal amount of \$100,000 and agreed to issue 117,648 Class A common shares at an aggregate subscription price of \$100,000 at a deemed value of \$0.85 per share. In addition to the acquisition costs, Cannasat has agreed to pay a combination of milestone-based payments and royalties.

8. NOTES PAYABLE

Agreements were made by Cannasat to settle accounts with two suppliers one of which is also a warrant holder. Two non-interest bearing promissory notes were issued in the aggregate amount of \$20,900, payable within 30 days following the going public date if this date occurs prior to September 1, 2009. Otherwise, the notes expire and no amount is due and payable. The notes may be paid in cash or the issuance of common shares equal in number to the value of the notes, each at the option of the issuer. On May 3, 2006 46,445 common shares were issued to retire these notes.

In an unrelated transaction, promissory notes in the aggregate principal amount of \$100,000 were issued by Cannasat on June 30, 2005 in connection with the acquisition of the agreement for the world-wide licence to make, use or sell certain licensed products (see Note 7). The notes bear interest at 8% per annum, calculated monthly and payable in quarterly installments effective January 1, 2006. The first note in the principal amount of \$50,000 is due on demand no earlier than December 30, 2005 and may be converted in whole or in part into common shares no later than June 30, 2009 at \$0.85 per share at the option of the holder. The second promissory note also with a principal amount of \$50,000 is due on demand no earlier than the date of issuance of filed patents in specific jurisdictions. In the event that the filed patents are not issued, 29,412 Class A common shares at \$0.85 per share may be issued at the option of the issuer as full and final settlement of the note. The second promissory note may be converted in whole or in part into common shares no later than June 30, 2009 at \$0.85 per share at the option of the holder.

CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
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9. RELATED PARTY TRANSACTIONS

During the periods presented, the Company made payments to Hill & Gertner Capital Corporation which is a corporation in which the Company's chief executive officer (who is also a director) and another director control. Related party transactions have been recorded at the exchange amount which is management's estimate of the fair value of such transactions as follows:

	March 31, <u>2006</u>	December 31, <u>2005</u>
Rent and office expenses and services	\$ -	\$ 99,400
Management fees	\$ 36,000	\$ 144,000
Commissions for shares issued	\$ -	\$ 16,650

Commencing September 1, 2005 Cannasat started to contract directly with third parties for premises and office services and discontinued its non-arms length arrangements with Hill and Gertner Capital Corporation.

10. INCOME TAXES

At December 31, 2005, the Company has approximately \$2,355,000 of non-capital losses, which, under certain circumstances can be used to reduce the taxable income of future years. The tax effect is not recorded in these financial statements. The non-capital losses expire as follows:

<u>Available To</u>	<u>Amount (\$)</u>
2014	595,000
2015	<u>1,760,000</u>
	<u>2,355,000</u>

Income tax recoveries for the current period are not included in the above schedule.

11. COMMITMENTS

Cannasat has entered into research and development obligations requiring total payments in the amount of \$125,000 over twelve month period commencing July 1, 2005. At March 31, 2006, \$85,000 of this obligation was paid.

12. SUPPLEMENTARY INFORMATION

SUPPLEMENTARY CASH FLOWS INFORMATION

Cash and cash equivalents comprise the following:

Cash	\$ 41,435	\$ 88,514
Cash equivalents	1,930,300	901,145
	<u>\$ 1,971,735</u>	<u>\$ 989,659</u>

The following significant transactions did not generate or use cash:

Class A common shares	\$ (46,366)	\$ (51,150)
Contributed surplus	\$ 101,155	\$ 46,731
Compensation expense	\$ (78,789)	\$ (85,231)
Deferred expense	\$ (207,308)	\$ -
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

CANNASAT THERAPEUTICS INC.
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13. SUBSEQUENT EVENTS

In accordance with the Notes Payable terms, on May 3, 2006, the Company issued 46,445 common shares to retire the note obligations.

On May 5, 2006, 92,461 Options were exercised for 77,438 common shares. The proceeds received for this transaction were \$18,492.

On May 25, 2006 the Company received notification of intention to exercise 43,040 options for 36,047 shares. The proceeds expected for this transaction are \$8,608.

Cannasat has entered into research and development obligations requiring total payments in the amount of \$125,000 over twelve month period commencing July 1, 2005. At March 31, 2006, \$85,000 of this obligation was paid.