AUDITORS' REPORT

To the Shareholders of
Cannasat Therapeutics Inc.

We have audited the balance sheet of Cannasat Therapeutics Inc. as at December 31, 2005 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated July 6, 2005.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

CHARTERED ACCOUNTANTS

TORONTO, Canada
April 27, 2006

CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
Balance Sheet

CANNASAT THERAPEUTICS INC.

(Formerly Cannasat Pharmaceuticals Inc.)

Statement of Operations and Deficit

	December 31, 2005	December 31, 2004
ASSETS		
CURRENT		
Cash and cash equivalents	$ 632,219	$ 991,283
Sundry receivables	178,631	48,700
	810,850	1,039,983
EQUIPMENT (Note 3)	2,615	3,737
LONG-TERM INVESTMENT (Note 4)	1,539,689	1,600,001
DEFERRED COSTS (Note 5)	207,308	-
DEFERRED COMPENSATION EXPENSE (Note 6(d))	304,000	404,000
OTHER INTANGIBLE ASSETS (Note 7)	200,000	-
	$ 3,064,462	$ 3,047,721
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 399,838	$ 59,824
Current portion of notes payable (Note 8)	100,000	-
	499,838	59,824
NOTES PAYABLE (Note 8)	20,900	20,900
	520,738	80,724
COMMITMENTS (Notes 4, 6 and 11)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6(b))	4,954,753	3,665,105
CONTRIBUTED SURPLUS (Note 6(e))	248,206	57,375
DEFICIT	(2,659,235)	(755,483)
	2,543,724	2,966,997
	$ 3,064,462	$ 3,047,721

APPROVED ON BEHALF OF THE BOARD:

Signed "DAVID HILL" , Director

Signed "ALAN TORRIE" , Director

See accompanying notes to the financial statements.

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

	Year Ended December 31, 2005	From Date of Incorporation January 16, 2004 to December 31, 2004	For the Period From January 16, 2004 (Inception) Through December 31, 2005
REVENUE			
Interest income	$ 55,445	$ 11,902	$ 67,347
EXPENSES			
General and administrative	1,058,263	467,818	1,526,081
Research and development	548,670	132,048	680,718
Amortization of equipment	1,121	659	1,780
Stock option compensation expense (Note 6(d))	290,831	166,860	457,691
	1,898,885	767,385	2,666,270
LOSS BEFORE EQUITY LOSS	(1,843,440)	(755,483)	(2,598,923)
LOSS FROM EQUITY ACCOUNTED INVESTMENT (Note 4)	(60,312)	-	(60,312)
NET LOSS FOR THE YEAR	(1,903,752)	(755,483)	(2,659,235)
DEFICIT, BEGINNING OF YEAR	(755,483)	-	
DEFICIT, END OF THE YEAR	$ (2,659,235)	$ (755,483)	$ (2,659,235)
LOSS PER SHARE - basic and diluted	$ (0.10)	$ (0.05)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	19,392,156	13,907,756	

CANNASAT THERAPEUTICS INC.

(Formerly Cannasat Pharmaceuticals Inc.)

Statement of Cash Flows

	Year Ended December 31, 2005	From Date of Incorporation January 16, 2004 to December 31, 2004	For the Period From January 16, 2004 (Inception) Through December 31, 2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES			
OPERATING			
Net loss for the year	$ (1,903,752)	$ (755,483)	$ (2,659,235)
Items not affecting cash			
Loss from equity accounted investment	60,312	-	60,312
Shares issued for services	139,964	-	139,964
Amortization of equipment	1,121	659	1,780
Stock option compensation expense	290,831	166,860	457,691
	(1,411,524)	(587,964)	(1,999,488)
Changes in non-cash operating working capital items			
Sundry receivable	(129,931)	(48,700)	(178,631)
Accounts payable and accrued liabilities	340,015	59,824	399,839
	(1,201,440)	(576,840)	(1,778,280)
INVESTING			
Acquisition of equipment	-	(4,396)	(4,396)
Long-term investment	-	(1,600,001)	(1,600,001)
	-	(1,604,397)	(1,604,397)
FINANCING			
Deferred costs	(207,308)	-	(207,308)
Notes payable	-	20,900	20,900
Common shares issued	-	60,000	60,000
Class A common shares issued	1,049,684	3,043,453	4,093,137
Class A common share purchase warrants issued	-	48,167	48,167
	842,376	3,172,520	4,014,896
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS, DURING THE YEAR	(359,064)	991,283	632,219
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	991,283	-	-
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 632,219	$ 991,283	$ 632,219

SUPPLEMENTARY CASH FLOW INFORMATION (Note 12)

1. DESCRIPTION OF BUSINESS

Cannasat Pharmaceuticals Inc. (the "Company") is a development stage company and 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. The Company is a research and development company committed to the development of novel cannabinoid-based prescription medicines for patients with unmet medical needs.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous period. Outlined below are those policies considered to be particularly significant:

Going concern
While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption. The Company has used cash of $1,778,280 in operating activities from inception to December 31, 2005 and has an accumulated deficit of $2,659,235 as at December 31, 2005. The Company will be pursuing further financings. The Company's continued existence is dependent upon its ability to obtain additional financing as needed and to attain profitable operations.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

Expenditures during the pre-operating period
The Company is in its development stage and has incurred capital and non-capital expenditures prior to the commencement of commercial operations. The Company has chosen to expense the non-capital expenditures as incurred.

Cash and cash equivalents
Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are not subject to significant risk of changes in value.

Equipment
Computer equipment is recorded at cost and is amortized on the diminishing balance method at a rate of 30% per annum based on its estimated useful life.

Long-term investment
The Company accounts for its investment in Prairie Plant Systems Inc., a company in which it exercises significant influence, on the equity basis.

Deferred compensation expense
The cost of stock option compensation granted to consultants is deferred and amortized over the period that the services are provided.

Other intangible assets
Other intangible assets comprise a license for patented products that expires when the last patent expires. The asset is recorded at cost and amortized over the estimated useful life of 15 years using the straight-line method of amortization.

Research and development costs
Research costs are expensed as incurred. Development costs are expensed as incurred except if the product is defined and the costs attributable thereto can be identified, the future market for the product is defined and there exists adequate resources to complete the project. The Company has expensed all research and development costs incurred to date.

2. ACCOUNTING POLICIES (continued)

Financial instruments
The fair values of the Company's cash equivalents, sundry receivables, and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Since the long-term investment and the notes payable are not traded in an organized financial market, it is not practicable within constraints of timeliness or cost to determine the fair value with sufficient reliability.

Stock-based compensation
The CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" recommends the use of the fair value-based method to account for the cost of the stock options granted to directors, officers and employees. The Company has adopted these recommendations. The Company determines the fair value of the stock options on their grant date and records the fair value as a compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these options are exercised, the amounts of the proceeds, together with the amount recorded in contributed surplus are recorded in share capital. The fair value of director, officer and employee options is determined using the Black-Scholes option-pricing model. The fair value of stock options issued to non-employees is estimated based on the value of services rendered.

Income taxes
The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The Company's equity investment in Prairie Plant Systems Inc. ("PPS") includes estimates and assumptions with respect to the carrying amount of the investment; the allocation of fair values to the underlying net assets acquired; and the amortization period of the values recorded. In addition, the initial five-year contract between Health Canada and PPS that expired on December 31, 2005 has been extended to June 30, 2006. Health Canada has communicated its intent to issue a new request for proposals and will likely require PPS to continue the current contract until the proposal process has been concluded. There is no assurance that the contract will ultimately be renewed. In the event the contract is not renewed, the Company's investment in PPS could be written down by a material amount.

New accounting pronouncements

Consolidation of variable interest entities
Effective January 2005, the Company adopted the new guidelines and determined that it does not have any arrangements with entities that would require consolidation under the new guidelines.

In September 2004, the CICA amended Accounting Guideline 15, Consolidation of Variable Interest Entities, originally issued in June 2003. The new guideline requires the consolidation of variable interest entities ("VIEs") by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs' expected losses, expected residual returns, or both.

2. ACCOUNTING POLICIES (continued)

Loss Per Share

Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

3. EQUIPMENT

	December 31, 2005		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	4,396	1,781	2,615

	December 31, 2004		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	4,396	659	3,737

4. LONG-TERM INVESTMENT

	December 31, 2005	December 31, 2004
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	$ 1,059,689	$ 1,120,001
Loan receivable, 7%, convertible to Class A common shares of Prairie Plant Systems Inc.	480,000	480,000
	$ 1,539,689	$ 1,600,001

In August 2004, the Company 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. Subsequent to the year-end, the Company informed Prairie Plant Systems Inc. that these warrants would not be exercised.

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%.

4. LONG-TERM INVESTMENT (continued)

On August 17, 2004, the Company entered into a strategic alliance agreement with Prairie Plant Systems Inc. In order to maintain this strategic alliance agreement, the Company 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, the Company had deferred costs totaling $207,308 which consisted primarily of professional fees related to the amalgamation and private placement disclosed in Note 13. The deferred charges will be allocated to deficit upon completion of the amalgamation and financing transaction.

6. SHARE CAPITAL

a) Authorized

Unlimited numbers of
- Non-voting Class A common shares, with a non-cumulative dividend to be declared at the discretion of the board, convertible into common shares upon certain events
- Common shares

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 $
December 31, 2004		
Common	12,000,000	60,000
Class A common	5,890,000	3,379,844
Class A common share purchase warrants	1,500,000	225,261
		3,665,105
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
		4,954,753

6. SHARE CAPITAL (continued)

b) Issued (continued)

The Class A common shares are non-voting, and are convertible in whole upon the earliest of (i) the completion of an initial public offering of common shares; (ii) certain consolidation, merger or amalgamation transactions, or the sale of the Company; or (iii) August 31, 2009 (any such event being called a “Liquidity Event”). All of the issued and then outstanding Class A common shares shall, immediately prior to the closing or occurrence of the Liquidity Event, be converted into common shares on the basis of one common share per Class A common share.

Share issuance costs related to the Class A common shares and share purchase warrants amounted to $277,985. The total cost has been charged to equity on a pro-rata basis. There have been no dividends paid or declared to date.

In August 2004, the Company issued one half of one Class A common share purchase warrant to purchasers of Class A common shares from the first private placement of 3,000,000 Class A common shares (“Cannasat A warrants”). Each full Cannasat A warrant is exercisable at a subscription price of $1.25 per Class A common share. The Cannasat A warrants shall be exercisable by the holder thereof on any business day during the period from and including the date of completion of an initial public offering of common shares by the Company which results in the common shares being listed and posted for trading on a stock exchange to and including the date that is 18 months thereafter.

The following common shares, Class A common shares and Class A common share purchase warrants were issued for the proceeds noted. All proceeds are in cash except as noted in (i), (iii) and (iv) below:

Date	Number of shares	Proceeds $	Share Issuance Costs $	Net Proceeds $
Common shares				
February 28, 2004	12,000,000	60,000	-	60,000
Class A common shares				
August 18, 2004	3,000,000	2,760,000	169,496	2,590,504
September 30, 2004 (i)	2,610,000	526,535	-	526,535
October 7, 2004 to December 3, 2004	280,000	280,000	17,195	262,805
February 14, 2005	240,000	240,000	18,500	221,500
April 14, 2005	480,000	480,000	32,650	447,350
August 31, 2005 (ii)	2,103,750	21,038	5,000	16,038
September 9, 2005 (iii)	117,648	100,000	-	100,000
September 9, 2005 (iv)	164,663	139,964	-	139,964
September 9, 2005 (v)	453,177	385,201	20,405	364,796
	9,449,238	4,932,738	263,246	4,669,492
Class A common share purchase warrants, August 18, 2004	1,500,000	240,000	14,739	225,261
		5,232,738	277,985	4,954,753

6. SHARE CAPITAL (continued)

b) Issued (continued)

i) On September 30, 2004, 2,610,000 stock options were exercised for gross proceeds of $13,050. Compensation expense of $513,485 had been recorded when the options were granted, resulting in a total credit of $526,535 to Class A common shares issued.

ii) On August 31, 2005, the Company restructured the securities issued pursuant to previous private placements by issuing penny warrants to Round 1 investors (3,000,000 Class A common shares and 1,500,000 Cannasat A warrants) and Round 2 investors (1,000,000 Class A common shares). Those investors who purchased Class A common shares at a price of $1.00 per share were issued one new Class A common share for each two Class A common shares held. This reduced the effective subscription price of the Class A common shares acquired by such investors to $0.67 per share. Each of the 1,500,000 Cannasat A warrants together with $1.25 entitles the holder to acquire 1.5 Cannasat Class A common shares for an effective price of $0.83 per share.

As a result of this issuance 2,103,750 new Class A common shares were issued for gross proceeds of $21,038.

Concurrent with this restructuring the board reset the exercise price of all outstanding stock options to $0.85.

iii) On September 9, 2005, the Company issued 117,648 Class A common shares in partial consideration for the acquisition of technology rights (see Note 7).

iv) On September 9, 2005, the Company issued 164,663 Class A common shares in accordance with existing compensation agreements to certain consultants, directors and employees of the Company.

v) On September 9, 2005, the Company completed its Round 3 private placement consisting of one Class A common share at a subscription price of $0.85 per share. 453,177 Class A common shares were issued pursuant to this private placement on September 9, 2005 for gross proceeds of $385,201.

vi) On December 31, 2005, the Company issued 375,000 Class A common share options at an exercise price of $0.95 per share in accordance with existing compensation agreements to certain board advisors and consultants of the Company.

As at December 31, 2005, after adjusting the warrants to reflect anti-dilution provisions, the share capital and stock options outstanding were as follows:

	Number of Shares	Exercise Price ($) Warrants/Options	Fully Diluted Ownership(%)
Common	12,000,000	-	46.0%
Class A common	9,449,238	-	36.2
Class A common share purchase warrants	2,250,000	0.83	8.6
Class A common share purchase warrants	866,250	0.67	3.3
Class A common share purchase warrants	18,750	0.83	0.1
Employee stock options	750,000	0.85	2.9
Non-employee stock options	400,000	0.85	1.5
Non-employee stock options	375,000	0.95	1.4
	26,109,238		100.0%

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*

Under the terms of the Employee Stock Option Plan, the Company may grant options to its directors, officers, employees and consultants for the purchase of up to 5,100,000 Class A common shares. On February 28, 2004, the Company issued 2,610,000 options with an exercise price of $0.005 per Class A common share. On September 30, 2004, 2,610,000 options were exercised for proceeds of $13,050. Another 150,000 options were granted in August 2004 and 150,000 options were granted on December 31, 2004 with an exercise price of $1 per Class A common share, expiring in August 2009 and December 31, 2009, respectively. On September 1, 2005, the Company granted 850,000 Class A common share options at an exercise price of $0.85 per share. On December 31, 2005, the Company issued 375,000 Class A common share options at an exercise price of $0.95 per share in accordance with existing compensation agreements to certain board advisors and consultants of the Company.

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

	Number	Weighted Exercise $
Options outstanding at January 16, 2004	-	-
Granted	2,910,000	0.011
Exercised	(2,610,000)	0.005
Cancelled or	-	-
Outstanding and exercisable as December 31, 2004	300,000	1.00
Granted during the year	1,225,000	0.88
Outstanding and exercisable as at December 31, 2005	1,525,000	0.87

6. **SHARE CAPITAL (continued)**

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

The following table summarizes stock option information outstanding:

December 31, 2004					
Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.00	300,000	4.8 years	$1.00	300,000	$1.00

December 31, 2005					
Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.89	1,525,000	4.56	0.87	325,000	0.86

The fair value of each option is estimated on the date of grant. The 2,610,000 options granted in February 2004 were determined to have a value of $513,485 of which $109,485 was expensed in 2004 and $100,000 was expensed during the year ended December 31, 2005; $304,000 ($404,000, as at December 31, 2004) was deferred to future periods. Compensation expense related to the remaining 300,000 options issued during 2004 amounts to $67,356 of which $51,606 was expensed during the year ended December 31, 2005 ($15,750 - 2004). Compensation expense relating to the options issued during 2005 (1,225,000 options) were determined to have a value of $347,733 of which $27,850 was expensed during 2005; the balance will be recorded as the options vest or services are rendered.

Fair value of the options granted to employees has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: dividend yield 0% (2004 – 0%), expected volatility 0% and 75% (2004 – 0%), risk-free interest rate 3.3%- 3.6% (2004 –3.6%) and expected life of 3.5 - 7 years (2004 – 5 years).

In consideration of the provision of the services of certain consultants, the Company 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:

6. SHARE CAPITAL (continued)

d) Employee and non-employee stock options and warrants (continued)

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
500,000	September 27, 2007	$1.00
590,000		

e) Contributed surplus

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

From date of incorporation, January 16, 2004 to December 31, 2004	$	57,375
For the year ended December 31, 2005		190,831
Balance, December 31, 2005	$	248,206

7. OTHER INTANGIBLE ASSETS

On June 10, 2005, the Company entered into a licence agreement with a research and development company. In order to acquire the licence the Company 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 (see Note 6(b)(iii)). In addition to the acquisition costs, the Company has agreed to pay a combination of milestone-based payments and royalties.

8. NOTES PAYABLE

Agreements were made 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 Company.

In an unrelated transaction, promissory notes in the aggregate principal amount of $100,000 were issued on June 30, 2005 in connection with the acquisition of the agreement for the world-wide license 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 Company 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.

9. RELATED PARTY TRANSACTIONS

During the years 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:

	December 31, 2005	December 31, 2004
Rent and office expenses and services	$ 99,400	$ 79,500
Management fees	$ 144,000	$ 48,000
Commissions for shares issued	$ 16,650	$ 7,500

During the year ended December 31, 2005, directors of the Company subscribed for shares as part of a private placement. 15,000 shares were issued to the directors for gross proceeds of $15,000.

10. INCOME TAXES

a) Provision for income taxes:
Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 36% (2004 – 36%) are as follows:

	December 31, 2005	December 31, 2004
Loss before income taxes	$ (1,903,752)	$ (755,483)
Expected income tax recovery	(685,000)	(272,000)
Adjustments to benefit resulting from:		
Share issue costs	(28,000)	(58,000)
Stock based compensation	105,000	60,000
Equity loss from Prairie Plant Systems Inc.	11,000	-
Deferred costs	(75,000)	-
Non-deductible amounts	24,000	-
Other	-	(15,000)
	$ (648,000)	$ (285,000)
Valuation allowance	648,000	285,000
	$ -	$ -

10. INCOME TAXES (continued)

b) Future income taxes have been recognized using the combined tax rate of 36% (2004 - 36%). Temporary differences and tax loss carry forwards which give rise to future income tax assets and liabilities are as follows:

	December 31, 2005	December 31, 2004
Future income tax assets:		
Share issuance costs	$ 75,000	$ 58,205
Investment in Prairie Plant Systems Inc.	11,000	-
Tax loss carry forwards	847,000	227,162
	933,000	285,367
Future income tax liabilities	-	-
Valuation allowance	(933,000)	(285,367)
	$ -	$ -

c) The Company has approximately $2,355,000 of non-capital losses as at December 31, 2005 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:

Available To	Amount ($)
2014	595,000
2015	1,760,000
	2,355,000

11. COMMITMENTS

The Company has entered into research and development obligations requiring total payments in the amount of $125,000 over the twelve-month period commencing July 1, 2005. As of December 31, 2005 the Company has spent $30,000 towards this commitment.

12. SUPPLEMENTARY INFORMATION

		December 31, 2005		December 31, 2004
SUPPLEMENTARY CASH FLOWS INFORMATION				
Cash and cash equivalents comprise the following:				
Cash	$	(4,723)	$	13,035
Cash equivalents		636,942		978,248
	$	632,219	$	991,283
Income taxes paid	$	-	$	-
Interest paid	$	385	$	-
The following significant transactions did not generate or use cash:				
Class A common shares	$	239,964	$	513,485
Contributed surplus	$	190,831	$	57,375
Compensation expense	$	(290,831)	$	(166,860)
Deferred compensation expense	$	-	$	(404,000)
Other intangible assets	$	(200,000)	$	-
Notes payable	$	100,000	$	-

13. SUBSEQUENT EVENTS

i) *Amalgamation*

On March 15, 2006, Cannasat Therapeutics Inc. amalgamated with Lonsdale Public Ventures Inc. pursuant to an Amalgamation Agreement announcement on October 5, 2005 that Cannasat Therapeutics Inc. and Lonsdale Public Ventures Inc. ("Lonsdale") have entered into the Amalgamation Agreement to amalgamate under the Canada Business Corporations Act and to continue as one corporation ("Amalco") 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 the Company and Lonsdale constituted the Qualifying Transaction for Lonsdale pursuant to the policies of the Exchange. As at October 31, 2005 Lonsdale's only asset was approximately $977,000 in working capital.

After completion of the Amalgamation, holders of Lonsdale Common Shares will hold 6,532,662 Amalco Common Shares. In addition, the holders of Lonsdale's options will be entitled to acquire 967,336 Amalco Common Shares.

After completion of the Amalgamation, the security holders of Cannasat will receive an aggregate of 55,226,115 Amalco Common Shares, Amalco replacement warrants to acquire 9,405,000 Amalco Common Shares and Amalco replacement options to acquire 4,575,000 Amalco Common Shares.

35,058,879 Amalco Common Shares will be subject to escrow and released over a period of 72 months on the basis of 5%, six months after the final Exchange bulletin, 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 Amalco Common Shares will be subject to escrow and 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.

13. SUBSEQUENT EVENTS (continued)

i) Amalgamation (continued)

These escrow arrangements are in addition to the escrow arrangements affecting 3,391,960 Amalco Common Shares which are owned by shareholders of Lonsdale and are subject to escrow. These shares will 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.

This transaction is a capital transaction that will be accounted for as a reverse takeover that does not meet the criteria for a business combination. The transaction will be measured at the exchange amount since there will be a substantive change in Lonsdale's ownership and the exchange amount will be supported by independent evidence.

ii) Private Placement

Cannasat completed a private placement immediately prior to the Amalgamation. The private placement was in the amount of $1,148,703 and resulted in the issuance of 1,276,336 Cannasat Class A Shares. These shares were subdivided as part of the Amalgamation into 3,829,008 Amalco Common shares.

Cannasat retained Dominick & Dominick Securities Inc. to act as agent to assist in completion of the private placement. The agent received a commission of 2% of the gross proceeds derived from investors introduced by Cannasat and 8% of the gross proceeds derived from all other investors as well as reimbursement of its expenses. In addition, the agent received a non-transferable option to purchase up to 361,086 Amalco Common Shares at a price of $0.30 for each share for a term of 24 months following completion of the private placement.

iii) Prairie Plant Systems Inc. Warrants

See Note 8.