

# **CANNASAT THERAPEUTICS INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE SECOND QUARTER ENDED JUNE 30, 2006**

Management's discussion and analysis provides a review of our Company and should be read in conjunction with the unaudited financial statements for the second quarter ended June 30, 2006, and the audited financial statements of Cannasat Therapeutics Inc. (formerly Cannasat Pharmaceuticals Inc.) for the year ended December 31, 2005, as well as the related notes, which are prepared in accordance with Canadian generally accepted accounting principles. This discussion and analysis compares financial performance for the second quarter ended June 30, 2006 with the same period in 2005. This review was prepared by management with information available as at August 24, 2006. Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

Certain information contained in this "Management's Discussion and Analysis" contains forward-looking statements based on Cannasat's estimates and assumptions, which are subject to risks and uncertainties. This could cause Cannasat's actual results to differ materially from the forward-looking statements contained in this discussion.

All amounts are presented in Canadian dollars unless otherwise indicated.

### **OVERVIEW**

#### **Product Development**

The Company's CAT 310 and CAT 210 pre-clinical research projects progressed as planned in the second quarter ended June 30, 2006. The Company's CAT 310 project is being preferentially funded. The work for these projects is being conducted by the Company researchers at its laboratory facilities in Edmonton, Alberta, along with researchers at two leading universities, and other parties that specialize in pharmaceutical drug development.

In the second quarter ended June 30, 2006, the Company continued to escalate research and development activities related to CAT 310 in preparation for clinical studies. The Company advanced negotiations with several Contract Research Organizations (CRO), Active Pharmaceutical Ingredient (API) suppliers, and formulation companies for manufacturing scale up for Phase I studies. During the quarter, the Company also continued to advance the experimental protocol for CAT 210 in progression towards pre-clinical proof-of-concept studies.

During the second quarter, Cannasat's investee company, Prairie Plant Systems Inc. ("PPS"), continued to grow and deliver medical cannabis to Health Canada qualified and

approved patients and researchers. The program continues to expand as more patients enroll in Health Canada's Marihuana Medical Access Regulations (MMAR). The current license by Health Canada in favour of Prairie Plant Systems extends to September 30, 2006, although the parties are in discussions regarding a further extension.

### **Related Party Transactions**

In the second quarter ended June 30, 2006, Cannasat made payments to Hill & Gertner Capital Corporation, which is a corporation owned by the Company's Chief Executive Officer (David Hill) and a Director (Lorne Gertner), for management services. During the six months ended June 30, 2006 these expenses aggregated \$72,000 (June 30, 2005 - \$72,000). These expenses were charged at rates that Cannasat's management believes were at fair value for the benefits or services received.

### **Board of Directors**

On June 5, 2006 Cannasat announced the addition of Peter Palframan to the Board of Directors. Peter will also serve as the Chairman of Cannasat's Audit Committee. He replaces David Hill who remains as Cannasat's Chief Executive Officer. Peter Palframan is a Chartered Accountant and currently the Senior Vice President of Operations at CHUM Television. Peter was previously Vice President, Finance & Administration, CHUM Television and Vice President, Finance and Operations of Learning and Skills Television of Alberta. Peter has been in the television broadcasting industry for over 20 years and assisted in negotiations that resulted in the privatization and acquisition of the provincial educational service, Access TV, and played a major role in the launch of Canadian Learning Television (CLT), BookTelevision and CourtTV Canada. He was a key player in the team behind the purchase of Craig Media and the integration of the new station assets.

### **New Private Placement**

On June 7, 2006, Cannasat announced a private placement, on a best efforts basis, of up to \$5,000,000 with Dominick & Dominick Securities and Canaccord Capital Corporation acting as agents. Due to market conditions, the terms of the private placement were amended in July 2006. On August 3, 2006, Cannasat announced the closing of an amended non-brokered private placement. Cannasat issued an aggregate of 3,815,000 Units at a price of \$0.20 per Unit raising gross proceeds of \$763,000. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share at a price of \$0.30 until August 3, 2008. The common shares issued under the private placement are subject to a hold period of four months expiring on December 4, 2006. A commission of 8% was paid in connection with subscribers for Units introduced through brokers.

The proceeds from the offering will be used to fund Cannasat's ongoing research and development as well as working capital and general corporate activities.

## RESULTS OF OPERATIONS

### Summary of Financial Information (\$)

	2006	2005	Variance
	Q2	Q2	%
<b>Revenues</b>	-	-	-
<b>Interest Income</b>	22,003	12,822	71.6
<b>General and Administrative Expenditures</b>	353,227	283,246	24.7
<b>Research and Development Expenditures</b>	262,326	77,215	239.7
<b>Net Loss</b>	(710,360)	(389,957)	82.2
<b>Loss per share (basic)</b>	(0.01)	(0.01)	
<b>Weighted average shares outstanding (in thousands)</b>	62,064,513	42,657,852	

#### *Research and Development*

Cannasat accelerated its research and development activities in the 3 months ended June 30, 2006. Research and development expenditures increased to \$262,326 from \$77,215 for the 3 months ended June 30, 2005. This increase reflects the operational and capital costs associated with the laboratory facilities in Edmonton and planned expansion of research and development activities for CAT 310.

#### *General and Administrative*

General and administrative expenses for the 3 months ended June 30, 2006, increased to \$353,227 from \$283,246 for the 3 months ended June 30, 2005. The increase in costs is mostly attributed to the payment of outstanding legal and audit expenses in the quarter associated with the going public transaction completed in March 2006. Costs are in line with management projections for the year.

#### *Net Loss*

During the second quarter ended June 30, 2006, Cannasat recorded a net loss of \$710,360 compared to a loss of \$389,957 for the second quarter ended June 30, 2005. The accelerated expenditure is due to the increase in research activities and the going public transaction and was in line with Cannasat's forecasts.

## Liquidity and Capital Resources

### *Operating Activities*

After excluding non-cash items, primarily stock option compensation expense, cash outflow from operating activities was \$705,217 for the quarter ended June 30, 2006 compared with \$169,013 for the quarter ended June 30, 2005. The increase in expenditures can be attributed to the planned increase in research and development activities as well as expenses related to the going public transaction completed in March 2006.

### *Financing Activities*

During the 3 months ended June 30, 2006, Cannasat raised an additional \$113,624 through the exercise of warrants and retirement of debt, resulting in the issuance of 441,180 Common shares.

### *Financial Position*

On June 30, 2006 Cannasat had \$1,359,242 cash and cash equivalents on hand. Shareholders' equity increased from \$4,954,753 at December 31, 2005 to \$6,584,448 at June 30, 2006.

## Quarterly Financial Data (\$)

	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	-	-	-	-	-	-	-	-
Interest Income	22,000	12,000	16,000	15,000	13,000	12,000	12,000	-
Net Loss	710,000	468,000	476,000	681,000	389,000	388,000	255,000	426,000
Loss per share (basic)	0.01	0.01	0.03	0.03	0.01	0.01	0.01	0.03

Net loss variations, from quarter to quarter, reflect principally the research and development efforts and the Company's organization structure to administer and develop its business plan.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

## **About Cannasat**

Cannasat is researching the therapeutic benefits of cannabis and the development of novel cannabinoid pharmaceutical products. Cannasat is pursuing two complementary business strategies: (1) The development of novel cannabinoid-based pharmaceutical products to be introduced to the market through the traditional regulatory drug approval process; and (2) medicinal cannabis research and development with Cannasat's business partner, Saskatoon-based Prairie Plant Systems Inc., the only government licensed grower and distributor of medicinal cannabis in Canada.

## **Risks and Uncertainties**

Prospects for companies in the pharmaceutical drug development industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in pharmaceutical drug development companies should be regarded as highly speculative. The realization of the Company's long-term potential will be dependent upon the successful development and commercialization of products and product candidates currently under development. The Company can make no assurance that these products and product candidates will be developed or receive regulatory approval. The Company's new products and product candidates are currently in the research and development stages, the riskiest stages for a company in the pharmaceutical drug development industry. The Company can make no assurance that its research and development programs will result in commercially viable products and product candidates. To achieve profitable operations, the Company, alone or with others, must successfully develop, introduce and market our products and product candidates.

To obtain regulatory approvals for the products and product candidates being developed and to achieve commercial success, clinical trials must demonstrate that the products and product candidates are safe for human or animal use and that they demonstrate efficacy. Unsatisfactory results obtained from a particular study relating to a program may cause the Company or its collaborators to abandon the commitments to that program.

In addition, the license granted by Health Canada in favour of PPS was extended to September 30, 2006. There can be no guarantee that Health Canada will extend or renew the license or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the license, the business, financial condition and results of the operation of PPS, and the investment by Cannasat in PPS, could be materially adversely affected.

For additional information with respect to certain of these and other factors, refer to our Management Information Circular dated January 18, 2006 filed on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com)

**For Further Information:**  
Cannasat Therapeutics Inc.  
David Hill  
Chief Executive Officer  
W: 416-703-2449 (Ext. 223)  
[www.cannasat.com](http://www.cannasat.com)  
[info@cannasat.com](mailto:info@cannasat.com)