

**CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
THIRD QUARTER REPORT
SEPTEMBER 30, 2006**

Unaudited

CANNASAT THERAPEUTICS INC.
(Formerly Cannasat Pharmaceuticals Inc.)
September 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Unaudited Interim Balance Sheets	1
Unaudited Interim Statements of Operations and Deficit	2
Unaudited Interim Statements of Cash Flows	3
Notes to the Unaudited Interim Financial Statements	4-14

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

	September 30, 2006 (unaudited)	December 31, 2005 (audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,641,418	\$ 632,219
Sundry receivables	222,481	178,631
	1,863,899	810,850
CAPITAL ASSETS (Note 3)	10,463	2,615
LONG-TERM INVESTMENT (Note 4)	1,443,741	1,539,689
DEFERRED COSTS (Note 5)	-	207,308
DEFERRED COMPENSATION EXPENSE	232,000	304,000
OTHER INTANGIBLE ASSETS (Note 7)	200,000	200,000
	\$ 3,750,103	\$ 3,064,462
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 299,914	\$ 399,838
Current portion of notes payable (Note 8)	100,000	100,000
	399,914	499,838
NOTES PAYABLE (Note 8)	-	20,900
	399,914	520,738
COMMITMENTS (Notes 4, 6 and 11)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6(b))	7,232,448	4,954,753
CONTRIBUTED SURPLUS (Note 6(e))	430,078	248,206
DEFICIT	(4,312,337)	(2,659,235)
	3,350,189	2,543,724
	\$ 3,750,103	\$ 3,064,462

The accompanying notes are an integral part of these Financial Statements

APPROVED BY THE BOARD

..... Director

..... Director

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

	Three Months Ending		Nine Months Ending	
	September 30,		September 30,	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE				
Interest income	\$ 17,791	\$ 14,986	\$ 51,371	\$ 39,535
EXPENSES				
General and administrative	126,043	197,595	690,246	711,438
Research and development	295,049	218,507	725,827	363,919
Amortization of capital assets	438	280	1,153	841
Stock option compensation expense	67,928	228,844	225,506	340,755
Tax recovery on scientific research	(34,207)	-	(34,207)	-
	455,251	645,226	1,608,525	1,416,953
LOSS BEFORE EQUITY LOSS	(437,460)	(630,240)	(1,557,154)	(1,377,418)
LOSS FROM EQUITY ACCOUNTED INVESTMENT	(36,992)	(20,844)	(95,948)	(51,000)
NET LOSS FOR THE PERIOD	(474,452)	(651,084)	(1,653,102)	(1,428,418)
DEFICIT, BEGINNING OF PERIOD	(3,837,885)	(1,532,817)	(2,659,235)	(755,483)
DEFICIT, END OF PERIOD	\$ (4,312,337)	\$ (2,183,901)	\$ (4,312,337)	\$ (2,183,901)
LOSS PER SHARE - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	64,783,077	45,533,640	60,460,196	43,148,808

The accompanying notes are an integral part of these Financial Statements

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

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net loss for the period	\$ (474,452)	\$ (651,084)	\$ (1,653,102)	\$ (1,428,418)
Items not affecting cash				
Loss from equity accounted investment	36,992	20,844	95,948	51,000
Amortization of capital assets	438	280	1,153	841
Stock option compensation expense	67,928	228,844	225,506	340,755
	(369,094)	(401,116)	(1,330,495)	(1,035,822)
Changes in non-cash operating working capital items				
Sundry receivable	(4,206)	(50,443)	(43,850)	(107,740)
Accounts payable and accrued liabilities	7,476	(107,296)	(99,925)	225,219
	(365,824)	(558,855)	(1,474,270)	(918,343)
INVESTING				
Acquisition of capital assets	-	-	(9,000)	-
	-	-	(9,000)	-
FINANCING				
Deferred costs	-	-	207,308	-
Notes payable	-	-	(20,900)	-
Common shares issued	648,000	-	2,306,061	-
Class A common shares issued	-	480,834	-	1,049,684
	648,000	480,834	2,492,469	1,049,684
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	282,176	(78,021)	1,009,199	131,341
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,359,242	1,200,645	632,219	991,283
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,641,418	\$ 1,122,624	\$ 1,641,418	\$ 1,122,624
SUPPLEMENTARY CASH FLOW INFORMATION				
Cash and cash equivalents comprise the following:				
Cash	\$ 37,857	\$ 62,225	\$ 37,857	\$ 62,225
Cash equivalents	1,603,561	1,060,399	1,603,561	1,060,399
	\$ 1,641,418	\$ 1,122,624	\$ 1,641,418	\$ 1,122,624

SUPPLEMENTARY CASH FLOW INFORMATION (Note 12)

The accompanying notes are an integral part of these Financial Statements

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 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 interim financial statements in accordance with Canadian Generally Accepted Accounting Principles and follow the same accounting policies and methods of application as the audited financial statements of the company for the year ended December 31, 2005. These statements should be read in conjunction with the audited financial statements of the Company 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 nine months ended September 30, 2006 may not be indicative of the results that may be expected for the full year ending December 31, 2006.

3. CAPITAL ASSETS

	September 30, 2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
	\$	\$	\$
Computer equipment	5,746	2,487	3,259
Furniture and Fixtures	7,650	446	7,204
Total	13,396	2,933	10,463

	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**September 30, 2006****4. LONG-TERM INVESTMENT**

	September 30, <u>2006</u>	December 31, <u>2005</u>
268,585 Class A common shares representing 14.94% (December 31, 2005 – 16.06%) of the voting shares of Prairie Plant Systems Inc., recorded on an equity basis	\$ 963,741	\$ 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>\$ 1,443,741</u>	<u>\$ 1,539,689</u>

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 were for additional Class A common shares and were exercisable at \$2.00 per share expiring May 14, 2006. The Company did not exercise these warrants.

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%. As at September 30, 2006 interest is paid in full to February 2006. The Company currently expects interest payments to be brought up-to-date by March 31, 2007.

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 Company had already exceeded the \$250,000 commitment in the first six months of its current fiscal year, thereby ensuring that the strategic alliance agreement will be in effect for the year ended December 31, 2006. 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 6(d). These deferred charges were allocated to share capital upon completion of the amalgamation and financing transaction on March 15, 2006.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 2006

6. SHARE CAPITAL

a) *Authorized*

Unlimited numbers of
Common shares with no par value

b) *Issued*

A summary of common shares, stock options and common share purchase warrants issued is as follows:*

	as at September 30, 2006		
	Number of shares #	Number of options #	Number of warrants #
Common	66,014,957	-	-
Stock options	-	2,188,333	-
Common share purchase warrants	-	-	4,535,586
Total	66,014,957	2,188,333	4,535,586

A summary of common shares and number of shares issuable on exercise of stock options and warrants is as follows:*

	as at September 30, 2006			
Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #	
Common	66,014,957	-	-	66,014,957
Stock options	-	4,878,265	-	4,878,265
Common share purchase warrants	-	-	11,592,921	11,592,921
Total	66,014,957	4,878,265	11,592,921	82,486,143

*Note: On March 15, 2006, Cannasat amalgamated with a capital pool company called Lonsdale Public Ventures ("Lonsdale"). For details of the amalgamation see Note 6(d).

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 2006

6. SHARE CAPITAL (continued)

b) Issued (continued)

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

	Number of Shares #	Amalgamation - Replacement Common Shares #	Proceeds \$	Share Issuance Costs \$	Net Proceeds \$
<u>Pre-amalgamation</u>					
<u>Common shares</u>					
December 31, 2005	12,000,000	23,049,390	60,000	-	60,000
<u>Class A common shares</u>					
December 31, 2005	9,449,238	28,347,717	4,932,738	263,246	4,669,492
February 8, 2006, share issuance	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
<u>Sub-total</u>	<u>22,725,574</u>	<u>55,226,115</u>	<u>6,141,441</u>	<u>319,246</u>	<u>5,822,195</u>
<u>Upon Amalgamation</u>					
Cannasat Shares	22,725,574	55,226,115	6,141,441	319,246	5,822,195
Lonsdale Shares	7,800,000	6,532,662	779,151	-	779,151
Amalgamation costs				373,784	(373,784)
<u>Sub-total</u>	<u>30,525,574</u>	<u>61,758,777</u>	<u>6,920,592</u>	<u>693,030</u>	<u>6,227,562</u>
<u>Post-amalgamation</u>					
March 15, 2006, issuance upon amalgamation		61,758,777	6,920,592	693,030	6,227,562
April 14, 2006, exercise of warrants		281,250	65,625		65,625
April 14, 2006, exercise of warrants - reallocation of valuation		-	18,000	-	18,000
May 3, 2006, share issuance		46,445	20,900	-	20,900
May 24, 2006, exercise of warrants		77,438	18,492	-	18,492
June 2, 2006, exercise of warrants		36,047	8,608	-	8,608
Cost of amalgamation in excess of accrual		-	-	45,000	(45,000)
August 3, 2006, share issuance		3,815,000	648,550	59,500	589,050
<u>TOTAL (SHARES AND PROCEEDS)</u>		<u>66,014,957</u>	<u>7,700,767</u>	<u>797,530</u>	<u>6,903,237</u>

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 2006

6. SHARE CAPITAL (continued)

b) Issued (continued)

	Number of Share Purchase Warrants	Number of shares issuable on exercise of warrants	Proceeds	Share Issuance Costs	Net Proceeds
	#	#	\$	\$	\$
<u>Common share purchase warrants</u>					
August 18, 2004	1,500,000	6,750,000	240,000	14,739	225,261
August 3, 2006	1,907,500	1,907,500	114,450	10,500	103,950
TOTAL PROCEEDS FROM WARRANTS			354,450	25,239	329,211
TOTAL PROCEEDS FROM SHARES AND WARRANTS			8,055,217	822,769	7,232,448

c) Stock options and warrants

During the nine months ended September 30, 2006, 361,086 compensation options were issued to the Agents that were engaged in the private placement forming a part of the amalgamation 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 as of September 30, 2006 and changes during the period is as follows:

	Number of Options	Number of shares issuable on exercise of options	Weighted Exercise Price (/share)
	#	#	\$
Options outstanding at December 31, 2005*	1,525,000	4,575,000	0.290
Lonsdale Options (at amalgamation, March 15, 2006)*	780,000	653,265	0.239
Granted during the period	-	-	-
Exercised during the period	-	-	-
Cancelled or expired	(116,667)	(350,000)	0.290
Outstanding and exercisable as at September 30, 2006	2,188,333	4,878,265	0.283

* Note: For each option issued by Cannasat prior to March 15, 2006, the holder is entitled to 3 Common shares. For each option issued by Lonsdale, the holder is entitled to 0.8375 common shares.

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.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 2006

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Stock options outstanding and exercisable as at September 30, 2006 are as follows:

Number of Options	Number of shares issuable on exercise of options	Effective Strike Price (/share)	Vesting Date	Expiry Date
#	#	\$		
50,000	150,000	0.283	August 18, 2004	December 1, 2006
50,000	150,000	0.283	August 18, 2004	August 18, 2009
150,000	450,000	0.283	December 31, 2004	December 31, 2009
487,500	408,291	0.239	July 28, 2005	March 23, 2007
292,500	244,974	0.239	July 28, 2005	July 28, 2010
8,333	25,000	0.317	December 31, 2005	June 30, 2010
8,333	25,000	0.317	December 31, 2005	December 31, 2010
8,333	25,000	0.317	December 31, 2005	June 30, 2011
8,333	25,000	0.283	June 30, 2006	December 1, 2006
41,667	125,000	0.283	June 30, 2006	June 30, 2010
116,667	350,000	0.317	August 31, 2006	August 31, 2010
41,666	125,000	0.283	December 31, 2006	December 31, 2010
50,000	150,000	0.283	March 23, 2007	March 23, 2011
58,333	175,000	0.283	June 30, 2007	June 30, 2011
166,667	500,000	0.283	August 31, 2007	August 31, 2011
16,667	50,000	0.283	December 31, 2007	December 31, 2011
116,667	350,000	0.317	August 31, 2008	August 31, 2011
16,667	50,000	0.283	June 30, 2008	June 30, 2012
1,688,333	3,378,265			
500,000	1,500,000	0.283	See Below *	See Below *
2,188,333	4,878,265			

* Note: On September 1, 2005, 1,500,000 options were granted and are subject to performance criteria yet to be completed. Of this total, 450,000 of these options' performance criteria must be completed no later than June 30, 2007, while the remaining 1,050,000 must be completed no later than December 31, 2007. The expiry date of these options will be 4 years after the vesting date.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 2006

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Details of the Cannasat warrants outstanding as at September 30, 2006 are as follows:

	Number of Warrants #	Number of shares issuable on exercise of warrants #	Weighted Exercise Price (/share) \$
Warrants outstanding at December 31, 2005*	2,090,000	9,405,000	0.262
Lonsdale warrants (at amalgamation, March 15, 2006)*	375,000	314,070	0.239
Granted during the period	2,268,586	2,268,586	0.300
Exercised during the period	(198,000)	(394,735)	0.235
Cancelled or expired	-	-	-
Outstanding and exercisable as at September 30, 2006	4,535,586	11,592,921	0.264

* Note: For each warrant issued, the holder is entitled to 4.5 Common shares. This arises due to anti-dilution provisions attached to the warrants which were triggered in the August 2005 restructuring (1.5x) and the March 2006 going public transaction (3x). For each warrant issued by Lonsdale, the holder is entitled to 0.8375 common shares.

The fair value of the Cannasat 1,907,500 warrants issued on August 3, 2006 has been estimated to be \$114,450, which value has been segregated from the proceeds of the issuance of the common shares. Fair value of the warrants 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 84%, risk-free interest rate 4% and expected life of 2 years.

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 \$130,040 was expensed during the period. (2005 - \$82,816).

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Unaudited Interim Financial Statements

September 30, 2006

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Warrants outstanding as at September 30, 2006 are as follows:

Number of Warrants	Number of shares issuable on exercise of warrants	Effective Strike Price (/share)	Vesting Date	Expiry Date
#	#	\$		
239,500	200,585	0.239	June 29, 2005	June 29, 2007
1,500,000	6,750,000	0.278	March 15, 2006	September 15, 2007
500,000	2,250,000	0.222	July 16, 2006	March 16, 2009
361,086	361,086	0.300	March 15, 2006	March 15, 2008
1,907,500	1,907,500	0.300	August 3, 2006	August 3, 2008
5,000	22,500	0.222	July 16, 2006	September 15, 2007
22,500	101,250	0.222	July 16, 2006	September 15, 2007
4,535,586	11,592,921			

d) Amalgamation

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

Lonsdale was a capital pool company that 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 (780,000) are entitled to acquire 653,266 Common Shares of the Company, and the holders of Lonsdale warrants (375,000) are entitled to acquire 314,070 Common Shares of the Company. At June 30, 2006, 135,500 warrants were exercised to acquire 113,485 common shares. Proceeds of these transactions totaled \$27,100.

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. At June 30, 2006, 62,500 replacement warrants were exercised to acquire 281,250 common shares. Proceeds of these transactions totaled \$65,625.

(Formerly Cannasat Pharmaceuticals Inc.)**Notes to the Unaudited Interim Financial Statements****September 30, 2006**

6. SHARE CAPITAL (continued)*d) Amalgamation (continued)*

Immediately following the amalgamation, 38,705,837 Common Shares of the Company were subject to escrow. 34,608,879 of these escrowed shares 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. The remaining 4,096,958 escrowed shares 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. At September 30, 2006, 32,878,436 and 3,072,719 of these Common Shares respectively, are still subject to escrow.

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

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
Warrants exercised during the period		(18,000)
Compensation earned during the period – employee		23,466
Compensation earned during the period – non-employee		176,406
<hr/>		
<u>Balance, September 30, 2006</u>	<u>\$</u>	<u>430,078</u>

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 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 (pre-amalgamation price). In addition to the acquisition costs, the Company has agreed to pay a combination of milestone-based payments and royalties.

(Formerly Cannasat Pharmaceuticals Inc.)**Notes to the Financial Statements****September 30, 2006**

8. NOTES PAYABLE

Agreements were made by the Company 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 the Company 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 (pre-amalgamation price) 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 (pre-amalgamation price) 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 (pre-amalgamation price) per share at the option of the holder.

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 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:

	September 30, <u>2006</u>	September 30, <u>2005</u>
Rent and office expenses and services	\$ -	\$ 99,400
Management fees	\$ 108,000	\$ 108,000
Commissions for shares issued	\$ -	\$ 16,650

Commencing September 1, 2005 the Company contracted directly with third parties for premises and office services.

(Formerly Cannasat Pharmaceuticals Inc.)

Notes to the Financial Statements

September 30, 2006

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

The Company has entered into research and development obligations requiring total payments in the amount of \$70,000. The Company now expects to retire these obligations by December 31, 2006.

12. SUPPLEMENTARY INFORMATION

The following significant transactions did not generate or use cash:

	<u>Three Months Ending</u>		<u>Nine Months Ending</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Class A common shares	\$ -	\$ -	\$ (67,266)	\$ -
Contributed surplus	\$ 43,928	\$ 64,881	\$ 181,872	\$ 124,792
Compensation expense	\$ (67,928)	\$ (228,844)	\$ (225,506)	\$ (340,755)
Deferred expense	\$ -	\$ -	\$ (207,308)	\$ -
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -

13. SUBSEQUENT EVENTS

None.