CANNASAT THERAPEUTICS INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

Audited

CANNASAT THERAPEUTICS INC.
December 31, 2006 and 2005

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
CANNASAT THERAPEUTICS INC.

We have audited the balance sheets of Cannasat Therapeutics Inc. as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2006. 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 audits.

We conducted our audits 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 2, 2007,
except for Note 14
which is at April 19, 2007

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CANNASAT THERAPEUTICS INC.

Balance Sheets
As at December 31,

		2006		2005
ASSETS				
CURRENT				
Cash and cash equivalents	$	1,210,363	$	632,219
Sundry receivables		281,838		178,631
		1,492,201		810,850
EQUIPMENT (Note 3)		9,863		2,615
LONG-TERM INVESTMENT (Note 4)		1,464,352		1,539,689
DEFERRED COSTS (Note 5)		-		207,308
DEFERRED COMPENSATION EXPENSE (Note 6(c))		208,000		304,000
OTHER INTANGIBLE ASSETS (Note 7)		200,000		200,000
	$	3,374,416	$	3,064,462
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	410,716	$	399,838
Current portion of notes payable (Note 8)		100,000		100,000
		510,716		499,838
NOTES PAYABLE (Note 8)		-		20,900
		510,716		520,738
COMMITMENTS (Notes 4, 6 and 11)				
GOING CONCERN (Note 2)				
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 6(b))		7,232,448		4,954,753
COMMON SHARES TO BE ISSUED (Note 14)		35,000		-
CONTRIBUTED SURPLUS (Note 6(e))		574,222		248,206
DEFICIT		(4,977,970)		(2,659,235)
		2,863,700		2,543,724
	$	3,374,416	$	3,064,462

APPROVED BY THE BOARD:

"Peter Palframan", Director   "Rochelle Stenzler", Director

The accompanying notes are an integral part of these Financial Statements

CANNASAT THERAPEUTICS INC.
Statements of Operations and Deficit
For the years ended December 31,

		2006		2005
REVENUE				
Interest income	$	79,143	$	55,445
EXPENSES				
General and administrative		908,453		1,058,263
Research and development		1,052,893		548,670
Amortization of equipment		1,752		1,121
Stock option compensation expense		393,650		290,831
Recovery on scientific research		(34,207)		-
		2,322,541		1,898,885
LOSS BEFORE EQUITY LOSS		(2,243,398)		(1,843,440)
LOSS FROM EQUITY ACCOUNTED INVESTMENT (Note 4)		(75,337)		(60,312)
NET LOSS FOR THE YEAR		(2,318,735)		(1,903,752)
DEFICIT, BEGINNING OF YEAR		(2,659,235)		(755,483)
DEFICIT, END OF YEAR	$	(4,977,970)	$	(2,659,235)
LOSS PER SHARE - basic and diluted	$	(0.04)	$	(0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		61,860,300		45,225,858

CANNASAT THERAPEUTICS INC.
Statements of Cash Flows
For the years ended December 31,

		2006		2005
NET INFLOW (OUTLFOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net loss for the year	$	(2,318,735)	$	(1,903,752)
Items not affecting cash				
Loss from equity accounted investment		75,337		60,312
Shares issued for services		35,000		139,964
Amortization of equipment		1,752		1,121
Stock option compensation expense		393,650		290,831
		(1,812,996)		(1,411,524)
Changes in non-cash operating working capital items				
Sundry receivables		(103,207)		(129,931)
Accounts payable and accrued liabilities		10,878		340,015
		(1,905,325)		(1,201,440)
INVESTING				
Acquisition of equipment		(9,000)		-
Cash acquired through amalgamation (Note 6(d))		779,151		-
		770,151		-
FINANCING				
Deferred costs		-		(207,308)
Amalgamation costs		(165,110)		-
Exercise of common share purchase warrants		92,726		-
Private placements, net of issue costs		1,785,702		1,049,684
		1,713,318		842,376
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		578,144		(359,064)
CASH AND CASH EQUIVALENTS, beginning of year		632,219		991,283
CASH AND CASH EQUIVALENTS, end of year	$	1,210,363	$	632,219
CASH AND CASH EQUIVALENTS CONSIST OF:				
Cash	$	71,246	$	(4,723)
Cash equivalents		1,139,117		636,942
	$	1,210,363	$	632,219

SUPPLEMENTARY CASH FLOW INFORMATION (Note 12)

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”), a capital pool company, were amalgamated on March 15, 2006 under the Business Corporations Act (Canada) and continued as one company with the name “Cannasat Therapeutics Inc.”.

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 year. 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 $3,683,605 in operating activities from inception to December 31, 2006 and has an accumulated deficit of $4,977,970 as at December 31, 2006. 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 development stage
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
Equipment is recorded at cost and is 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.

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.

Continued…

2. ACCOUNTING POLICIES (continued)

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 will be amortized over the estimated useful life once commercial operations commence.

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.

Stock-option compensation
The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

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.

Continued…

2. ACCOUNTING POLICIES (continued)

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. Significant estimates made by the Company include factors affecting valuations of stock based compensation and the valuation of income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

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, extended to June 30, 2006, then extended to September 30, 2006 has been extended further to September 30, 2007. 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.

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, 2006		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	5,746	2,768	2,978
Furniture and fixtures	7,650	765	6,885
Total	13,396	3,533	9,863

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

Continued…

4. LONG-TERM INVESTMENT

		December 31, 2006		December 31, 2005
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	$	984,352	$	1,059,689
Loan receivable, 7%, convertible to Class A common shares of Prairie Plant Systems Inc.		480,000		480,000
	$	1,464,352	$	1,539,689

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 December 31, 2006 interest is paid in full to February 2006. The Company currently expects interest payments to be brought up to date by June 30, 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, commencing in the fiscal year of Prairie Plant Systems Inc. ending October 31, 2005, the Company has made an on-going commitment to 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 has expended the required $250,000 commitment for the fiscal years of Prairie Plant Systems Inc. ended October 31, 2006 and 2005. 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 in the amount of $350,000. The underlying depreciable contracts valued at $566,000 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 that occurred during the year ended December 31, 2006. These deferred charges were allocated to share capital upon completion of the amalgamation and financing transaction on March 15, 2006.

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6. SHARE CAPITAL

a) *Authorized*

Unlimited number 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 December 31, 2005			
	Number of shares #	Number of options #	Number of warrants #	Net Proceeds $
Common	12,000,000	-	-	60,000
Class A common	9,449,238			4,669,492
Stock options	-	1,525,000	-	-
Common share purchase warrants	-	-	1,500,000	225,261
Total	21,449,238	1,525,000	1,500,000	4,954,753

	as at December 31, 2006			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	66,014,957	-	-	6,903,237
Stock options	-	3,021,240	-	-
Common share purchase warrants	-	-	4,535,586	329,211
Total	66,014,957	3,021,240	4,535,586	7,232,448

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

	as at December 31, 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	-	5,594,505	-	5,594,505
Common share purchase warrants	-	-	11,592,921	11,592,921
Total	66,014,957	5,594,505	11,592,921	83,202,383

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

Continued…

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 $
Pre-amalgamation					
Common shares					
December 31, 2004 and 2005	12,000,000	23,049,390	60,000	-	60,000
Class A common shares					
December 31, 2004	5,890,000	17,670,000	3,566,535	186,691	3,379,844
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 (i)	2,103,750	6,311,250	21,038	5,000	16,038
September 9, 2005 (ii)	117,648	352,944	100,000	-	100,000
September 9, 2005 (iii)	164,663	493,990	139,964	-	139,964
September 9, 2005 (iv)	453,177	1,359,532	385,201	20,405	364,796
February 8, 2006, share issuance (v)	1,276,336	3,829,009	1,148,703	56,000	1,092,703
	10,725,574	32,176,725	6,081,441	319,246	5,762,195
Total (pre-amalgamation)	22,725,574	55,226,115	6,141,441	319,246	5,822,195
Upon Amalgamation					
Cannasat shares	22,725,574	55,226,115	6,141,441	319,246	5,822,195
Lonsdale shares (Note 6(d))	7,800,000	6,532,662	779,151	-	779,151
Amalgamation costs	-	-	-	373,784	(373,784)
Total (upon amalgamation)		61,758,777	6,920,592	693,030	6,227,562
Post-amalgamation					
Common shares					
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 value		-	18,000	-	18,000
May 3, 2006, issued for settlement of debt		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 (vi)		3,815,000	648,550	59,500	589,050
TOTAL (SHARES AND PROCEEDS), DECEMBER 31, 2006		66,014,957	7,700,767	797,530	6,903,237

Continued…

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 $
Common share purchase warrants					
August 18, 2004	1,500,000	6,750,000	240,000	14,739	225,261
August 3, 2006 (vi)	1,907,500	1,907,500	114,450	10,500	103,950
TOTAL PROCEEDS FROM WARRANTS, DECEMBER 31, 2006			354,450	25,239	329,211
TOTAL PROCEEDS FROM SHARES AND WARRANTS, DECEMBER 31, 2006			8,055,217	822,769	7,232,448

i) 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 Class 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 pre-amalgamation exercise price of all outstanding stock options to $0.85.

ii) 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).

iii) 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.

iv) 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.

v) On February 8, 2006, the Company completed a private placement consisting of one Class A common share at a subscription price of $0.90 per share. 1,276,336 Class A common shares were issued pursuant to this private placement for gross proceeds of $1,148,703.

Continued…

6. SHARE CAPITAL (continued)

b) Issued (continued)

vi) On August 3, 2006, the Company completed a private placement consisting of one common share and one half of one common share purchase warrant at a subscription price of $0.20 per unit. 3,815,000 common shares and 1,907,500 warrants were issued pursuant to this private placement for gross proceeds of $763,000. Each whole warrant entitles the holder to acquire one common share of the Company at a price of $0.30 per share until August 3, 2008. The fair value of these warrants was estimated at $114,450 using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4%, expected life of two years, expected dividend rate of 0%, and expected volatility of 84%.

c) Stock options and warrants

During the year ended December 31, 2006, 361,086 compensation warrants were issued to the Agents that were engaged in the private placement forming a part of the Amalgamation (Note 6(d)). Each compensation warrant entitles the holder to purchase one common share of the Company at a price of $0.30 per common share. These compensation warrants expire on March 15, 2008.

A summary of the status of options as of December 31, 2006 and changes during the year is as follows:

	Number of Options #	Number of shares issuable on exercise of options #	Weighted Exercise Price (/share) $
Options outstanding at December 31, 2004*	300,000	900,000	0.330
Granted*	1,225,000	3,675,000	0.293
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	891,240	891,240	0.300
Cancelled or expired	(175,000)	(525,000)	0.290
Outstanding as at December 31, 2006	3,021,240	5,594,505	0.286

* 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.

The weighted average grant date fair value of options issued during the year ended December 31, 2006 is $0.15 (2005 - $0.28). Fair value of the options granted during the year has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0% (2005 – 0%), expected volatility 82% (2005 – 0% and 75%), risk-free interest rate 4% (2005 – 3.3% - 3.6%) and expected life of 4 years (2005 – 3.5 - 7 years).

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, $100,000 was expensed during the year ended December 31, 2005 and $96,000 was expensed during the year ended December 31, 2006 and $208,000 ($304,000, as at December 31, 2005) was deferred to future periods.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Stock options issued and outstanding as at December 31, 2006 are as follows:

Number of Options	Number of common shares issuable on exercise of options	Effective Strike Price ($/share)	Vesting Date	Expiry Date
#	#	$		
487,500	408,291	0.239	July 28, 2005	March 23, 2007
50,000	150,000	0.283	August 18, 2004	August 18, 2009
150,000	450,000	0.283	December 31, 2004	December 31, 2009
8,333	25,000	0.317	December 31, 2005	June 30, 2010
41,667	125,000	0.283	June 30, 2006	June 30, 2010
292,500	244,974	0.239	July 28, 2005	July 28, 2010
116,667	350,000	0.317	August 31, 2006	August 31, 2010
720,620	720,620	0.300	December 4, 2006	December 3, 2010
8,333	25,000	0.317	December 31, 2005	December 31, 2010
41,666	125,000	0.283	December 31, 2006	December 31, 2010
11,770	11,770	0.300	January 4, 2007	January 3, 2011
11,770	11,770	0.300	February 4, 2007	February 3 2011
11,770	11,770	0.300	March 4, 2007	March 3, 2011
50,000	150,000	0.283	March 23, 2007	March 23, 2011
11,770	11,770	0.300	April 4, 2007	April 3, 2011
11,770	11,770	0.300	May 4, 2007	May 3, 2011
11,770	11,770	0.300	June 4, 2007	June 3, 2011
8,333	25,000	0.317	December 31, 2005	June 30, 2011
58,333	175,000	0.283	June 30, 2007	June 30, 2011
116,667	350,000	0.317	August 31, 2007	August 31, 2011
50,000	150,000	0.283	August 31, 2007	August 31, 2011
50,000	50,000	0.300	December 4, 2007	December 3, 2011
16,667	50,000	0.283	December 31, 2007	December 31, 2011
16,667	50,000	0.283	June 30, 2008	June 30, 2012
116,667	350,000	0.317	August 31, 2008	August 31, 2012
50,000	50,000	0.300	December 4, 2008	December 3, 2012
2,521,240	4,094,505			
500,000	1,500,000	0.283	See Below *	See Below *
3,021,240	5,594,505			

The total number of common shares that are issuable pursuant to stock options that are exercisable as at December 31, 2006 is 2,660,665.

* Note: On September 1, 2005, 1,500,000 options were granted and vesting is 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.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Details of the warrants outstanding as at December 31, 2006 are as follows:

	Number of Warrants #	Number of shares issuable on exercise of warrants #	Weighted Exercise Price (/share) $
Warrants outstanding at December 31, 2004 and 2005*	2,090,000	9,405,000	0.262
Lonsdale warrants (at amalgamation, March 15, 2006)*	375,000	314,070	0.239
Granted	2,268,586	2,268,586	0.300
Exercised	(198,000)	(394,735)	0.235
Cancelled or expired	-	-	-
Outstanding and exercisable as at December 31, 2006	4,535,586	11,592,921	0.264

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

The weighted average grant date fair value of warrants issued during the year ended December 31, 2006 is $0.07 (2005 - $NIL).

The fair value of the 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 year has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0%, expected volatility 84%, risk-free interest rate 4% and expected life of 2 years.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Warrants outstanding and exercisable as at December 31, 2006 are as follows:

Number of Warrants #	Number of shares issuable on exercise of warrants #	Effective Strike Price (/share) $	Fair value $	Expiry Date
239,500	200,585	0.239	-	June 29, 2007*
1,500,000	6,750,000	0.278	225,261	September 15, 2007
500,000	2,250,000	0.222	120,000	March 16, 2009*
361,086	361,086	0.300	-	March 15, 2008*
1,907,500	1,907,500	0.300	103,950	August 3, 2008
5,000	22,500	0.222	7,500	September 15, 2007*
22,500	101,250	0.222	7,500	September 15, 2007*
4,535,586	11,592,921		464,211	

* These warrants were issued as compensation for services performed and their fair value is recorded in contributed surplus. The remaining warrants were issued pursuant to private placements and their fair value is recorded as part of share capital.

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 trading 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 exchange for 100% of the issued and outstanding common shares of Lonsdale. In addition, the holders of Lonsdale's options (780,000) are entitled to acquire 653,265 common shares of the Company, and the holders of Lonsdale warrants (375,000) are entitled to acquire 314,070 common shares of the Company. During the year ended December 31, 2006, 135,500 replacement 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, 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. During the year ended December 31, 2006, 62,500 replacement warrants were exercised to acquire 281,250 common shares. Proceeds of these transactions totaled $65,625.

Continued…

6. SHARE CAPITAL (continued)

d) Amalgamation (continued)

As a result of the transaction, the former shareholders of Cannasat owned in excess of 50% of the outstanding shares of the combined entity. In accordance with CICA EIC-10, the substance of the transaction was a capital transaction and was accounted for as a reverse take-over with Cannasat being identified as the acquirer. In accordance with reverse take-over accounting, the balance sheet is a continuation of Cannasat. Comparative figures presented in the financial statements after the reverse take-over are those of Cannasat.

Based on the unaudited balance sheet of Lonsdale at the time of the transaction, the net assets at estimated fair values that were acquired by the Company were $779,151, which was comprised entirely of cash.

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% to be released six months after the final Exchange bulletin (March 23, 2006), 5% to be released every six months thereafter for the next 18 months and 10% to be released 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% to be released on the date of the final Exchange bulletin and 15% to be released every six months thereafter. At December 31, 2006, 32,878,436 and 3,072,719 respectively, of these common shares 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:

Balance, December 31, 2004	$	57,375
Compensation earned during the year – employee		36,660
Compensation earned during the year – non-employee		154,171
Balance, December 31, 2005		248,206
Warrants exercised during the year		(18,000)
Compensation earned during the year – employee		37,546
Compensation earned during the year – non-employee		306,470
Balance, December 31, 2006	$	574,222

7. OTHER INTANGIBLE ASSETS

On June 10, 2005, the Company entered into a license agreement with a research and development company. The License fee of $200,000 was satisfied by the execution and delivery of 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.

Continued…

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 on June 30, 2005 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 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 was 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 $0.2833 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, 88,236 Class A common shares at $0.2833 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 $0.2833 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 which the Company's chief executive officer and another director control. The Company also paid consulting fees to a director and a corporation controlled by the chairman of the board. 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, 2006	December 31, 2005
Rent and office expenses and services	$ -	$ 99,400
Management fees	$144,000	$ 144,000
Commissions for shares issued	$ -	$ 16,650
Furniture and equipment	$ 9,000	$ -
Consulting services, public relations and marketing	$ 50,073	$ 55,500
Consulting services, research and development	$ 16,000	$ -

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

During the year ended December 31, 2006, directors and officers of the Company subscribed for shares and units as part of private placements. 173,334 pre-amalgamation shares (2005 – 15,000) were issued to the directors and officers for gross proceeds of $156,000 (2005 - $15,000). 250,000 units (2005 – NIL) were issued for gross proceeds of $50,000 (2005 – $NIL). See Note 6(b(vi)).

Continued…

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% (2005 – 36%) are as follows:

	December 31, 2006	December 31, 2005
Loss before income taxes	$ (2,318,735)	$ (1,903,752)
Expected income tax recovery	(835,000)	(685,000)
Adjustments to benefit resulting from:		
Share issue costs	(174,000)	(28,000)
Stock option compensation	142,000	105,000
Equity loss from Prairie Plant Systems Inc.	14,000	11,000
Deferred costs	-	(75,000)
Non-deductible amounts	-	24,000
Other	62,000	-
	$ (791,000)	$ (648,000)
Valuation allowance	791,000	648,000
	$ -	$ -

b) Future income taxes have been recognized using the combined tax rate of 36% (2005 - 36%). Temporary differences and tax loss carry forwards which give rise to future income tax assets and liabilities are as follows:

	December 31, 2006	December 31, 2005
Future income tax assets:		
Share issuance costs	$ 219,000	$ 75,000
Investment in Prairie Plant Systems Inc.	24,000	11,000
Equipment	1,000	-
Tax loss carry forwards	1,480,000	847,000
	1,724,000	933,000
Future income tax liabilities	-	-
Valuation allowance	(1,724,000)	(933,000)
	$ -	$ -

c) The Company has approximately $4,111,000 of non-capital losses as at December 31, 2006, 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	501,000
2015	1,596,000
2026	2,014,000
	4,111,000

Continued…

11. COMMITMENTS

The Company has entered into research and development obligations requiring total payments in the amount of $85,100 all due within one year.

The Company is committed to a minimum rental under a lease for its premises, which will expire on August 31, 2007. Minimum rental commitments remaining under this lease approximate $48,000, all due within one year.

12. SUPPLEMENTARY CASH FLOW INFORMATION

	December 31, 2006	December 31, 2005
Income taxes paid	$ -	$ -
Interest paid	$ 8,245	$ 385

The following significant transactions did not generate or use cash:

Common shares	$ (38,900)	$ 239,964
Common shares to be issued (Note 14)	$ (35,000)	$ -
Contributed surplus	$ 326,016	$ 190,831
Compensation expense	$ (393,650)	$ (290,831)
Other intangible assets	$ -	$ (200,000)
Notes payable	$ -	$ 100,000

13. FINANCIAL INSTRUMENTS

Fair value:

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of sundry receivables, accounts payable and accrued liabilities, and notes payable reflected in the balance sheet approximate fair value because of the limited term of these instruments.

Continued…

14. SUBSEQUENT EVENTS

Issuance of common shares for services provided in fiscal 2006

On March 13, 2007, 123,675 common shares, valued at $35,000, were issued for consulting services provided in 2006. The board of directors of the Company approved this transaction on November 23, 2006.

Options Exercised and Options Expired

On February 7, 2007, a total of 250,000 options, to acquire 250,000 common shares, with an expiry date of November 23, 2011, expired under the 90-day clause after termination of services between the Company and a consultant.

On March 23, 2007, a total of 97,500 options, with an expiry date of March 23, 2007, were exercised to acquire 81,658 common shares, for total proceeds of $19,500.

On March 23, 2007, 390,000 options to acquire 326,633 common shares expired.

Escrowed Shares

On March 23, 2007, a total of 2,344,987 shares were released from escrow, leaving a balance of 33,606,168 still in escrow.