CANNASAT THERAPEUTICS INC.

For the year ended December 31, 2006

All amounts are expressed in Canadian (CDN) dollars unless otherwise indicated

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

This management discussion and analysis are as of April 23, 2007. The following information should be read in conjunction with our December 31, 2005 and December 31, 2006 year-end audited financial statements and related notes, which were prepared in accordance with Canadian generally accepted accounting principles.

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.

Overview

Cannasat is a specialty pharmaceutical company with a focus on developing a portfolio of cannabinoid-based pharmaceutical products. Cannasat is currently working on three pre-clinical projects which target different patient groups and different symptoms.

CAT 310 is the Company's lead product that uses patented drug delivery technology to deliver cannabinoids systemically for rapid relief of nausea/vomiting and neuropathic pain among other conditions. CAT 210 is a product in development that targets the local treatment of neuropathic pain with cannabinoids. CAT 320 is a product that targets the endocannabinoid system to treat mood disorders such as anxiety and depression.

The Company also has an equity investment and a strategic alliance agreement with Saskatoon-based Prairie Plant Systems Inc. (PPS), a privately held biotechnology company and the only government licenced grower and distributor of medicinal cannabis in Canada.

In March 2006, Cannasat Therapeutics and Lonsdale Public Ventures, a capital pool company, were amalgamated under one name – Cannasat Therapeutics Inc. This merger constituted a Qualifying Transaction for Lonsdale and enabled Cannasat to become listed on the TSX Venture Exchange under the symbol CTH.

Cannasat has a narcotic dealer's licence granted by Health Canada to conduct research with controlled substances and to allow it to import and export controlled substances for research purposes. This licence must be renewed annually.

Product Development

CAT 310

CAT 310 is a product that uses patented drug delivery technology to deliver cannabinoids systemically for rapid relief of nausea/vomiting and neuropathic pain among other conditions. During the year ended December 31, 2006, Cannasat advanced the CAT 310 pre-clinical research project as planned. The majority of the work on this project is being conducted by Cannasat researchers at our laboratory facilities in Edmonton, Alberta, researchers at two leading universities, and Montreal-based IntelGenx Corp. CAT 310 is being preferentially funded.

During Q2 and Q3, the Company completed early-stage formulation development work, including proof-of-concept studies, prototype dosage forms, stability and solubility testing, and protocol development for late stage formulation scale-up.

On October 4, 2006, the Company held a Pre-Clinical Trial Application (CTA) meeting with Health Canada officials to discuss CAT 310. Cannasat submitted the intended uses, product rationale, pre-clinical pharmacokinetic data, toxicology data, and the Phase 1 protocol for review by the regulators. Health Canada provided feedback on Cannasat's plans and provided Cannasat with guidance on the information required for final CTA approval in order for the company to proceed with testing in human subjects.

In early November, the Company signed a long-term collaborative agreement with IntelGenx Corp. to co-develop novel cannabinoid-based products through a combination of Cannasat's and IntelGenx's proprietary drug delivery technologies. The collaboration will focus on the development and production of new formulations of cannabinoid pharmaceutical products, starting with CAT 310.

During the fourth quarter, the Company continued to advance negotiations with several Active Pharmaceutical Ingredient (API) suppliers for manufacturing and scale up of material for clinical studies.

Over the next 12 months, Cannasat and IntelGenx will work to produce final formulation and dosage forms to enter Phase I safety and pharmacokinetic clinical testing of CAT 310. Positive results from these early trials will then trigger volume production of the product at outsourced formulation and manufacturing companies for further clinical testing and commercialization. Further clinical studies accompanied by pre-clinical research, toxicology information, and chemistry and manufacturing data will be submitted to Health Canada, the FDA, and other regulatory agencies for product registration and commercial sale.

As Cannasat's products will be prescription controlled drugs, Cannasat will be required to obtain regulatory drug approvals from Health Canada and the Food and Drug Administration (FDA) in the United States and eventually other regulators in targeted countries.

CAT 210

CAT 210 is a product in development that targets the local treatment of neuropathic pain with cannabinoids. During the 12 month period ended December 31, 2006, Cannasat advanced the CAT 210 pre-clinical research project as planned. The majority of the work on this project was conducted by Cannasat researchers at our laboratory facilities in Edmonton, Alberta, and researchers at two leading universities.

During Q2 and Q3, the Company completed early-stage formulation development work, including proof-of-concept studies, prototype dosage forms, and stability testing.

In October 2006, the Company signed a contribution agreement with the National Research Council Canada Industrial Research Assistance Program ("NRC-IRAP") which will help fund further pre-clinical research and development of CAT 210.

CAT 320

CAT 320 is a product that targets the endocannabinoid system to treat mood disorders such as anxiety and depression. On March 20, 2007 Cannasat and IntelGenx Corp. announced a long-term collaborative agreement to co-develop a novel cannabinoid-based product, CAT 320, through a combination of Cannasat's and IntelGenx's proprietary drug delivery technologies.

Prairie Plant Systems Investment

Cannasat has an equity investment and a strategic alliance agreement with Saskatoon-based Prairie Plant Systems Inc. (PPS), a privately held biotechnology company and the only government licenced grower and distributor of medicinal cannabis in Canada.

In December 2000, Health Canada awarded PPS a five-year $5.75 million contract to supply medical marijuana to federal government Medical Marijuana Access Regulations (MMAR) program qualified and approved patients. Individuals who are eligible to apply to Health Canada to legally possess cannabis for medical purposes include those with terminal illnesses, HIV/AIDS, cancer, multiple sclerosis, epilepsy, spinal cord injury/disease, and severe arthritis.

In August 2004, Cannasat made a $1.6 million investment in PPS. This investment consisted of three components: (1) a 16.96% equity investment in the amount of $1.12 million; (2) a $480,000 debenture bearing interest at 7% maturing July 31, 2007; and (3) a 12-year strategic alliance agreement which expires on October 31, 2016. At December 31, 2006, Cannasat's equity ownership was 14.94%.

PPS through its wholly-owned subsidiary, Sub-Terra LLC, has additional operations in the United States that are not strategic to Cannasat's business plan. In 2006, PPS announced its intention to raise an additional $5 million capital for expansion, research and development and working capital.

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 Proposal (RFP) for medical marijuana production and distribution. Based on the original RFP process in 2000, it is expected that the new RFP process will take a minimum of 6 to12 months from beginning to end. Until the new RFP is announced and a new contract is awarded, Health Canada has a need to continue distributing medical marijuana to Marihuana Medical Access Regulations approved patients and qualified researchers.

PPS and Health Canada are currently in discussions to continue their relationship but timing, terms and conditions have not yet been established. If the licence to grow and distribute medicinal cannabis in Canada is not further extended or renewed, the business, financial condition and results of operations of PPS and the investment by Cannasat in PPS could be materially adversely affected.

For the year ended December 31, 2006, PPS continued to achieve its operating budgets and Cannasat recorded an equity investment loss of $75,337.

Revenue and Expenses

Revenue is currently generated from interest payments received from Prairie Plant Systems Inc. and other short term deposits. Cannasat expects longer-term revenues and profits to be generated from the commercialization of cannabinoid-based pharmaceuticals. These revenues are considered long-term as a result of the long lead times required to complete clinical trials and to receive regulatory approvals.

Research and development expenses consist primarily of personnel and related costs associated with cannabinoid research and education initiatives, as well as the development of the company's cannabinoid-based pharmaceutical product candidates.

General and administration costs consist of personnel and related costs associated with management, administrative and finance functions as well as professional fees, office rent, insurance and other corporate expenses.

For a further discussion of Cannasat's revenues (or losses) and research and other expenses, reference should be made to the section below entitled "Results of Operations".

Contractual Commitments

In August 2004, the Company entered into a strategic alliance agreement with Prairie Plant Systems Inc. as noted earlier. 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 cannabinoid related activities. The Company expended the required $250,000 commitment for the fiscal year of Prairie Plant Systems Inc. ended October 31, 2006.

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

In June 2005, Cannasat entered into a licence agreement with a research and development company with respect to the exclusive worldwide rights to make, use or sell licenced products. The Licence Fee of $200,000 was satisfied by the execution and delivery of two promissory notes on June 30, 2005 in the aggregate principal amount of $100,000 and the issuance of 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). These shares were issued on September 9, 2005.

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 occurred prior to September 1, 2009. The notes were to be paid in cash or the issuance of common shares equal in number to the value of the notes, each at the option of Cannasat. On May 3, 2006, Cannasat exercised the right to issue the noteholders common shares.

Related Party Transactions

During the year ended December 31, 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. The Company also paid consulting fees satisfied through the issuance of stock options to a director (Alan Ryley), as well as cash payments and stock options to a corporation controlled by the chairman of the board (Moses Znaimer).

During the year ended December 31, 2006 these expenses aggregated $219,073 compared to $315,550 during the year ended December 31, 2005. Related party transactions have been recorded at the amount which is management's estimate of the fair value of such transactions.

FINANCIAL REVIEW – COMPARISON FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

Results of Operations

General and Administrative

General and administrative expenses for the 3 months ended December 31, 2006, decreased to $218,207 from $346,825 for the 3 months ended December 31, 2005. The decrease is mostly attributed to a reduction in wages and salaries.

General and administrative expenses for the year ended December 31, 2006, decreased to $908,453 from $1,058,263 for the year ended December 31, 2005. The decrease is mostly attributed to a reduction in wages and salaries in the fourth quarter. Costs are in line with management's projections for the year.

Research and Development

Research and development expenditures for the 3 months ended December 31, 2006 increased to $327,066 from $184,750 for the 3 months ended December 31, 2005. The increase is mostly attributed to increased labour and vendor costs associated with research and development activities for CAT 310.

Cannasat accelerated its research and development activities in the year ended December 31, 2006. Research and development expenditures increased to $1,052,893 from $548,670 for the year ended December 31, 2005. The increase is mostly attributed to increased labour and vendor costs associated with the CAT 310 and CAT 210 pre-clinical projects.

Net Loss

During the 3 months ended December 31, 2006, Cannasat recorded a net loss of $665,636 compared to a loss of $475,334 for the 3 months ended December 31, 2005. The increase in net loss is mostly related to increased spending on research and development.

During the year ended December 31, 2006, the Company's net loss was $2,318,735 compared to a loss of $1,903,752 for the fiscal year ended December 31, 2005. The accelerated expenditure is due to the increase in research activities and is in line with management's forecasts.

Summary of Financial Information ($)

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	-	-	-	-	-	-	-	-
Interest Income	27,000	18,000	22,000	12,000	16,000	15,000	13,000	12,000
Net Loss	667,000	474,000	710,000	468,000	476,000	651,000	389,000	388,000
Loss per share (basic)	0.01	0.01	0.01	0.01	0.03	0.01	0.01	0.01

Annual Information ($)

	2006	2005	2004
Revenues	-	-	-
Interest Income	79,000	55,000	12,000
Net Loss	2,319,000	1,904,000	755,000
Total Assets	3,374,000	3,064,000	3,047,000
Loss per share (basic)	0.04	0.04	0.03

Liquidity and Capital Resources

The primary capital needs are for funds to support the scientific research and development activities including pre-clinical and clinical trials. Since inception, cash requirements have been financed primarily through issuances of securities.

Cannasat anticipates future funding requirements to be met primarily through additional securities issuances, research and development tax credits, other potential sources of government funding, or a combination of the foregoing.

Operating Activities

After excluding non-cash items, primarily stock option compensation expense, cash outflow from operating activities was $1,905,325 for the year ended December 31, 2006 compared with $1,201,440 for the year ended December 31, 2005. The increase is mostly attributed to increased labour and vendor costs associated with research and development activities for CAT 310.

Financing Activities

Cannasat raised an additional $1,713,318 net of issue costs of $115,500 during the year ended December 31, 2006 by the allotment and issuance of common shares and share purchase warrants. Cannasat also acquired a net amount of $405,367 through an amalgamation transaction with Lonsdale in March 2006.

Financial Position

On December 31, 2006 Cannasat had $1,210,363 cash and cash equivalents on hand. Shareholders' equity increased from $2,543,724 at December 31, 2005 to $2,863,700 at December 31, 2006 as the net loss for the year ended December 31, 2006 was lower than the proceeds from share and warrant issuances.

Share Capital

The Company has authorized an unlimited number of common shares with no par value.

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

	as at April 23, 2007			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	66,220,290	-	-	6,957,737
Stock options	-	2,283,740	-	-
Common share purchase warrants	-	-	4,535,586	329,211
Total	66,220,290	2,283,740	4,535,586	7,286,948

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

	as at April 23, 2007			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common	66,220,290	-	-	66,220,290
Stock options	-	4,936,214	-	4,936,214
Common share purchase warrants	-	-	11,592,921	11,592,921
Total	66,220,290	4,936,214	11,592,921	82,749,425

Significant Events

On October, 2005, an announcement was made regarding a proposed transaction between Cannasat's predecessors, Cannasat Therapeutics Inc. ("Old Cannasat") and Lonsdale Public Ventures Inc. ("Lonsdale") pursuant to which they agreed to amalgamate. Lonsdale was a capital pool company pursuant to the rules of the TSX Venture Exchange Inc. (the "Exchange"). Subsequently, on March 22, 2006, Cannasat announced the completion of the amalgamation of Lonsdale and Old Cannasat, to form the current company, "Cannasat Therapeutics Inc." pursuant to the *Canada Business Corporations Act* (the "Amalgamation").

The Amalgamation constituted the qualifying transaction of Lonsdale pursuant to the policies of the Exchange and is the means by which Cannasat became a public issuer. Old Cannasat was a private company engaged in the business currently carried on by us, as discussed in further detail above under the heading "Overview". As at October 31, 2005, Lonsdale's only asset was approximately $977,000 in working capital.

The Amalgamation was a non-arm's length transaction and, as a result, shareholder approval was required pursuant to the policies of the Exchange. A meeting of the shareholders of Lonsdale was held on February 23, 2006, at which time, a "majority of the minority" shareholders of Lonsdale approved the Amalgamation in accordance with the policies of the Exchange. A meeting of the shareholders of Old Cannasat was held on February 28, 2006. At this time, the holders of common shares and Class A common shares, voting as separate classes, approved the Amalgamation.

Lonsdale Shareholders

Prior to the Amalgamation, Lonsdale had 7,800,000 common shares issued and outstanding and had granted options to acquire 1,115,000 common shares. As part of the Amalgamation, Lonsdale consolidated its shares on the basis of 1.194 common shares for each Common Share of Cannasat. After the completion of the Amalgamation, holders of Lonsdale common shares held 6,532,662 Common Shares in Cannasat. In addition, holders of Lonsdale options and warrants are entitled to acquire 967,335 Cannasat Common Shares.

Old Cannasat Shareholders

Prior to the Amalgamation, Old Cannasat had 12,000,000 common shares and 10,725,574 Class A common shares issued and outstanding. The company had also granted 2,090,000 warrants entitling holders to acquire 3,135,000 Class A common shares and 1,525,000 options entitling holders to acquire 1,525,000 Class A common shares.

Under the Amalgamation, the holders of common shares and Class A common shares in Old Cannasat received Common Shares in Cannasat with a deemed value of $0.30 per share. In addition, each outstanding warrant and option in Old Cannasat was exchanged for one

replacement warrant or option in Cannasat for the applicable number of Cannasat Common Shares and exercise price.

Since the policies of the Exchange only permit "surplus securities" to equal 50% of the issued and outstanding shares of Cannasat immediately following the Amalgamation, the 12,000,000 common shares in Old Cannasat were consolidated and converted into 23,049,390 Cannasat Common Shares. The Class A common shares in Old Cannasat were converted on a three-for-one basis into 32,176,725 Cannasat Common Shares.

After completion of the Amalgamation, securityholders of Cannasat received an aggregate of 55,226,115 Cannasat Common Shares, Cannasat replacement warrants to acquire 9,405,000 Cannasat Common Shares and Cannasat replacement options to acquire 4,575,000 Cannasat Common Shares.

Cannasat also agreed to increase the exercise price for certain options and warrants to $0.30, which is the same as the transaction price for the qualifying transaction. The increased price affected options to acquire 1,755,001 Cannasat Common Shares and warrants to acquire 2,400,000 Cannasat Common Shares which were previously granted to principals of Old Cannasat. As a result of the increase in the exercise price, the Cannasat Common Shares which are acquired on the exercise of the options or warrants will not be subject to escrow.

Escrow Arrangements

The policies of the Exchange require that securities issued for less than $0.05 per share and securities held by parties related to the amalgamated company be held in escrow. As a result, 35,058,879 Cannasat Common Shares are subject to escrow and released over a period of 72 months on the basis of 5% six months after the final Exchange bulletin (issued on March 21, 2006), 5% every six months thereafter for the next 18 months and 10% every six months thereafter for the next 48 months. A further 705,000 Cannasat Common Shares are subject to escrow and 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.

These escrow arrangements are in addition to the escrow arrangements affecting 3,391,958 Cannasat Common Shares which replaced Lonsdale common shares previously owned by Lonsdale shareholders and are subject to escrow. These shares will be released over a period of 36 months on the basis of 10% on March 21, 2006 and 15% every six months thereafter.

Private Placement

In connection with the Amalgamation, Old 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 Class A common shares in Old Cannasat. These shares were subdivided as part of the Amalgamation into 3,829,008 Common Shares in Cannasat.

Old Cannasat retained Dominick & Dominick Securities Inc. to act as agent to assist in the completion of this private placement. The agent received a commission of 2% of the gross proceeds derived from investors introduced by Old 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 Cannasat Common Shares at a price of $0.30 for each share. The option expires 24 months following the completion of the private placement effective March 15, 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.

Off-Balance Sheet Arrangements

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

Financial Instruments

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.

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 licence granted by Health Canada in favour of PPS was extended to September 30, 2007. There can be no guarantee that Health Canada will extend or renew the licence 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 licence, 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 the Management Information Circular dated January 18, 2006 filed on the System for Electronic Document Analysis and Retrieval at www.sedar.com

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls and Procedures

Management is responsible for the information in this management discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended December 31, 2006, an evaluation was carried out under the supervision of, and with the participation of, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Corporation's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (the "MI 52-109). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2006 to provide reasonable assurance that material information relating to the Corporation would be made known to them by others within those entities.

Internal Control over Financial Reporting

MI 52-109 also requires a reporting issuer to submit an annual certificate relating to the design of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. As part of this process, management including the Chief Executive Officer and the Chief Financial Officer, has evaluated the design of the internal control over financial reporting at December 31, 2006 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of December 31, 2006.

Changes in Internal Control over Financial Reporting

Under the provisions of MI 52-109, a reporting issuer is also required to disclose in their MD&A any change in internal control over financial reporting during the most recent fiscal quarter that has materially effected, or is reasonably likely to materially affect internal control over financial reporting.

Management has determined that there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

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