CANNASAT THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION FOR THE SECOND QUARTER ENDED JUNE 30, 2007

Management's discussion and analysis should be read in conjunction with the unaudited financial statements for the second quarter ended June 30, 2007, and the audited financial statements for Cannasat Therapeutics Inc. for the year ended December 31, 2006, as well as the related notes, which are prepared in accordance with Canadian generally accepted accounting principles.

This discussion and analysis compares financial performance for the second quarter ended June 30, 2007 with the same period in 2006. This review was prepared by management with information available as at August 24, 2007. Additional information related to the Company can be found on SEDAR at www.sedar.com

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

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

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 neuropathic pain and possibly other conditions. CAT 320 is a product that targets the endocannabinoid system to treat mood disorders such as anxiety and depression. CAT 210 is a product in development that targets the local treatment of neuropathic pain with cannabinoids.

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.

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 neuropathic pain and possibly other conditions. During the 3 months ended June 30, 2007, Cannasat advanced the CAT 310 pre-clinical research project as planned. In particular, the Company finalized prototype formulations, completed Good Manufacturing Process manufacturing, engaged a Contract Research Organization, and prepared to submit a Clinical Trial Application (CTA) to Health Canada to enter Phase I safety and pharmacokinetic clinical testing.

CAT 320

CAT 320 is a product that targets the endocannabinoid system to treat mood disorders such as anxiety and depression. During the second quarter, Cannasat and IntelGenx Corp. began formulation work as planned.

CAT 210

CAT 210 is a product in development that targets the local treatment of neuropathic pain with cannabinoids. During the 3 months ended June 30, 2007, Cannasat slowed work on the CAT 210 project, focusing the majority of the Company's financial and human resources on CAT 310 and CAT 320.

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 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 June 30, 2007, Cannasat's equity ownership was 14.94% and interest on the debenture is paid in full to February 2006.

For the 3 months ended June 30, 2007, PPS continued to achieve operate within it's budget and Cannasat recorded an equity investment loss of $38,291.

Revenue and Expenses

Revenue is currently generated from interest payments received from 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. As at June 30, 2007, the Company has already exceeded the ongoing commitment for the current fiscal year.

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

Related Party Transactions

During the second quarter, Cannasat made payments for management services to a corporation owned by the Company's Chief Executive Officer, David Hill. During the six months ended June 30, 2007 these expenses aggregated $75,000 (June 30, 2006 - $72,000).

Related party transactions have been recorded at the amount which is management's estimate of the fair value of such transactions.

Private Placement

On April 25, 2007, the Company announced that it had closed a non-brokered private placement that issued 3,790,226 units at a price of $0.22 per unit, raising gross proceeds of $833,850. Each unit consists of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share at a price of $0.30 per common share for a period ending on the earlier of 18 months from the closing date and a period ending 20 days after prior written notice from Cannasat that the closing price of its shares on the principal stock exchange of Cannasat has been at least $0.50 per share for the 20 consecutive trading days. The common shares issued under the Private Placement are subject to a hold period of four months expiring August 26, 2007.

As part of the private placement, 275,704 broker's warrants were also issued. Each broker warrant entitles the holder to acquire one share at an exercise price of $0.22 per share and shall otherwise be exercisable on the same terms as the share purchase warrants.

Board of Directors

On June 26, 2007, Cannasat announced that Dr. David Pattenden had been appointed Chairman of the Board. Dr. Pattenden was elected to the board at the Annual General Meeting of shareholders held on June 25, 2007. Dr. Pattenden succeeds Moses Znaimer, who stepped down as a director, but continues as a shareholder and advisor.

Dr. Pattenden had a successful and varied career in academia, law and business and served as the CEO of the Ontario Medical Association for 11 years. He was also previously the CEO and Chairman of the Board of UTDC Inc. (Division of Lavalin & Bombardier). Dr. Pattenden has 5 degrees from Queens University and was formerly on the faculty of their Law School, and their Commerce and MBA programs. He is presently involved at Queen's University, both in the Faculty of Medicine and the Faculty of Law, as well as being on the Board of Directors of the Queen's University teaching hospital and being recently elected to the Board of Trustees of the University. Dr. Pattenden is currently an Assistant Professor Department of Community Health and Epidemiology, Queen's University; member of Audit Committee Queen's University; member of Governance (Executive) Committee of Board of Directors Queen's University teaching hospital; Chair of Resources Committee Queen's University teaching hospital; Chair of Steering Committee for 50th Anniversary Queen's Law School; Board member of Human Mobility Research Centre Queen's University; and member Liaison Committee Health Care Network Southeastern Ontario.

David Hill, Cannasat's Chief Executive Officer, was also re-elected to the Board, which has increased in size from seven to eight members.

RESULTS OF OPERATIONS

Summary of Financial Information ($)

	2007	2006	Variance
	Q2	Q2	%
Revenues	-	-	-
Interest Income	10,402	22,003	(52.7)
General and Administrative Expenditures	266,337	353,227	(24.6)
Research and Development Expenditures	248,266	262,326	(5.4)
Net Loss	604,878	710,360	(14.8)
Loss per share (basic)	(0.01)	(0.01)	-
Weighted average shares outstanding (in thousands)	69,010,896	62,064,513	11.2

General and Administrative

General and administrative expenses for the 3 months ended June 30, 2007, were $266,377 as compared with $353,227 for the 3 months ended June 30, 2006. The decrease is mostly attributed to the reduction of one time expenses associated with the going public transaction completed in March 2006. Costs are in line with management's projections for the year.

Research and Development

Research and development expenditures for the 3 months ended June 30, 2007, were $248,226 as compared to $262,326 for the 3 months ended June 30, 2006. Research expenditures remained stable with the majority of research and development spending is related to the CAT 310 project.

Net Loss

During the 3 months ended June 30, 2007, Cannasat recorded a net loss of $604,878 compared to a loss of $710,360 for the 3 months ended June 30, 2006. The decrease in net loss is mostly attributed to the reduction of one time expenses associated with the going public transaction completed in March 2006.

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 and loss from equity accounted investment, cash outflow from operating activities was $578,036 for the 3 months ended June 30, 2007 compared with $705,217 for the 3 months ended June 30, 2006. The decrease in cash used in operations is mostly attributed to the reduction of one time expenses associated with the going public transaction completed in March 2006.

Financing Activities

Cannasat raised net proceeds of $774,789 during the 3 months ended June 30, 2007 through the issuance of common shares and share purchase warrants associated with a private placement that closed on April 25, 2007.

Financial Position

On June 30, 2007 Cannasat had $984,005 cash and cash equivalents on hand. Shareholders' equity decreased from $2,863,700 at December 31, 2006 to $2,680,394 at June 30, 2007.

Quarterly Financial Data ($)

	2007		2006				2005	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenues	-	-	-	-	-	-	-	-
Interest Income	10,402	18,000	27,000	18,000	22,000	12,000	16,000	15,000
Net Loss	605,000	444,000	667,000	474,000	710,000	468,000	476,000	651,000
Loss per share (basic)	0.01	0.01	0.01	0.01	0.01	0.01	0.03	0.01

Subsequent Events

On July 17, 2007, Cannasat received $480,000 from Prairie Plant Systems, representing early repayment of a loan outstanding. The Company also received $46,277 to bring all past due interest payments owing current.

On July 31, 2007, Cannasat submitted a Clinical Trial Application (CTA) to Health Canada for a Phase 1 clinical study with its lead product, CAT 310.

On August 22, 2007, Cannasat received a "No Objection Letter" from Health Canada to conduct this clinical study. This Phase 1 trial is a randomized, single dose, crossover study comparing two different formulations of the drug in normal healthy male volunteers. The primary objectives of the trial are to evaluate the safety, tolerability and pharmacokinetics of the CAT 310 prototypes. Enrolment in Canada for this trial is expected to begin in early October 2007.

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 August 24, 2007			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	70,010,516	-	-	7,541,430
Stock options	-	3,993,740	-	-
Common share purchase warrants	-	-	6,449,902	489,404
Total	70,010,516	3,993,740	6,449,902	8,030,834

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

	as at August 24, 2007			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common	70,010,516	-	-	70,010,516
Stock options	-	6,646,214	-	6,646,214
Common share purchase warrants	-	-	13,563,152	13,563,152
Total	70,010,516	4,936,214	13,563,152	90,219,882

Off-Balance Sheet Arrangements

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

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

CHANGES IN ACCOUNTING POLICIES

(a) Financial Instruments

Effective January 1, 2007, the company adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855, "Financial Instruments – Recognition and Measurement," section 3865, "Hedges," section 1530, "Comprehensive Income". These standards have been adopted prospectively.

i) Financial Instruments

Section 3855 establishes a framework for classifying and measuring financial instruments. Under this section all financial instruments must be initially recognized at their fair value on the balance sheet. In accordance with Section 3855, the Company has classified each financial instrument into the five categories set out in the standard: Financial assets and liabilities held for trading, financial assets held to maturity, loans and receivables, financial assets available for sale and other liabilities. Measurement of each of these items is contingent upon initial classification. Unrealized gains and losses on financial instruments classified as held for trading are recognized in earnings in the period incurred. Gains and losses on assets available for sale are recognized in other comprehensive income, and are charged to earnings when the asset is derecognized. The effective interest rate method using amortized cost is applied to the remaining categories of financial instruments.

The classification of financial instruments occurred upon adoption of the standard, and is irrevocable.

ii) Derivative Instruments and Hedging

Hedge accounting ensures that all gains, losses, revenue and expenses from the derivative, and the item it hedges, are recorded in the statement of operations in the same period. The impact of the adoption of this new section on the financial statements is not material.

iii) Embedded Derivatives

An embedded derivative is a component of a financial instrument or other contract that has a feature similar to a derivative. New accounting section 3855 requires these instruments to be identified and recorded separately from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract, the terms of the embedded derivates are the same as the terms of a freestanding derivative, and the hybrid instrument is not re-measured at fair value.

iv) Comprehensive income

Comprehensive income is the change in equity of the Company from net earnings and other comprehensive income ("OCI"). OCI consists of the change in the fair value of any financial instruments classified as available for sale. Amounts recognized in OCI must eventually be

reclassified to Income when the related gains or losses are realized. For the period ended June 30, 2007, the Company did not have other comprehensive income or loss, therefore the comprehensive loss for the period is equal to the net loss for the period.

(b) Accounting Changes

Effective January 1, 2007, the Company adopted the revised CICA section 1506, "Accounting Changes." Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosure required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect of financial statement line items.

The Company has determined that the adoptions of these new policies had no material impact on its financial statements and determined that no adjustments are required for the period ended June 30, 2007.

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 for the period ended June 30, 2007.

FOR FURTHER INFORMATION:

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