CANNASAT THERAPEUTICS INC.
THIRD QUARTER REPORT
SEPTEMBER 30, 2007

Unaudited

CANNASAT THERAPEUTICS INC.
September 30, 2007

TABLE OF CONTENTS

CANNASAT THERAPEUTICS INC.
Interim Balance Sheets

		September 30, 2007 (unaudited)		December 31, 2006 (audited)
ASSETS				
CURRENT				
Cash and cash equivalents	$	1,100,021	$	1,210,363
Sundry receivables		283,807		281,838
		1,383,828		1,492,201
EQUIPMENT (Note 4)		8,165		9,863
LONG-TERM INVESTMENT (Note 5)		887,690		1,464,352
DEFERRED COMPENSATION EXPENSE (Note 6(c))		136,000		208,000
OTHER INTANGIBLE ASSETS (Note 7)		200,000		200,000
	$	2,615,683	$	3,374,416
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	440,567	$	410,716
Current portion of notes payable (Note 8)		100,000		100,000
		540,567		510,716
COMMITMENTS (Notes 5 and 10)				
GOING CONCERN (Note 2)				
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 6(b))		7,805,573		7,232,448
COMMON SHARES TO BE ISSUED		-		35,000
CONTRIBUTED SURPLUS (Note 6(e))		942,404		574,222
DEFICIT		(6,672,861)		(4,977,970)
		2,075,116		2,863,700
	$	2,615,683	$	3,374,416

The accompanying notes are an integral part of these Financial Statements

APPROVED BY THE BOARD:

______________________________, Director ______________________________, Director

Interim Statements of Operations and Deficit

	Three Months Ending September 30, 2007 (unaudited)	Three Months Ending September 30, 2006 (unaudited)	Nine Months Ending September 30, 2007 (unaudited)	Nine Months Ending September 30, 2006 (unaudited)
REVENUE				
Interest income	$ 17,448	$ 17,791	$ 45,837	$ 51,371
EXPENSES				
General and administrative	201,279	126,043	707,765	690,246
Research and development	365,137	295,049	750,586	725,827
Amortization of equipment	566	438	1,698	1,153
Stock option compensation expense	64,894	67,928	184,017	225,506
Recovery on scientific research	-	(34,207)	-	(34,207)
	631,876	455,251	1,644,066	1,608,525
LOSS BEFORE EQUITY LOSS	(614,428)	(437,460)	(1,598,229)	(1,557,154)
LOSS FROM EQUITY ACCOUNTED INVESTMENT (Note 5)	(31,744)	(36,992)	(96,662)	(95,948)
NET LOSS FOR THE PERIOD	(646,172)	(474,452)	(1,694,891)	(1,653,102)
DEFICIT, BEGINNING OF PERIOD	(6,026,689)	(3,837,887)	(4,977,970)	(2,659,235)
DEFICIT, END OF PERIOD	$ (6,672,861)	$ (4,312,337)	$ (6,672,861)	$ (4,312,337)
LOSS PER SHARE - basic and diluted	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	70,010,516	64,783,077	68,371,392	60,460,196

The accompanying notes are an integral part of these Financial Statements

Interim Statements of Cash Flows

	Three Months Ending September 30, 2007 (unaudited)	Three Months Ending September 30, 2006 (unaudited)	Nine Months Ending September 30, 2007 (unaudited)	Nine Months Ending September 30, 2006 (unaudited)
NET INFLOW (OUTLFOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net loss for the period	$ (646,172)	$ (474,452)	$ (1,694,891)	$ (1,653,102)
Items not affecting cash				
Loss from equity accounted investment	31,744	36,992	96,662	95,948
Amortization of equipment	566	438	1,698	1,153
Stock option compensation expense	64,894	67,928	184,017	225,506
	(548,968)	(369,094)	(1,412,514)	(1,330,495)
Changes in non-cash operating working capital items				
Sundry receivables	8,540	(4,206)	(1,969)	(43,850)
Accounts payable and accrued liabilities	176,444	7,476	29,852	(99,925)
	(363,984)	(365,824)	(1,384,631)	(1,474,270)
INVESTING				
Long term investment (Note 5)	480,000	-	480,000	-
Acquisition of equipment	-	-	-	(9,000)
	480,000	-	480,000	(9,000)
FINANCING				
Deferred costs	-	-	-	207,308
Notes payable	-	-	-	(20,900)
Exercise of stock options or warrants	-	-	19,500	-
Private placements, net of issue costs	-	648,000	774,789	2,306,061
	-	648,000	794,289	2,492,469
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	116,016	282,176	(110,342)	1,009,199
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	984,005	1,359,242	1,210,363	632,219
CASH AND CASH EQUIVALENTS, END OF PERIOD	1,100,021	$ 1,641,418	$ 1,100,021	$ 1,641,418
SUPPLEMENTARY CASH FLOW INFORMATION:				
Cash and cash equivalents comprise the following:				
Cash	$ 160,849	$ 37,857	$ 160,849	$ 37,857
Cash equivalents	939,172	1,603,561	939,172	1,603,561
	$ 1,100,021	$ 1,641,418	$ 1,100,021	$ 1,641,418

SUPPLEMENTARY CASH FLOW INFORMATION (Note 11)

The accompanying notes are an integral part of these Financial Statements

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. BASIS OF PRESENTATION AND GOING CONCERN

These interim financial statements are unaudited and have not been reviewed by the Company's auditors. The management of the Company has prepared these interim financial statements in accordance with Canadian Generally Accepted Accounting Principles for the preparation of interim financial information and follow the same accounting policies and methods of application as the audited financial statements of the Company for the year ended December 31, 2006. These statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2006. The disclosure in these interim financial statements does not conform in all respects to Generally Accepted Accounting Principles in Canada for annual financial reporting.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the nine months ended September 30, 2007 may not be indicative of the results that may be expected for the full year ending December 31, 2007.

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 $5,068,236 in operating activities from inception to September 30, 2007 and has an accumulated deficit of $6,672,861 as at September 30, 2007. 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.

3. 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 September 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.

Continued…

3. CHANGES IN ACCOUNTING POLICIES (continued)

(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 September 30, 2007.

4. EQUIPMENT

	September 30, 2007		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	5,746	3,438	2,308
Furniture and fixtures	7,650	1,793	5,857
Total	13,396	5,231	8,165

	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

5. LONG-TERM INVESTMENT

	September 30, 2007	December 31, 2006
268,585 Class A common shares representing 13.43% (December 31, 2006 – 14.94%) of the voting shares of Prairie Plant Systems Inc., recorded on an equity basis	$ 887,690	$ 984,352
Loan receivable, 7%, convertible to Class A common shares of Prairie Plant Systems Inc.	-	480,000
	$ 887,690	$ 1,464,352

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. (PPS) 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 PPS was secured by a general security agreement. The loan had no fixed principal repayment terms and had a conversion option into Class A common shares at $4.17 per share up to July 31, 2007. Interest was payable monthly on the principal balance at an annual rate of 7%. On July 17, 2007, the Company received $480,000 from PPS, representing early repayment of the loan outstanding. The Company also received $46,277 to satisfy interest payments owing.

On August 17, 2004, the Company entered into a strategic alliance agreement with PPS. 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 PPS ended October 31, 2007, 2006 and 2005. The strategic alliance expires on October 31, 2016.

The difference between the cost of the investment in PPS and the underlying net book value of the assets of acquired in PPS was approximately $952,000 and has been allocated to PPS property in the amount of $36,000, PPS contracts in the amount of $566,000 and PPS goodwill in the amount of $350,000. The underlying depreciable PPS contracts valued at $566,000 will be amortized at an annual rate of approximately $81,000.

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, 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

	as at September 30, 2007			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	70,010,516	-	-	7,541,430
Stock options	-	3,493,740	-	-
Common share purchase warrants	-	-	4,939,402	264,143
Total	70,010,516	3,493,740	4,939,402	7,805,573

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

	as at September 30, 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	-	6,146,214	-	6,146,214
Common share purchase warrants	-	-	6,689,402	6,689,402
Total	70,010,516	6,146,214	6,689,402	82,846,132

*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) in the audited financial statements of the Company for the year ended December 31, 2006.

Continued…

6. SHARE CAPITAL (continued)

b) Issued (continued)

At September 30, 2007, the following common shares, and common share purchase warrants were issued for the proceeds noted.

	Number of Shares #	Proceeds $	Share Issuance Costs $	Net Proceeds $
Total Shares, December 31, 2006	66,014,957	7,700,767	797,530	6,903,237
March 13, 2007 (i)	123,675	35,000	-	35,000
March 23, 2007 (ii)	81,658	19,500	-	19,500
April 25, 2007 (iii)	3,790,226	654,315	70,622	583,693
Total Shares and Proceeds, September 30, 2007	70,010,516	8,409,582	868,152	7,541,430

	Number of Warrants #	Proceeds $	Share Issuance Costs $	Net Proceeds $
Total Share Purchase Warrants Proceeds, December 31, 2006		354,450	25,239	329,211
April 25, 2007 (iii)	1,895,113	179,535	19,342	160,193
Expired warrants, September 15, 2007	(1,500,000)	(240,000)	(14,739)	(225,261)
Total Share Purchase Warrants Proceeds, September 30, 2007		293,985	29,842	264,143
TOTAL PROCEEDS FROM SHARES AND WARRANTS, SEPTEMBER 30, 2007		8,703,567	897,994	7,805,573

i) 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.

ii) On March 23, 2007, 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.

iii) On April 25, 2007, Cannasat issued an aggregate of 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 a half share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share at a price of $0.30 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 20 consecutive trading days.

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. The broker's warrants were issued as compensation for services performed and a fair value of $30,904 is recorded in contributed surplus.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants

A summary of the status of options as of September 30, 2007 is as follows:

	Number of Options #	Number of shares issuable on exercise of options #	Weighted Exercise Price (/share) $
Options outstanding at December 31, 2006*	3,021,240	5,594,505	0.286
Exercised	(97,500)	(81,658)	0.239
Granted	1,710,000	1,710,000	0.250
Cancelled or expired	(1,140,000)	(1,076,633)	0.258
Outstanding as at and September 30, 2007	3,493,740	6,146,214	0.260

* 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 the stock options issued during the nine month period ended September 30, 2007 is $0.15. Fair value of the options granted during the period ended September 30, 2007 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 106% and 108%, risk-free interest rate of 4.41% and 4.63%, and expected life of 5 years.

The 2,610,000 options granted in February 2004 were determined to have a value of $513,485. Of this amount, $109,485 was expensed in 2004, $100,000 was expensed during the year ended December 31, 2005, $96,000 was expensed during the year ended December 31, 2006, and 72,000 was expensed during the period ended September 30, 2007. The remaining $136,000 was deferred to future periods.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Stock options issued and outstanding as at September 30, 2007 are as follows:

Number of Options	Number of Shares issuable on exercise of options	Effective Strike Price ($/share)	Vesting Date	Expiry Date
#	#	$		
50,000	150,000	0.283	August 18, 2004	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
470,620	470,620	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
150,000	450,000	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
86,666	86,666	0.250	November 24, 2007	May 24, 2012
86,666	86,666	0.250	May 24, 2008	May 24, 2012
86,667	86,667	0.250	November 24, 2008	May 24, 2012
316,667	316,667	0.250	June 25, 2008	June 25, 2012
316,667	316,667	0.250	June 25, 2009	June 25, 2012
316,667	316,667	0.250	June 25, 2010	June 25, 2012
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
3,143,740	5,096,214			
350,000	1,050,000	0.283	See next page *	See next page *
3,493,740	6,146,214			

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

The total number of common shares that are issuable pursuant to stock options that are exercisable as at September 30, 2007 is 3,336,214.

* 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 were successfully completed by September 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 (See Note 12).

Details of the warrants outstanding as at September 30, 2007 are as follows:

	Number of warrants #	Number of shares issuable on exercise of warrants #	Weighted Exercise Price (/share) $
Warrants outstanding at December 31, 2006*	4,535,586	11,592,921	0.264
Granted	2,170,816	2,170,816	0.287
Exercised	-	-	-
Cancelled or expired	(1,767,000)	(7,074,335)	0.277
Outstanding and exercisable as at September 30, 2007	4,939,402	6,689,402	0.259

* 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 that were triggered in the August 2005 restructuring (1.5 times) and the March 2006 amalgamation (3 times). For each warrant issued by Lonsdale, the holder is entitled to 0.8375 common shares.

The weighted average grant date fair value of the warrants issued during the nine month period ended September 30, 2007 is $0.10. Fair value of the warrants granted during the period ended September 30, 2007 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0%, expected volatility 108%, risk-free interest rate 4.7%, and expected life of 1.5 years.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Warrants outstanding and exercisable as at September 30, 2007 are as follows:

Number of Warrants #	Number of shares issuable on exercise of warrants #	Effective Strike Price (/share) $	Fair value $	Expiry Date
361,086	361,086	0.300	46,365	March 15, 2008*
1,907,500	1,907,500	0.300	103,950	August 3, 2008
1,895,112	1,895,112	0.300	160,193	October 24, 2008
275,704	275,704	0.220	30,904	October 24, 2008*
500,000	2,250,000	0.222	120,000	March 16, 2009*
4,939,402	6,689,402		461,412	

* 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) Escrowed shares

On March 15, 2006, Cannasat amalgamated with Lonsdale Public Ventures ("Lonsdale"), a capital pool company. For details of the amalgamation see Note 6(d) in the audited financial statements of the Company for the year ended December 31, 2006.

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 September 30, 2007, 29,417,548 and 1,843,633 respectively, of these common shares are still subject to escrow.

6. SHARE CAPITAL (continued)

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, 2006	$	574,222
Compensation earned during the period – employee		78,073
Compensation earned during the period – non-employee		64,848
Expiry of warrants, September 15, 2007		225,261
Balance, September 30, 2007	$	942,404

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 $0.2833 per share. In addition to the acquisition costs, the Company has agreed to pay a combination of milestone-based payments and royalties.

8. NOTES PAYABLE

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

Related party transactions have been recorded at the exchange amount that is management's estimate of the fair value of such transactions as follows:

	September 30, 2007	December 31, 2006
Management fees *	$ 112,875	$ 144,000
Furniture and equipment	$ -	$ 9,000
Consulting services	$ 17,276	$ 66,073

* Commencing January 1, 2007 the Company contracted directly with a wholly owned corporation of the Company's Chief Executive Officer for management services performed. In prior years the Company made such payments to a corporation which the Company's Chief Executive Officer and another director control.

10. COMMITMENTS

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

11. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ending, September 30,		Nine Months Ending, September 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Income taxes paid	-	-	-	-
Interest paid	2,121	-	7,379	-
The following significant transactions did not generate or use cash:				
Common shares	-	-	-	(67,266)
Contributed surplus	266,155	43,928	368,182	181,872
Compensation expense	(64,894)	(67,928)	(184,017)	(225,506)
Deferred expense	-	-	-	(207,308)

12. SUBSEQUENT EVENTS

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 were successfully completed by September 30, 2007. On November 1, 2007, 750,000 options performance criteria were successfully completed, while the remaining 300,000 must be completed no later than December 31, 2007. The expiry date of these options will be 4 years after the vesting date.