CANNASAT THERAPEUTICS INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Audited

CANNASAT THERAPEUTICS INC.
December 31, 2007 and 2006

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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, 2007 and 2006 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2007. 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
February 28, 2008
except for Note 13
which is at April 4, 2008

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CANNASAT THERAPEUTICS INC.
Balance Sheets
As at December 31,

	2007	2006
ASSETS		
CURRENT		
Cash and cash equivalents	$ 787,469	$ 1,210,363
Sundry receivables	70,893	281,838
	858,362	1,492,201
EQUIPMENT (Note 4)	7,593	9,863
LONG-TERM INVESTMENT (Note 5)	887,690	1,464,352
DEFERRED COMPENSATION EXPENSE (Note 6(c))	112,000	208,000
OTHER INTANGIBLE ASSETS (Note 7)	200,000	200,000
	$ 2,065,645	$ 3,374,416
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 370,446	$ 410,716
Current portion of notes payable (Note 8)	100,000	100,000
	470,446	510,716
COMMITMENTS (Notes 5, 6 and 11)		
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))	1,000,372	574,222
DEFICIT	(7,210,746)	(4,977,970)
	1,595,199	2,863,700
	$ 2,065,645	$ 3,374,416

APPROVED BY THE BOARD:

(signed) "David Hill", Director

(signed) "Rochelle Stenzler", Director

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

	2007	2006
REVENUE		
Interest income	$ 71,060	$79,143
EXPENSES		
General and administrative	954,956	908,453
Research and development	1,023,423	1,052,893
Amortization of equipment	2,270	1,752
Stock option compensation expense	265,985	393,650
Recovery on scientific research	(39,460)	(34,207)
	2,207,174	2,322,541
LOSS BEFORE EQUITY LOSS	(2,136,114)	(2,243,398)
LOSS FROM EQUITY ACCOUNTED INVESTMENT (Note 5)	(96,662)	(75,337)
NET LOSS FOR THE YEAR	(2,232,776)	(2,318,735)
DEFICIT, BEGINNING OF YEAR	(4,977,970)	(2,659,235)
DEFICIT, END OF YEAR	$(7,210,746)	$ (4,977,970)
LOSS PER SHARE - basic and diluted	$ (0.03)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	68,784,541	61,860,300

CANNASAT THERAPEUTICS INC.

Statements of Cash Flows

For the years ended December 31,

	2007	2006
NET INFLOW (OUTLFOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss for the year	$ (2,232,776)	$ (2,318,735)
Items not affecting cash		
Loss from equity accounted investment	96,662	75,337
Shares issued for services	-	35,000
Amortization of equipment	2,270	1,752
Stock option compensation expense	265,985	393,650
	(1,867,859)	(1,812,996)
Changes in non-cash operating working capital items		
Sundry receivables	210,945	(103,207)
Accounts payable and accrued liabilities	(40,270)	10,878
	(1,697,184)	(1,905,325)
INVESTING		
Proceeds from loan receivable (Note 5)	480,000	-
Acquisition of equipment	-	(9,000)
Cash acquired through amalgamation (Note 6(d))	-	
779,151		
	480,000	770,151
FINANCING		
Exercise of stock options or warrants	19,500	92,726
Amalgamation costs	-	(165,110)
Private placements, net of issue costs	774,790	1,785,702
	794,290	1,713,318
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(422,894)	578,144
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,210,363	632,219
CASH AND CASH EQUIVALENTS, END OF YEAR	787,469	$ 1,210,363
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	$ 189,678	$ 71,246
Cash equivalents	597,791	1,139,117
	$ 787,469	$ 1,210,363

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 AND GOING CONCERN

These 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 $5,380,789 in operating activities from inception to December 31, 2007 and has an accumulated deficit of $7,210,746 as at December 31, 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 to 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 lives 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.

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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.

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, was extended to June 30, 2006, September 30, 2006, September 30, 2007, April 30, 2008 and most recently extended to October 31, 2008. 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.

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2. ACCOUNTING POLICIES (continued)

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. 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.

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3. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Financial Instruments (continued)

(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 operations when the related gains or losses are realized. For the period ended December 31, 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 year ended December 31, 2007.

(c) Recent Accounting Pronouncements

Effective January 1, 2008, the Company will adopt the following accounting standards recently issued by the CICA:

(i) Capital Disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

(ii) Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosure", and Section 3863, "Financial Instruments – Presentation" to replace the existing Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Company.

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3. CHANGES IN ACCOUNTING POLICIES (continued)

(c) Recent Accounting Pronouncements (continued)

(iii) International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("ACSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

4. EQUIPMENT

	December 31, 2007		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	5,746	3,661	2,085
Furniture and fixtures	7,650	2,142	5,508
Total	13,396	5,803	7,593

	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

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5. LONG-TERM INVESTMENT

	December 31, 2007	December 31, 2006
268,585 Class A common shares representing 12.06% (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. 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. 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 repayment of the loan outstanding. The Company also received $46,277 to satisfy all interest payments owing.

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, 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 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 are amortized at an annual rate of approximately $81,000.

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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, 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 December 31, 2007			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	70,010,516	-	-	7,541,430
Stock options	-	3,243,740	-	-
Common share purchase warrants	-	-	4,939,402	264,143
Total	70,010,516	3,243,740	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 December 31, 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	-	5,896,214	-	5,896,214
Common share purchase warrants	-	-	6,689,402	6,689,402
Total	70,010,516	5,896,214	6,689,402	82,596,132

*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).

Continued…

6. SHARE CAPITAL (continued)

b) Issued (continued)

At December 31, 2007 and 2006, the following common shares 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, 2005	12,000,000	23,049,390	60,000	-	60,000
Class A common shares					
December 31, 2005	9,449,238	28,347,716	4,932,738	263,246	4,669,492
February 8, 2006, share issuance (i)	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 (ii)		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
March 13, 2007 (iii)		123,675	35,000	-	35,000
March 23, 2007 (iv)		81,658	19,500	-	19,500
April 25, 2007 (v)		3,790,226	654,315	70,622	583,693
TOTAL (SHARES AND PROCEEDS), DECEMBER 31, 2007		70,010,516	8,409,582	868,152	7,541,430

Continued…

6. SHARE CAPITAL (continued)

b) Issued (continued)

At December 31, 2006 and 2007, the following common share purchase warrants were issued for the proceeds noted.

	Number of share purchase warrants #	Number of shares issuable on exercise of warrants #	Proceeds $	Share issuance costs $	Net proceeds $
<u>Common share purchase warrants</u>					
August 18, 2004	1,500,000	6,750,000	240,000	14,739	225,261
August 3, 2006 (ii)	1,907,500	1,907,500	114,450	10,500	103,950
TOTAL SHARE PURCHASE WARRANTS PROCEEDS, DECEMBER 31, 2006			354,450	25,239	329,211
April 25, 2007 (v)		1,895,113	179,535	19,342	160,193
Expired Warrants, September, 15, 2007			(240,000)	(14,739	(225,261)
TOTAL SHARE PURCHASE WARRANTS PROCEEDS, DECEMBER 31, 2007			293,985	29,842	264,143

Continued…

6. SHARE CAPITAL (continued)

b) Issued (continued)

i) 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. This translates into a post-amalgamation effective subscription price of $0.30 per share.

ii) 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%.

iii) 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.

iv) 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.

v) 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 October 24, 2008 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. The fair value of these warrants was estimated at $179,535.

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 their estimated fair value of $30,904 is recorded in contributed surplus.

The fair values of the above warrants were estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4.7%, expected life of 1.5 years, expected dividend rate of 0%, and expected volatility of 126%.

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants

A summary of the status of options as of December 31, 2007 is as follows:

	Number of Options #	Number of shares issuable on exercise of options #	Weighted Exercise Price (/share) $
Options outstanding at December 31, 2005*	1,525,000	4,575,000	0.290
Lonsdale Options (at amalgamation, March 15, 2006)*	780,000	653,265	0.239
Granted	891,240	891,240	0.300
Cancelled or expired	(175,000)	(525,000)	0.290
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	(1,390,000)	(1,326,633)	0.266
Outstanding as at December 31, 2007	3,243,740	5,896,214	0.280

* 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 year ended December 31, 2007 is $0.16 (2006 - $0.15). Fair value of the options granted during the period ended December 31, 2007 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0% (2006 – 0%), expected volatility of 106% and 108% (2006 – 82%), risk-free interest rate of 4.41% and 4.63% (2006 – 4%), and expected life of 5 years (2006 – 4 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 during the period ended December 31, 2004, $100,000 was expensed during the year ended December 31, 2005, $96,000 was expensed each during the years ended December 31, 2006 and 2007. The remaining $112,000 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, 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
220,620	220,620	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
86,667	86,667	0.250	November 24, 2007	May 24, 2012
86,667	86,667	0.250	May 24, 2008	May 24, 2012
86,667	86,667	0.250	November 24, 2008	May 24, 2012
316,671	316,671	0.250	June 25, 2008	June 25, 2012
316,664	316,664	0.250	June 25, 2009	June 25, 2012
316,664	316,664	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
250,000	750,000	0.283	November 1, 2007	November 1, 2011
100,000	300,000	0.283	December 31, 2007	December 31, 2011
50,000	50,000	0.300	December 4, 2008	December 3, 2012
3,243,740	5,896,214			

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 December 31, 2007 is 4,322,881.

Details of the warrants outstanding as at December 31, 2007 are as follows:

	Number of warrants #	Number of shares issuable on exercise of warrants #	Weighted Exercise Price (/share) $
Warrants outstanding at December 31, 2005*	2,090,000	9,405,000	0.262
Lonsdale warrants (at amalgamation, March 15,	375,000	314,070	0.239
Granted	2,268,586	2,268,586	0.300
Exercised	(198,000)	(394,735)	0.235
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 December 31, 2007	4,939,402	6,689,402	0.259

* Note: For each warrant issued by Cannasat prior to March 15, 2006, 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 (1.5x) 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 the warrants issued during the year ended December 31, 2007 is $0.11 (2006 - $0.07). The fair value of the warrants granted during the year ended December 31, 2007 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0% (2006 – 0%), expected volatility 126% (2006 – 84%), risk-free interest rate 4.7% (2006 – 4%), and expected life of 1.5 years (2006 – 2 years).

Continued…

6. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Warrants outstanding and exercisable as at December 31, 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 (i)
275,704	275,704	0.220	30,904	October 24, 2008* (i)
500,000	2,250,000	0.222	120,000	March 16, 2009*
4,939,402	6,689,402		461,412	

(i) See Note 6(b(v)).

* 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 and escrowed shares

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 totalled $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 totalled $65,625.

Continued…

6. SHARE CAPITAL (continued)

d) Amalgamation and escrowed shares (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, 2007, 29,417,548 of the 72-month release shares and 1,843,633 of the 36-month release shares are still subject to escrow.

e) Contributed Surplus

Contributed surplus represents the fair value of unexercised and expired broker compensation warrants as well as stock option compensation earned by directors, officers, employees and certain consultants of the Company as follows:

Balance, December 31, 2005	$ 248,206
Warrants exercised during the year	(18,000)
Compensation earned during the period – employee	37,546
Compensation earned during the period – non-employee	306,470
Balance, December 31, 2006	574,222
Compensation earned during the period – employee	90,582
Compensation earned during the period – non-employee	110,307
Expiry of warrants, September 15, 2007	225,261
Balance, December 31, 2007	$ 1,000,372

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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 the issuance 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. The license is for patents that have been issued in certain jurisdictions and are currently pending in others.

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 worldwide 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.

Continued…

9. RELATED PARTY TRANSACTIONS

Related party transactions during the years ended December 31, 2007 and 2006 are as follows:

	December 31, 2007	December 31, 2006
Management fees *	$ 150,000	$ 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. The Company also paid consulting fees to a director.

Included in accounts payable and accrued liabilities is $21,797 (2006 - $Nil) due to officers and directors of the Company. Included in sundry receivables is $9,393 (2006 - $Nil) due from officers of the Company. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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 were issued to the directors and officers for gross proceeds of $156,000. 250,000 units were issued for gross proceeds of $50,000. See Notes 6(b(i)) and 6(b(ii)).

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% (2006 – 36%) are as follows:

	December 31, 2007	December 31, 2006
Loss before income taxes	$ (2,232,776)	$(2,318,735)
Expected income tax recovery	(804,000)	(835,000)
Adjustments to benefit resulting from:		
Difference in income tax rates	156,000	-
Change in income tax rates	336,000	-
Share issue costs	(17,000)	(174,000)
Stock option compensation	77,000	142,000
Equity loss from Prairie Plant Systems Inc.	14,000	14,000
Other	80,000	62,000
	$ (158,000)	$ (791,000)
Valuation allowance	158,000	791,000
	$ -	$ -

Continued…

10. INCOME TAXES (continued)

b) The effect of temporary differences that give rise to future income taxes assets and liabilities are as follows:

	December 31, 2007	December 31, 2006
Future income tax assets:		
Share issuance costs	$ 106,000	$ 219,000
Investment in Prairie Plant Systems Inc.	34,000	24,000
Equipment	1,000	1,000
Tax loss carry forwards	1,741,000	1,480,000
	1,882,000	1,724,000
Future income tax liabilities	-	-
Valuation allowance	(1,882,000)	(1,724,000)
	$ -	$ -

c) The Company has approximately $6,005,000 of non-capital losses as at December 31, 2007, which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Available To	Amount ($)
2014	501,000
2015	1,340,000
2026	2,156,000
2027	2,008,000
	6,005,000

11. COMMITMENTS

The Company is party to certain management contracts for its executive officers. Minimum management contract termination commitments remaining under the agreements are approximately $190,000 and are all payable within one year.

The Company has entered into a research and development contract requiring total payments of approximately $53,000 which are due upon the completion of certain performance criteria.

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12. SUPPLEMENTARY CASH FLOW INFORMATION

	2007	2006
Income taxes paid	$ -	$ -
Interest paid	9,693	8,245
The following significant transactions did not generate or use cash:		
Broker warrants issued for issue costs	30,904	-
Common shares issued for settlement of debt	-	(20,900)
Common shares to be issued	35,000	(35,000)
Contributed surplus	426,150	326,016
Compensation expense	(265,985)	(393,650)

13. SUBSEQUENT EVENTS

a) On March 14, 2008, the Company, as part of a private placement, issued 3,333,333 units at $0.15 per unit for gross proceeds of $500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for $0.20 per share until the earlier of March 14, 2009 and the period ending 20 days after prior written notice from the Company that the closing price of its shares on the Toronto Stock Exchange has been at least $0.30 per share for 20 consecutive trading days.

b) On March 15, 2008, 361,086 warrants exercisable at $0.30 per share expired unexercised.

c) On March 23, 2008, a total of 2,344,987 shares were released from escrow, leaving a balance of 28,916,194 still in escrow.

d) On April 4, 2007 the Board of Directors approved the grant of stock options to acquire 600,000 common shares of the Company. The stock options were granted to certain employees and consultants of the Company at an exercise price of $0.20 per share for a term of 5 years. Included in the grant are options to acquire 450,000 common shares issued to officers of the Company.