

CANNASAT THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2008

Management's discussion and analysis should be read in conjunction with the unaudited financial statements for the third quarter ended September 30, 2008, and the audited financial statements for Cannasat Therapeutics Inc. ("Cannasat" or "the Company") for the year ended December 31, 2007, 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 third quarter ended September 30, 2008 with the same period in 2007. This review was prepared by management with information available as at November 19, 2008. 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 Therapeutics is a publically traded (CTH: TSXV), clinical stage pharmaceutical company developing products to treat neuropathic pain, schizophrenia and other neurological conditions. Cannasat is currently working on two drug candidates, CAT 310 and CAT 320.

CAT 310 is a product that uses patented drug delivery technology to deliver THC (delta-9-tetrahydrocannabinol) systemically for relief of neuropathic pain, nausea/vomiting and possibly other conditions. CAT 320 is a CBD (cannabidiol) derived product that targets the endocannabinoid system to treat mood disorders such as schizophrenia, anxiety and depression.

Cannasat has a long-term collaborative agreement with Montreal-based IntelGenx Corp. to co-develop CAT 310 and CAT 320 through a combination of Cannasat's and IntelGenx's proprietary drug delivery technologies.

Cannasat and IntelGenx possess Health Canada granted narcotic dealer's licences, which allow both Companies to conduct research with controlled substances and to import and export controlled substances (i.e. THC and CBD) 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 THC (delta-9-tetrahydrocannabinol) systemically for relief of neuropathic pain, nausea/vomiting, and possibly other conditions.

During the three months ended September 30, 2008, Cannasat and IntelGenx continued to refine the CAT 310 prototype formulations. The refinements are now substantially complete, and the Company is finalizing an application to Health Canada for further Phase 1 clinical testing. This application is expected to be filed in the fourth quarter.

In the second half of 2009, the Company also intends to file an Investigational New Drug (IND) Application with United States Food and Drug Administration (FDA) as well as a 505(b)(2) Application. The 505(b)(2) Application is based on the fact that the main active pharmaceutical ingredient in CAT 310 (i.e. THC, or delta-9-tetrahydrocannabinol) is also the main active ingredient in Marinol®, an approved drug in the United States. This may allow Cannasat to leverage some of the previous research that has been conducted on the THC molecule.

CAT 320

CAT 320 is a CBD (cannabidiol) derived product that targets the endocannabinoid system to treat mood disorders such as schizophrenia, anxiety and depression.

During the three months ended September 30, 2008, Cannasat and IntelGenx continued early-stage formulation development, and are close to completing the first CAT 320 prototypes. Cannasat also continued negotiations with several Active Pharmaceutical Ingredient (API) suppliers for manufacturing and scale of CBD material for clinical studies.

Over the next 12 months, Cannasat will seek to enter the first Phase I safety and pharmacokinetic clinical testing of CAT 320 prototype formulations.

Prairie Plant Systems Investment

Since August 2004, the Company had an equity investment and a strategic alliance agreement with Saskatoon-based Prairie Plant Systems Inc. (PPS), a privately held biotechnology company.

During the nine months ended September 30, 2008, the Company sold its investment in PPS for \$1,120,000. In addition, the strategic alliance agreement between the Company and PPS was terminated.

Revenue and Expenses

Revenue is currently generated from interest received from short term deposits. Cannasat expects longer-term revenues and profits to be generated from the commercialization of cannabinoid-based pharmaceutical products. 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 and research and other expenses, reference should be made to the section below entitled "Results of Operations".

Contractual Commitments

Cannasat is party to certain management contracts. Minimum management contract termination commitments remaining under the agreements are approximately \$206,000 and are all payable within one year.

The Company has entered into research and development contracts requiring total payments of approximately \$149,453, which are due upon the completion of certain performance criteria.

Related Party Transactions

Commencing January 1, 2007, the Company contracted directly with a wholly owned corporation of the Company's Chief Executive Officer for management services performed. During the nine months ended September 30, 2008, these expenses aggregated \$122,500 compared to \$112,875 during the nine months ended September 30, 2007.

At September 30, 2008, included in accounts payable and accrued liabilities is \$5,566 (December 31, 2007 - \$21,797) due to officers and directors of the Company. At September 30, 2008, included in sundry receivables is \$4,351 (December 31, 2007 - \$9,393) 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.

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

Private Placement

On August 8, 2008 the Company issued an aggregate of 1,175,000 Units at a price of \$0.20 per Unit raising gross proceeds of \$235,000. Each Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at a price of \$0.22 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 the Company that the closing price of its shares on the principal stock exchange of the Company has been at least \$0.30 per share for 20 consecutive trading days. The fair value of the warrants was estimated at \$72,040.

Expiry of Warrants

On August 3, 2008, 1,907,500 warrants expired. These warrants had been issued on August 3, 2006, as part of 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. The fair value of these warrants was estimated at \$114,450 using the Black-Scholes option pricing model.

Subsequent Events

On October 24, 2008, 2,170,816 warrants expired. The warrants were issued as part of a private placement that was completed on April 25, 2007.

RESULTS OF OPERATIONS

Summary of Financial Information (\$)

	2008	2007	Variance
	Q3	Q3	%
Revenues	-	-	-
Interest Income	4,897	17,448	(71.9)
General and Administrative Expenditures	262,377	201,279	8.7
Research and Development Expenditures	218,708	365,137	(40.1)
Net Loss	556,919	646,172	(13.8)
Loss per share (basic)	0.01	0.01	-
Weighted average shares outstanding (in thousands)	74,643,849	70,010,516	6.6

Results of Operations

General and Administrative

General and administrative expenses for the three months ended September 30, 2008 were \$262,377 (September 30, 2007 - \$201,279) and \$824,861 for the nine months ended September 30, 2008 (September 30, 2007 - \$707,765). The increases are mostly attributed to increases in labour expenses, including the addition of personnel.

Research and Development

Research and development expenditures for the three months ended September 30, 2008 were \$218,708 (September 30, 2007 - \$365,137) and \$609,377 for the nine months ended September 30, 2008 (September 30, 2007 - \$750,586). The decreases are mostly attributed to vendor costs associated with research and development activities on the CAT 310 project. In particular, in the same period last year the Company commenced a Phase I clinical trial for CAT 310.

Net Loss

During the three months ended September 30, 2008, Cannasat recorded a net loss of \$556,919 (September 30, 2007 - \$646,172) and \$1,604,319 for the nine months ended September 30, 2008 (September 30, 2007 - \$1,598,299). The net loss for the periods was in line with management's expectations and annual operating budget.

Liquidity and Capital Resources

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

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

Operating Activities

After excluding non-cash items, primarily stock option compensation expense, cash outflow from operating activities was \$397,173 for the three months ended September 30, 2008, compared with \$363,984 for the three months ended September 30, 2007. For the nine months ended September 30, 2008, cash outflow from operating activities was \$1,300,788, compared with \$1,384,631 for the nine months ended September 30, 2007. Cash outflow was relatively stable, consistent with prior periods, and in line with management's expectations and annual operating budget.

Investing Activities

During the three months ended September 30, 2008 Cannasat raised gross proceeds of \$235,000 through a non-brokered private placement in August. In the nine months ending September 30, 2008 the Company received a total of \$1,855,000. Of this total, \$235,000 was received from the private placement conducted in August 2008, \$1,120,000 from the sale of shares of Prairie Plants Systems in June 2008, and \$500,000 from a private placement conducted in March 2008.

Financial Position

On September 30, 2008 Cannasat had \$1,257,982 cash and cash equivalents on hand. Shareholders' equity decreased to \$1,037,524 at September 30, 2008 from \$1,595,199 at December 31, 2007.

Quarterly Financial Data (\$)

	2008			2007			2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	-	-	-	-	-	-	-	-
Interest Income	5,000	3,000	5,000	26,000	17,000	10,000	18,000	27,000
Net Loss	556,919	372,000	442,000	538,000	646,000	605,000	444,000	667,000
Loss per share (basic)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

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 November 20, 2008			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds \$
Common	74,643,849	-	-	8,089,831
Stock options	-	4,693,740	-	-
Common share purchase warrants	-	-	5,008,333	289,762
Total	74,643,849	4,693,740	5,008,333	8,379,593

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

	as at November 20, 2008			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common	74,643,849	-	-	74,643,849
Stock options	-	7,046,214	-	7,046,214
Common share purchase warrants	-	-	6,758,333	6,758,333
Total	74,643,849	7,046,214	6,758,333	88,448,396

Off-Balance Sheet Arrangements

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

CHANGES IN ACCOUNTING POLICIES

(a) Accounting Changes

Effective January 1, 2008, the Company adopted 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. This enhanced disclosure enables users to evaluate the entity’s objectives, policies and processes for managing capital.

(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.

(b) Recent Accounting Pronouncements

(i) 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.

(c) Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its research and development activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The products which the Company currently has in its pipeline are in the research and development stage; as such the company is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administration costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2008.

(d) Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(i) Credit Risk

The Company has no significant concentration of credit risk arising from operations. Financial instruments included in other assets consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is remote.

(ii) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had a cash balance of \$1,257,982 and sundry receivables of \$62,170 (December 31, 2007 - \$787,469 and \$70,893) to settle current liabilities of \$530,510 (December 31, 2007 - \$470,446). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(iii) Market Risk

(a) Interest rate risk

The Company has cash balances and \$100,000 in interest-bearing debt at a rate of 8% per annum as at September 30, 2008. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company considers interest rate risk to be minimal as investments are short term, the Company has a relatively small amount of interest-bearing debt, and future financing will be primarily secured from private placements.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company funds certain research and development expenses in the United States and Europe on a cash call basis using the US Dollar and the EURO currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to Active Pharmaceutical Ingredient (API) prices used in research and development activities. The Company closely monitors API prices in the United States and Europe to determine the appropriate course of action to be taken by the Company.

(e) Sensitivity Analysis

The Company has designated its cash and cash equivalents as held-for-trading, measured at fair value. Sundry receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and notes payable are classified as other financial liabilities, which are measured at amortized cost.

As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments are the same, and there were no changes that occurred that attributed to credit risk.

The company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Price risk is remote since the Company is not a producing entity.

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.

For additional information with respect to certain of these and other factors, refer to the Management Information Circular dated January 18, 2006 filed on the System for Electronic Document Analysis and Retrieval at www.sedar.com

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls and Procedures

Management is responsible for the information in this management discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended December 31, 2007, 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, 2007 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, 2007 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of December 31, 2007.

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 September 30, 2008.

For Further Information:
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