CANNASAT THERAPEUTICS INC.

For the year ended December 31, 2008

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

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

This management discussion and analysis is as of April 14, 2009. The following information should be read in conjunction with our December 31, 2007 and December 31, 2008 year-end audited financial statements and related notes, which were prepared in accordance with Canadian generally accepted accounting principles. Additional information related to the Company can be found on SEDAR at www.sedar.com.

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

Overview

The Corporation is a publicly traded (CTH: TSXV) clinical stage pharmaceutical company developing products to treat neuropathic pain, schizophrenia and other neurological conditions. The Corporation 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. Both product candidates will go through the typical pharmaceutical drug development process, including the pre-clinical and clinical phases (i.e. Phase I, Phase II and Phase III).

Cannasat and IntelGenx have been granted narcotic dealer's licences from Health Canada, which allows 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 or dronabinol) systemically for relief of nausea/vomiting, neuropathic pain and possibly other conditions.

Following the results of the Phase 1(a) clinical trial that was completed in December 2007, Cannasat and IntelGenx worked throughout the year to refine CAT 310 prototype formulations, including activities related to solubility, dissolution, optimization and stability.

In the fourth quarter, with the reformulation work substantially complete, the Company filed an application to Health Canada to commence Phase 1(b) clinical testing. This Phase 1(b) trial was designed as a randomized, single dose, crossover study comparing a prototype buccal tablet to oral dronabinol (Marinol®) in normal healthy male volunteers. The primary objective of the trial was to evaluate the safety, tolerability and pharmacokinetics of the CAT 310 prototype.

In January 2009, Health Canada approved Cannasat's clinical trial application. The clinical trial was conducted at a Contract Research Organization facility in Canada and was completed in March 2009. Results of the study were released on April 14, 2009.

Over the next 12 months the Company plans to confirm a potential 505(b)(2) regulatory pathway via a pre-IND (Investigational New Drug) meeting with the United States Food and Drug Administration (FDA). The 505(b)(2) application is based on the fact that the main active pharmaceutical ingredient in CAT 310 (i.e. delta-9-tetrahydrocannabinol or dronabinol) 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. The Company also intends to accelerate licensing discussions with potential Pharma marketing partners.

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 year, Cannasat and IntelGenx Corp. continued early-stage formulation development for CAT 320, including the evaluation of different drug delivery technologies, and stability and solubility testing. The Company also initiated 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 1 safety and pharmacokinetic clinical testing of CAT 320 prototype formulations.

Prairie Plant Systems Investment

On June 23, 2008, the Company sold its investment in Prairie Plant Systems Inc. ("PPS") for $1,120,000, resulting in a gain on sale of $254,936. In addition, the strategic alliance agreement between the Company and PPS was terminated. The Company's share of the PPS loss from January 1, 2008 to June 23, 2008 was $22,626 (for the year ended December 31, 2007 - $96,662). The historical perspective of the PPS investment is included below.

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.

In August 2004, the Company also extended a loan to PPS that 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 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 PPS ending October 31, 2005, the Company 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 expended the required $250,000 commitment for the fiscal years of PPS ended October 31, 2007, 2006 and 2005, which was included in research and development expenses. The strategic alliance in the original agreement was to expire on October 31, 2016.

On August 17, 2004, the difference between the cost of the long-term investment in PPS and the underlying net book value of the assets acquired in PPS was calculated to be approximately $952,000. Of this difference $36,000 was related to PPS property, $566,000 was related to current and expected contracts in favour of PPS and $350,000 was related to goodwill. The underlying depreciable contracts valued at $566,000 were amortized at an annual rate of approximately $81,000 and were included in the calculation of the loss from equity accounted investment.

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, administration 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".

Commitments and Contingencies

The Company is party to certain management contracts for its executive officers. Minimum management contract termination commitments remaining under the agreements are approximately $240,000 and are all payable within one year.

The Company has entered into a lease for its office premises in Toronto. Minimum rental commitments approximate $37,000 all due within one year.

The Company has been named as a defendant in a legal action claiming $87,500 in damages. Included in accounts payable and accrued liabilities is $30,000 related to this action. The Company also has two contractual disputes totalling $64,500. Included in accounts payable and accrued liabilities is $10,000 related to these disputes. Management believes that the claims are without merit and plans to vigorously defend the Company.

The Company has entered into research and development contracts requiring total payments of approximately $192,000 which are due upon the completion of certain performance criteria.

Related Party Transactions

Related party transactions during the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Management fees	$ 174,000	$150,000
Director fees	27,650	10,950
Consulting services paid to a Director	-	17,276
	$ 201,650	$178,226

At December 31, 2008, included in accounts payable and accrued liabilities is $1,513 (2007 - $21,797) due to officers and directors of the Company. The amounts owing to the related parties are unsecured, non-interest bearing with no fixed terms of repayment. At December 31, 2008, included in sundry receivables is $2,265 (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.

Private Placements

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.

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 per share for a period ending on the earlier of 18 months from the closing date, and a period ending 20 days after prior written notice from 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.

Board of Directors

On January 14, 2008, Cannasat announced that Dr. Julia Levy was appointed to its Board of Directors. Dr. Levy is a Canadian pharmaceutical industry leader and brings years of drug discovery, development, and commercialization experience to the Cannasat Board.

Dr. Levy was a co-founder of QLT Inc. and served in several key senior positions, including Chief Scientific Officer and Vice President, as well as President and Chief Executive Officer from 1995 to February 2002. Under her leadership, QLT experienced its strongest period of growth and raised over $386 million.

Dr. Levy is a fellow of the Royal Society of Canada and former President of the Canadian Federation of Biological Sciences. She has earned numerous awards and honours including an appointment as an Officer of the Order of Canada in 2001 and the Female Entrepreneur of the Year for International Business in 1998. Dr. Levy was formerly a Professor of Microbiology at the University of British Columbia and received her Ph.D. in microbiology from the University of London. She is the author of many published scientific articles, a director of the Working Opportunity Fund (a Canada-based venture capital firm), and serves as a director with a number of public and private biotechnology companies.

Subsequent Events

On February 27, 2009, the Company, as part of a private placement, issued 3,870,000 units at a price of $0.10 per unit for gross proceeds of $387,000. Each unit consists of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.15 per share until February 26, 2011. Certain officers and directors of the Company purchased 770,000 units as part of this private placement for gross proceeds of $77,000.

On March 14, 2009, 3,333,333 warrants exercisable at $0.20 per share expired unexercised.

On March 16, 2009, 500,000 warrants exercisable at $0.22 per share expired unexercised.

On March 23, 2009, a total of 4,075,431 shares were released from escrow, leaving the balance of 20,765,336 still in escrow.

On March 31, 2009, 199,795 shares issuable on exercise of options with exercise prices of $0.239, $0.300 and $0.317 per share expired unexercised.

FINANCIAL REVIEW – COMPARISON FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

Summary of Financial Information ($)

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	-	-	-	-	-	-	-	-
Interest Income	4,000	5,000	3,000	5,000	26,000	17,000	10,000	18,000
Net Loss	620,000	557,000	372,000	442,000	538,000	646,000	605,000	444,000
Loss per share (basic)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Annual Information ($)

	2008	2007	2006
Revenues	-	-	-
Interest Income	17,000	71,000	79,000
Net Loss	1,992,000	2,233,000	2,319,000
Total Assets	1,082,000	2,066,000	3,374,000
Loss per share (basic and diluted)	0.03	0.03	0.04

Results of Operations

General and Administrative

General and administrative expenses for the 3 months ended December 31, 2008, increased to $272,409 from $247,334 for the 3 months ended December 31, 2007. General and administrative expenses for the year ended December 31, 2008, increased to $1,114,771 from $954,956 for the year ended December 31, 2007.

Increases in the fourth quarter and for the year ended December 31, 2008 are mostly attributed to an increase in labour expenses, including the addition of one staff position.

Research and Development

Research and development expenditures for the 3 months ended December 31, 2008 remained stable at $275,222 from $272,837 for the 3 months ended December 31, 2007. The largest expenditures in Q4 2008 were related to drug formulation work and intellectual property protection, whereas in the Q4 2007 the primary expenditures related to vendor costs associated with the Phase 1(a) clinical trial for CAT 310 drug candidate.

Cannasat's research and development activities decreased in the year ended December 31, 2008. Research and development expenditures were $889,600 compared to $1,023,423 for the year ended December 31, 2007. The majority of the research and development spending in 2008 was related to labour and vendor costs associated with formulation work and the clinical trial for the CAT 310 project. The overall decrease can mostly be attributed to the fact that the Company did have any clinical trial expenses in 2008.

Net Loss

During the 3 months ended December 31, 2008, Cannasat recorded a net loss of $620,004 compared to a loss of $538,028 for the 3 months ended December 31, 2007. Increases in Q4 2008 are mostly attributed to an increase in labour expenses, including the addition of one staff position.

During the year ended December 31, 2008, the Company's net loss was $1,992,015 compared to a loss of $2,232,776 for the fiscal year ended December 31, 2007. The decrease in net loss is mainly due to a one time gain on the sale of the Prairie Plant Systems investment.

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 above.

Operating Activities

After excluding non-cash items, primarily stock option compensation expense, cash outflow from operating activities was $1,776,145 for the year ended December 31, 2008 compared with $1,697,184 for the year ended December 31, 2007. The slight increase is mostly attributed to an increase in labour expenses, including the addition of key personnel.

Investing and Financing Activities

Cannasat raised an additional $675,470 net of issue costs during the year ended December 31, 2008 through the issuance of common shares and share purchase warrants associated with two private placements that closed on March 14, 2008 and August 8, 2008. On June 23, 2008, the Company also sold its investment in Prairie Plant Systems Inc. for $1,120,000.

Financial Position

On December 31, 2008 Cannasat had $805,128 in cash and cash equivalents on hand as compared to $787,469 at December 31, 2007. Shareholders' equity decreased to $468,710 at December 31, 2008 from $1,595,199 at December 31, 2007, primarily as a result of the sale of the Company's equity stake in Prairie Plant Systems.

Share Capital

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

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

	as at April 14, 2009			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	78,513,849	-	-	8,089,432
Stock options	-	4,594,016	-	-
Common share purchase warrants	-	-	3,110,000	152,468
Total	78,513,849	4,594,016	3,110,000	8,241,900

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

	as at April 14, 2009			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common	78,513,849	-	-	78,513,849
Stock options	-	6,975,594	-	6,975,594
Common share purchase warrants	-	-	3,110,000	3,110,000
Total	78,513,849	6,975,594	3,110,000	88,599,443

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. The Company has included disclosures recommended by this new section in Note 3(c) to the financial statements.

(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. The Company has included disclosures recommended by this new section in Note 3(d) to the financial statements.

(b) Recent Accounting Pronouncements

(i) Goodwill and Intangible Assets

On February 1, 2008, the CICA issued section 3064, "Goodwill and Intangible Assets". This Section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The changes are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The changes are effective for the Company beginning January 1, 2009. The adoption of this new Section is not expected to impact the financial statements of the Company.

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

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS on its results of operations, financial position and disclosures.

Risks and Uncertainties

An investment in the Corporation involves significant risks and must be considered speculative due to the nature of the Corporation's business. Prospective purchasers of shares in the capital of the Corporation should carefully consider the following risk factors:

- the Corporation's ability to obtain the necessary and substantial capital required to fund research and development activities and ongoing operations;
- the Corporation's lack of product revenues and history of operating losses;
- the Corporation's early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally, (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;
- the progress of the Corporation's clinical trials;
- the Corporation's drug candidates require time-consuming and costly pre-clinical and clinical testing and regulatory approvals before commercialization;
- clinical studies and regulatory approvals of the Corporation's drug candidates are subject to delays, and may not be completed or granted on expected timetables, if at all, and such delays may increase costs and could delay its ability to generate revenue;
- the Corporation's ability to comply with applicable governmental regulations and standards;
- the Corporation's ability to find and enter into agreements and work successfully with drug development partners;
- the Corporation's ability to find and enter into agreements with potential suppliers, including Active Pharmaceutical Ingredient (API) suppliers;
- the Corporation's ability to attract and retain key personnel, including certain management, consultants and scientific advisors;
- development or commercialization of similar products by the Corporation's competitors, many of which are more established and have greater financial, technical and marketing resources than the Corporation does;
- the introduction by competitors of new and superior technologies that may result in superior products;
- the Corporation's ability to obtain patent protection and protect its intellectual property rights;
- the Corporation's ability to protect its intellectual property rights and to not infringe on the intellectual property rights of others;
- the Corporation's business is subject to potential product liability and other claims;
- the Corporation's ability to maintain adequate insurance at acceptable costs;
- further equity financing may substantially dilute the interests of the Corporation's shareholders;
- changing capital market conditions;
- changing market conditions in the pharmaceutical drug sector; and
- other risks detailed from time-to-time in the Corporation's ongoing quarterly and annual filings with Canadian securities regulators.

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, 2008, 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, 2008 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, 2008 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of December 31, 2008.

Changes in Internal Control over Financial Reporting

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

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

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