CANNASAT THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE FIRST QUARTER ENDED MARCH 31, 2009

This management discussion and analysis should be read in conjunction with the unaudited financial statements for the first quarter ended March 31, 2009, and the audited financial statements for Cannasat Therapeutics Inc. ("Cannasat" or "the Corporation") for the year ended December 31, 2008, 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 first quarter ended March 31, 2009 with the same period in 2008. This review was prepared by management with information available as at May 20, 2009. Additional information related to the Corporation 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

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, Relivar (formerly CAT 310) and Modulyn (formerly CAT 320).

Relivar 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. Modulyn 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 Relivar and Modulyn 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 licenses 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 license must be renewed annually.

Product Development

Relivar

Relivar 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.

During the three months ended March 31, 2009, Cannasat entered Phase I(b) clinical testing in Canada with new formulations. This Phase I(b) trial was designed as a randomized, single dose, crossover study comparing a prototype buccal tablet to a reference drug in normal healthy male volunteers. The primary objective of the trial was to evaluate the safety, tolerability and pharmacokinetics of the Relivar prototype. 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 Corporation 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 Relivar (i.e. delta-9-tetrahydrocannabinol or dronabinol) is also the main active ingredient in the reference drug, which is 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 Corporation also intends to accelerate licensing discussions with potential Pharma marketing partners.

Modulyn

Modulyn 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 March 31, 2009, Cannasat and IntelGenx continued early-stage formulation development for Modulyn. Over the next 12 months, Cannasat will seek to enter the first Phase I safety and pharmacokinetic clinical testing of Modulyn prototype formulations.

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 the formulation development and clinical testing of the Corporation's 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 Corporation 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 Corporation has entered into a lease for its office premises in Toronto. Minimum rental commitments approximate $27,000 all due within one year.

The Corporation was previously named as a defendant in a legal action claiming $87,500 in damages but settled the claim in consideration of a payment of $17,000 which has been made and a further payment and $17,000 due on or before December 31, 2009. The settlement amount met the expectations of management of the Corporation, of which $30,000 was accrued.

The Corporation 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 Corporation.

The Corporation has entered into research and development contracts requiring total payments of approximately $130,000 which are due upon the completion of certain performance criteria.

Related Party Transactions

Commencing January 1, 2007, the Corporation contracted directly with a wholly owned corporation of the Corporation's Chief Executive Officer for management services performed. During the three months ended March 31, 2009, these expenses aggregated $39,333 compared to $37,500 during the three months ended March 31, 2008.

At March 31, 2009, included in accounts payable and accrued liabilities is $1,180 (December 31, 2008 - $1,513) due to officers and directors of the Corporation. At March 31, 2009, included in sundry receivables is $2,280 (December 31, 2008 - $2,264) due from officers of the Corporation. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. 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 February 27, 2009, the Corporation, 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 Corporation at a price of $0.15 per share until February 26, 2011. Certain officers and directors of the Corporation purchased units as part of this private placement including: David Hill (CEO): 250,000; Julia Levy (Director): 100,000; Peter Palframan (Director): 70,000; Alan Ryley (Director): 50,000; Umar Syed (CSO) (100,000); and Andrew Williams (COO/CFO): 100,000.

Expiry of Warrants

On March 14, 2009, 3,333,333 warrants exercisable at $0.20 per share expired unexercised. These warrants had been issued on March 14, 2008, as part of a private placement consisting of one common share and one common share purchase warrant at a subscription price of $0.15 per unit.

On March 16, 2009, 500,000 warrants exercisable at $0.22 per share expired unexercised. These warrants had been granted on September 27, 2004 in lieu of compensation and their estimated grant date fair value was recorded directly to contributed surplus on that date.

Expiry of Stock Options

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.

Deferred Financing Costs

On March 30, 2009, the Corporation signed an engagement letter with Sandfire Securities Inc. of Toronto (the "Agent") to act as lead agent in a proposed offering of units by the Corporation in an amount of up to $2,500,000. Each unit is to consist of one common share and one common share purchase warrant which have not yet been priced. The Corporation has agreed to pay to the Agent a cash commission of 8% of the gross proceeds of the Offering. The Corporation has also agreed to pay the Agent a corporate finance fee of $25,000, a work fee in the amount of $10,000 per month until the Offering is completed, a success fee of $25,000 upon closing of the Offering and to reimburse the Agent for certain expenses incurred in connection with the Offering. The work fee is to be credited against the cash commission upon completion of the Offering.

Subsequent Events

On May 15, 2009, the Corporation announced that Dr. Nathan Bryson, PhD, was named Chief Scientific Officer. Dr. Bryson has worked as a consultant and advisor to Cannasat since November 2007. He has contributed significantly to the drug formulation work for both the Relivar and Modulyn drug candidates, the development and execution of intellectual property strategy, and towards the development of clinical and regulatory plans. Dr. Bryson draws from more than 18 years of experience in pharmaceutical development, having held scientific and executive management level positions at Flamel Technologies, Bionisis and Matregen Corp. Dr. Bryson has a strong knowledge of early-stage drug product development and formulation and has (co)authored more than 20 patents. He holds a BSc in Chemistry from Auburn University and a PhD in Radiopharmaceutical Chemistry from the Massachusetts Institute of Technology (MIT). Dr. Bryson succeeds Umar Syed who will continue to serve as a consultant to Cannasat to assist with business development, strategic relationships, licensing and clinical development support.

On May 19, 2009, the Corporation announced that it filed a preliminary short form prospectus with the securities regulatory authorities in the provinces of Ontario, British Columbia and Alberta in connection with a best efforts offering of units, each unit consisting of one common share and one common share purchase warrant. The offering to raise up to $2.5 million will be led by Sandfire Securities Inc. of Toronto. Final pricing and determination of the number of units to be offered under the offering will occur immediately prior to the filing of the (final) short form prospectus in respect of the offering.

RESULTS OF OPERATIONS

Summary of Financial Information ($)

	2009	2008	Variance
	Q1	Q1	%
Revenues	-	-	-
Interest Income	3,841	5,095	(24.6)
General and Administrative Expenditures	255,939	226,364	13.1
Research and Development Expenditures	245,446	166,321	47.6
Net Loss	567,835	442,134	28.4
Loss per share (basic)	0.01	0.01	-
Weighted average shares outstanding (in thousands)	76,019,849	70,633,227	7.6

	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	-	-	-	-	-	-	-	-
Interest Income	4,000	4,000	5,000	3,000	5,000	26,000	17,000	10,000
Net Loss	568,000	620,000	557,000	372,000	442,000	538,000	646,000	605,000
Loss per share (basic)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Results of Operations

General and Administrative

General and administrative expenses for the three months ended March 31, 2009, increased to $255,939 from $226,364 for the three months ended March 31, 2008. The increase in expenditures for the period can be mostly attributed to an increase in legal and professional fees.

Research and Development

Research and development expenditures for the three months ended March 31, 2009 increased to $245,446 from $166,321 for the three months ended March 31, 2008. The increase in expenditures for the period is mostly attributed to vendor costs associated with formulation development work on both the Relivar and Modulyn drug candidates, as well as significant costs associated with the Phase I(b) clinical trial that was conducted in the quarter.

Net Loss

During the three months ended March 31, 2009, Cannasat recorded a net loss of $567,835 compared to a loss of $442,134 for the 3 months ended March 31, 2008. The increase in net loss for the period is mostly attributed to the increases noted above associated with formulation development work on both the Relivar and Modulyn drug candidates, costs associated with the Phase I(b) clinical trial that was conducted in the quarter, and additional legal and professional fees.

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 $491,033 for the period ended March 31, 2009 compared with $394,987 for the period ended March 31, 2008. The increase is mostly attributed to an increase in research and development costs.

Investing and Financing Activities

Cannasat raised an additional $365,395 net of issue costs of $21,605 during the three months ended March 31, 2009 through the issuance of common shares and share purchase warrants associated with a private placement that closed on February 27, 2009.

On March 30, 2009, Cannasat paid Sandfire Securities Inc. of Toronto a corporate finance fee of $25,000 related to the above noted proposed short form prospectus offering of units by the Corporation in an amount of up to $2,500,000.

Financial Position

On March 31, 2009 Cannasat had $654,490 cash and cash equivalents on hand. Shareholders' equity and liabilities decreased to $932,072 at March 31, 2009 from $1,081,964 at December 31, 2008 as the total proceeds from the share and warrant issuance in February were insufficient to offset the net loss for the three months ended March 31, 2009.

Share Capital

The Corporation 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 May 20, 2009			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	78,513,849	-	-	8,400,018
Stock options	-	4,433,750	-	-
Common share purchase warrants	-	-	3,110,000	113,070
Total	78,513,849	4,433,750	3,110,000	8,513,088

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

	as at May 20, 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	-	6,775,829	-	6,775,829
Common share purchase warrants	-	-	3,110,000	3,110,000
Total	78,513,849	6,775,829	3,110,000	88,399,678

Off-Balance Sheet Arrangements

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

CHANGES IN ACCOUNTING POLICIES

(a) Accounting Changes

Effective January 1, 2009, the Corporation adopted the following accounting standard recently issued by the CICA:

(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 adoption of this new Section had no impact on the Corporation's presentation of its financial statements at March 31, 2009.

(ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial statements for periods ending on or after January 20, 2009. The adoption of this abstract had no impact on the Corporation's presentation of its financial position or results of operations at March 31, 2009.

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:

Availability of Additional Financing: The Corporation incurred a net loss of $567,835 for the three months ended March 31, 2009 and expects to incur losses from continuing operations for the near future. As at March 31, 2009, the Corporation had cash and cash equivalents of $654,490. The Corporation does not expect these funds will be sufficient to fund current product development and operating costs beyond the next three to six months. The Corporation is currently seeking to raise additional capital through the issuance of shares and warrants. The ability of the Corporation to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation, particularly given the current challenging economic environment. If adequate funds are not available, or are not available on acceptable terms, the Corporation may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

To date, the Corporation has financed its business primarily through equity issuances tied to the achievement of key milestones. The Corporation has a strong track record of raising capital and since August 2004 has been successful in raising over $8 million from the completion of nine private placement financings. The most recent financing was completed in February 2009, at a time when the stock market was at or near the bottom of its recent downturn. Since going public in March 2006, the Corporation has been successful in achieving several significant milestones in advancing its business, including the completion of pre clinical activities and two Phase I clinical trials for its lead product, Relivar, in December 2007 and April 2009. In April 2009, the Corporation announced positive Phase I(b) results for Relivar, which is expected to assist with current capital raising efforts.

Product Development: The Corporation carries on business in the pharmaceutical drug development industry and currently has two drug candidates. The development of pharmaceutical products is a process that requires large investments and can take years to complete. This industry involves a substantial degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Many unforeseen efficacy and toxicity issues may arise throughout the process. While the Corporation will attempt to develop safe and effective drug products, it is nonetheless an early stage corporation with products which are still undergoing development. Animal tests provide preliminary safety and efficacy data but can never duplicate the behaviour of the product in continuous use in humans. As such, many efficacy and toxicity issues that arise in humans will not be known until after the human clinical testing begins. Negative effects seen in these trials may require the Corporation to make significant new investments in technology or withdraw from the specific drug development project altogether.

Regulatory Approval Process: A variety of laws and regulations govern the development, marketing and use of drugs. The Corporation's products will require governmental approvals, none of which has yet been obtained. Pre-clinical activities and clinical trials of new drugs are subject to the rigorous testing and approval processes of Health Canada and other regulatory agencies. The approval of new drugs is expensive and can be a multi-year process in which success is predicated on demonstrating that the candidate drug is safe and effective. The Corporation cannot offer any guarantees that all or any of its products will meet all regulatory requirements within a reasonable period of time, if at all. Data obtained from pre-clinical or clinical testing is susceptible to varying interpretations which can delay, limit, or prevent, regulatory approval. The pharmaceutical products being developed by the Corporation involve molecules which are controlled substances and may delay the approval process. Any failure or delay in obtaining regulatory approvals could adversely affect the market for any products the Corporation develops and therefore its business, results of operations, financial condition and cash flows.

Patent Applications: The Corporation's success will depend, in part, on its ability to obtain patents, protect trade secrets and operate without infringing upon the exclusive rights of third parties. Although the Corporation intends to file patent applications in Canada and possibly other jurisdictions, there is no guarantee that it will obtain such patents or that it will develop patentable products. Moreover, there is no proof that any patent that is granted to the Corporation will make the product more competitive, that its patent protection will not be contested by third parties or that the patents of others will not be detrimental to the Corporation's commercial activities. It cannot be assured that other companies will not independently develop products similar to the Corporation's products, that they will not imitate any of its products or that, if the Corporation obtains its patents, its competitors will not manufacture products designed to circumvent the exclusive patent rights granted to it.

Potential Infringement on Third Party Patents: If a competitor were to assert that the Corporation’s products infringe on their patent or other intellectual property rights, substantial litigation costs could be incurred and the Corporation may be required to pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume significant financial resources, but would also divert management's time and attention. Such claims could also cause customers or potential customers to purchase competitors' products or defer or limit their purchase or use of the affected products until resolution of the claim. If any of the Corporation’s products are found to violate third-party intellectual property rights, it may have to re-engineer one or more of its products, or may have to obtain licenses from third parties to continue offering its products without substantial re-engineering. The Corporation’s efforts to re-engineer or obtain licenses could require significant expenditures and may not be successful.

Dependence on Third Parties: Due to the complexity of the process of developing therapeutics, the Corporation's business will depend on arrangements with pharmaceutical companies, corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, technology rights, manufacturing, marketing and commercialization of its products. The Corporation's license agreements could obligate it to diligently bring potential products to market, make milestone payments and royalties that, in some instances, could be substantial, and incur the costs of filing and prosecuting patent applications. There can be no assurance that the Corporation will be able to establish or maintain collaborations that are important to its business on favorable terms, or at all. A number of risks arise from the Corporation's dependence on collaborative agreements with third parties. Product development and commercialization efforts could be adversely affected if any collaborative partner terminates or suspends its agreement with the Corporation, causes delays, fails to on a timely basis develop or manufacture in adequate quantities a substance needed in order to conduct clinical trials, fails to adequately perform clinical trials, determines not to develop, manufacture or commercialize a product to which it has rights, or otherwise fails to meet its contractual obligations. The Corporation's collaborative partners could pursue other technologies or develop alternative products that could compete with the products the Corporation is developing. Any disruption with any partner, licensee or licensor could adversely affect Corporation's product development efforts and therefore its business, results of operations, financial condition and cash flows.

Dependency on Management and Key Consultants and Employees: The Corporation's operations are dependent on the abilities, experience and efforts of its management, consultants, advisors and other key employees. Should any of these persons be unable or unwilling to continue in their employment or arrangement with the Corporation, this could have a material adverse effect on the Corporation's business, financial condition and results of its operations. The Corporation does not have key man insurance on the lives of these personnel. In addition, substantial competition exists for qualified technicians and personnel in the pharmaceutical drug development industry, and the Corporation may be unable to attract or retain highly qualified personnel in the future to meet its needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur. Any failure to attract qualified personnel may materially adversely affect the business, financial condition or results of operations of the Corporation.

Competition: Competition within the pharmaceutical drug development industry is intense and is expected to increase in the future. The Corporation's competitors have long operating histories and greater financial, technical and marketing resources than the Corporation. The introduction of new drugs similar to those being developed by the Corporation by such competitors could materially and adversely affect the Corporation's business, results of operations and financial condition. There can be no assurance that the Corporation will be able to respond effectively, or in a timely manner, to the various competitive factors affecting its industry.

For additional information with respect to certain of these and other factors, refer to the Annual Information Form dated May 15, 2009 and 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 March 31, 2009.

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 affected, 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 Further Information:
Cannasat Therapeutics Inc.
David Hill
Chief Executive Officer
W: 416-703-2449 (Ext. 223)
www.cannasat.com
info@cannasat.com