CANNASAT THERAPEUTICS INC.
FIRST QUARTER REPORT
MARCH 31, 2009

Unaudited

CANNASAT THERAPEUTICS INC.
March 31, 2009

TABLE OF CONTENTS

CANNASAT THERAPEUTICS INC.
Unaudited Interim Balance Sheet

	March 31, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash and cash equivalents	$ 654,490	$ 805,128
Sundry receivables (Notes 5(b) and 11)	45,779	53,636
	700,269	858,764
EQUIPMENT (Note 6)	6,803	7,200
DEFERRED COMPENSATION EXPENSE (Note 8(c))	-	16,000
OTHER INTANGIBLE ASSETS (Note 9)	200,000	200,000
DEFERRED FINANCING COSTS (Note 14)	25,000	-
	$ 932,072	$ 1,081,964
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 11 and 12)	$ 511,907	$ 513,254
Current portion of notes payable (Note 10)	100,000	100,000
	611,907	613,254
COMMITMENTS AND CONTINGENCIES (Note 12)		
GOING CONCERN (Note 2)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8(b))	8,513,088	8,241,900
CONTRIBUTED SURPLUS (Note 8(e))	1,686,228	1,538,126
DEFICIT	(9,879,151)	(9,311,316)
	320,165	468,710
	$ 932,072	$ 1,081,964

APPROVED BY THE BOARD:

"David Hill", Director   "Rochelle Stenzler", Director

The accompanying notes are an integral part of these Financial Statements

CANNASAT THERAPEUTICS INC.

Unaudited Interim Statements of Operations, Comprehensive Loss and Deficit

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
REVENUE		
Interest income	$ 3,841	$ 5,095
EXPENSES		
General and administrative	255,939	226,364
Research and development	245,446	166,321
Amortization of equipment	396	432
Stock option compensation expense	69,895	57,940
Recovery on scientific research	-	(26,454)
	571,676	424,603
LOSS BEFORE EQUITY LOSS	(567,835)	(419,508)
LOSS FROM EQUITY ACCOUNTED INVESTMENT (Note 7)	-	(22,626)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(567,835)	(442,134)
DEFICIT, BEGINNING OF PERIOD	(9,311,316)	(7,210,746)
DEFICIT, END OF PERIOD	$ (9,879,151)	$ (7,652,880)
LOSS PER SHARE - basic and diluted	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	76,019,849	70,633,227

CANNASAT THERAPEUTICS INC.
Unaudited Interim Statements of Cash Flows

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss for the period	$ (567,835)	$ (442,134)
Items not affecting cash		
Loss from equity accounted investment	-	22,626
Amortization of equipment	396	432
Stock option compensation expense	69,895	57,940
	(497,544)	(361,136)
Changes in non-cash operating working capital items		
Sundry receivables	7,856	10,990
Accounts payable and accrued liabilities	(1,345)	(44,841)
	(491,033)	(394,987)
FINANCING		
Private placements, net of issue costs	365,395	450,965
Deferred financing costs	(25,000)	-
	340,395	450,965
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(150,638)	55,978
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	805,128	787,469
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 654,490	$ 843,447
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	79,771	440,482
Cash equivalents	574,719	402,965
	$ 654,490	$ 843,447

SUPPLEMENTARY CASH FLOW INFORMATION (Note 13)

1. DESCRIPTION OF BUSINESS

Cannasat Therapeutics Inc. (the "Corporation" or "Cannasat") is a publicly traded (CTH: TSXV) clinical stage pharmaceutical Corporation developing products to treat neuropathic pain, schizophrenia and other neurological conditions. 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 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 Corporation with the name "Cannasat Therapeutics Inc." The Corporation is in the development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 "Enterprises in the Development Stage".

2. ACCOUNTING POLICIES AND GOING CONCERN

These interim financial statements are unaudited and have not been reviewed by the Corporation's auditors. The management of the Corporation has prepared these interim financial statements in accordance with Canadian Generally Accepted Accounting Principles for the preparation of interim financial information and follow the same accounting policies and methods of application as the audited financial statements of the Corporation for the year ended December 31, 2008. These statements should be read in conjunction with the audited financial statements of the Corporation for the year ended December 31, 2008. The disclosure in these interim financial statements does not conform in all respects to Generally Accepted Accounting Principles in Canada for annual financial reporting.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these interim financial statements. Operating results for the three months ended March 31, 2009 may not be indicative of the results that may be expected for the full year ending December 31, 2009.

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 Corporation has used cash of $7,647,966 in operating activities from inception to March 31, 2009 and has an accumulated deficit of $9,879,151 as at March 31, 2009. The Corporation will be pursuing further financings. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of business, however, there is no assurance that these funds will be available on terms acceptable to the Corporation or at all. The Corporation'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. Such adjustments could be material.

3. 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.

4. CAPITAL MANAGEMENT

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

The products which the Corporation currently has in its pipeline are in the research and development stage; as such the Corporation 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 Corporation 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 Corporation, is reasonable.

There were no changes in the Corporation's approach to capital management during the period ended March 31, 2009.

5. FINANCIAL RISK FACTORS

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

(a) Credit Risk

The Corporation has no significant concentration of credit risk arising from operations. Financial instruments included in sundry receivables consist primarily 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.

(b) Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2009, the Corporation had cash and cash equivalents of $654,490 and sundry receivables of $45,779 (December 31, 2008 - $805,128 and $53,636) to settle current liabilities of $611,907 (December 31, 2008 - $613,254). All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market Risk

(i) Interest rate risk

The Corporation has cash and cash equivalent balances and $100,000 in interest-bearing debt at a rate of 8% per annum (see Note 10) as at March 31, 2009. The Corporation's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions bearing interest at 3% per annum. The Corporation periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Corporation considers interest rate risk to be minimal as investments are short term, the Corporation has a relatively small amount of interest-bearing debt and future financing will be primarily secured from private placements.

(ii) Foreign currency risk

The Corporation's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Corporation 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. The Corporation does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(iii) Price risk

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

Continued...

5. FINANCIAL RISK FACTORS (continued)

(c) Market Risk (continued)

(iv) Fair value

The Corporation 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 and accrued liabilities and notes payable are classified as other financial liabilities, which are measured at amortized cost.

The carrying amounts for cash and cash equivalents, sundry receivables and accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of these instruments.

The carrying values of the notes payable approximate their fair values as current interest rates have not changed significantly.

6. EQUIPMENT

	March 31, 2009		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	5,745	4,396	1,349
Furniture and fixtures	9,318	3,864	5,454
Total	15,063	8,260	6,803

7. LONG-TERM INVESTMENT

On June 23, 2008, the Corporation 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 Corporation and PPS was terminated. The historical perspective of the PPS investment is included below.

In August 2004, the Corporation 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 Corporation did not exercise these warrants.

In August 2004, the Corporation 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 Corporation received $480,000 from PPS, representing repayment of the loan outstanding. The Corporation also received $46,277 to satisfy all interest owing.

On August 17, 2004, the Corporation 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 Corporation 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 Corporation 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.

8. 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, 2008			
	Number of Shares #	Number of Options #	Number of Warrants #	Net Proceeds $
Common	74,643,849	-	-	8,089,432
Stock options	-	4,594,016	-	-
Common share purchase warrants	-	-	5,008,333	152,468
Total	74,643,849	4,594,016	5,008,333	8,241,900

	as at March 31, 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 March 31, 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

Continued...

8. SHARE CAPITAL (continued)

b) Issued (continued)

At March 31, 2009, the following common shares, and common share purchase warrants were issued for the proceeds noted.

	Number of Shares #	Proceeds $	Share Issuance Costs $	Net Proceeds $
Total Shares and Proceeds, December 31, 2008	74,643,849	9,004,010	914,578	8,089,432
February 27, 2009 (i)	3,870,000	329,350	18,764	310,586
Total Shares and Proceeds, March 31, 2009	78,513,849	9,333,360	933,342	8,400,018

	Number of Warrants #	Proceeds $	Share Issuance Costs $	Net Proceeds $
Total Share Purchase Warrants and Proceeds, December 31, 2008	5,008,333	165,572	13,104	152,468
February 27, 2009 (i)	1,935,000	57,650	2,841	54,809
March 14, 2009 (ii)	(3,333,333)	(103,730)	(9,523)	(94,207)
March 16, 2009 (iii)	(500,000)	-	-	-
Total Share Purchase Warrants and Proceeds, March 31, 2009	3,110,000	119,492	6,422	113,070
TOTAL PROCEEDS FROM SHARES AND WARRANTS, MARCH 31, 2009		9,452,852	939,764	8,513,088

i) 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.

ii) 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.

iii) 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.

Continued...

8. SHARE CAPITAL (continued)

c) Stock options and warrants

A summary of the status of options as at March 31, 2009 are as follows:

	Number of Options	Number of Shares Issuable on Exercise of Options	Weighted Exercise Price (/share)
	#	#	$
Outstanding as at December 31, 2008	4,594,016	6,975,594	0.257
Expired or forfeited	160,266	199,765	0.283
Outstanding as at March 31, 2009	4,433,750	6,775,829	0.256

The weighted average grant date fair value of the stock options issued during the period ended March 31, 2009 is NIL.

In February 2004, 2,610,000 options granted were determined to have a value of $513,485. Of this amount, $109,485 was expensed in 2004, $100,000 was expensed during the year ended December 31, 2005, and $96,000 was expensed during each of the years ended December 31, 2006, December 31, 2007 and December 31, 2008. The remaining $16,000 was expensed in the period .

Continued...

8. SHARE CAPITAL (continued)

c) Stock options and warrants (continued)

Stock options issued and outstanding as at March 31, 2009 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
66,666	66,666	0.200	December 25, 2008	June 25, 2010
66,667	66,667	0.200	June 25, 2009	June 25, 2010
66,667	66,667	0.200	December 25, 2009	June 25, 2010
41,667	125,000	0.283	June 30, 2006	June 30, 2010
48,750	40,829	0.239	July 28, 2005	July 28, 2010
66,667	200,000	0.317	August 31, 2006	August 31, 2010
150,000	150,000	0.300	December 4, 2006	December 3, 2010
41,666	125,000	0.283	December 31, 2006	December 31, 2010
50,000	150,000	0.283	March 23, 2007	March 23, 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
66,667	200,000	0.317	August 31, 2007	August 31, 2011
50,000	150,000	0.283	August 31, 2007	August 31, 2011
250,000	750,000	0.283	November 1, 2007	November 1, 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
100,000	300,000	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
283,337	283,337	0.250	June 25, 2008	June 25, 2012
283,331	283,331	0.250	June 25, 2009	June 25, 2012
283,331	283,331	0.250	June 25, 2010	June 25, 2012
16,667	50,000	0.283	June 30, 2008	June 30, 2012
66,666	200,000	0.317	August 31, 2008	August 31, 2012
50,000	50,000	0.300	December 4, 2008	December 3, 2012
200,000	200,000	0.200	April 4, 2009	April 4, 2013
200,000	200,000	0.200	April 4, 2010	April 4, 2013
200,000	200,000	0.200	April 4, 2011	April 4, 2013
266,666	266,666	0.200	June 25, 2009	June 25, 2013
266,667	266,667	0.200	June 25, 2010	June 25, 2013
266,667	266,667	0.200	June 25, 2011	June 25, 2013
83,334	83,334	0.200	February 28, 2009	August 28, 2013
83,333	83,333	0.200	August 28, 2009	August 28, 2013
83,333	83,333	0.200	February 28, 2010	August 28, 2013
4,433,750	6,775,829			

8. 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 March 31, 2009 is 4,509,167.

Details of the warrants outstanding as at March 31, 2009 are as follows:

	Number of Warrants #	Number of shares Issuable on Exercise of Warrants #	Weighted Exercise Price (/share) #
Outstanding as at December 31, 2008	5,008,333	6,758,333	0.211
Granted	1,935,000	1,935,000	0.150
Expired	(3,833,333)	(5,583,333)	0.208
Outstanding as at March 31, 2009	3,110,000	3,110,000	0.176

The weighted average grant date fair value of the warrants issued during the period ended March 31, 2009 is $0.03. The grant date fair value of the warrants granted during the period ended March 31, 2009 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield 0%, expected volatility of 99.7%, risk-free interest rate of 1.0% and an expected life of two years.

Warrants outstanding and exercisable as at March 31, 2009 are as follows:

Number of Warrants	Number of shares issuable on exercise of warrants	Effective Strike Price (/share)	Value	Expiry Date
	#	$	$	
1,175,000	1,175,000	0.220	58,261	February 8, 2010
1,935,000	1,935,000	0.150	54,809	February 26, 2011
3,110,000	3,110,000		113,070	

Continued...

8. SHARE CAPITAL (continued)

d) Escrowed shares

On March 15, 2006, Cannasat amalgamated with Lonsdale Public Ventures ("Lonsdale"), a capital pool company. Immediately following the amalgamation, 38,705,837 common shares of the Corporation were subject to escrow. Of these escrowed shares, 34,608,879 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 March 31, 2009, 20,765,336 of the Corporation's common shares are still subject to escrow.

e) Contributed Surplus

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

Balance, December 31, 2008	$ 1,538,126
Compensation earned during the period – employee	38,751
Compensation earned during the period – non-employee	15,144
Expiry of warrants, March 14, 2009	94,207
Balance, March 31, 2009	$ 1,686,228

9. OTHER INTANGIBLE ASSETS

On June 10, 2005, the Corporation entered into a license agreement with a research and development Corporation. The License fee of $200,000 was satisfied by the execution and delivery of two promissory notes on June 30, 2005 (see Note 10) in the aggregate principal amount of $100,000 and the issuance of 117,648 Class A common shares at an aggregate subscription price of $100,000. In addition to the acquisition costs, the Corporation 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.

10. NOTES PAYABLE

Promissory notes in the aggregate principal amount of $100,000 were issued by the Corporation on June 30, 2005 in connection with the signing of the agreement for the worldwide license to make, use or sell certain licensed products (see Note 9). 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. Included in general and administrative expenses is $4,812 (March 31, 2008, - $9,693) in interest expense relating to these promissory notes.

11. RELATED PARTY TRANSACTIONS

Related party transactions during the periods ended March 31, 2009 and 2008 are as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Management fees	$ 39,333	$37,500
Director fees	-	5,350
	$ 39,333	$42,850

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.

12. 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.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Income taxes paid	$ -	$ -
Interest paid	2,042	-
The following significant transactions did not generate or use cash:		
Contributed surplus	148,102	33,940
Compensation expense	(69,895)	(57,940)

14. 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.

15. SUBSEQUENT EVENT

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.