

**CANNASAT THERAPEUTICS INC.  
THIRD QUARTER REPORT  
SEPTEMBER 30, 2009**

**Unaudited**

**CANNASAT THERAPEUTICS INC.**  
**September 30, 2009**

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**CANNASAT THERAPEUTICS INC.**  
**Unaudited Interim Balance Sheet**

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	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 811,080	\$ 805,128
Sundry receivables (Notes 5(a) and 11)	28,569	53,636
	<u>839,649</u>	<u>858,764</u>
EQUIPMENT (Note 6)	14,897	7,200
DEFERRED COMPENSATION EXPENSE (Note 8(c))	-	16,000
OTHER INTANGIBLE ASSETS (Note 9)	200,000	200,000
	<u>\$ 1,054,546</u>	<u>\$ 1,081,964</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Notes 11 and 12)	\$ 750,477	\$ 513,254
Current portion of notes payable (Note 10)	100,000	100,000
	<u>850,477</u>	<u>613,254</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
GOING CONCERN (Note 2)		
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 8(b))	9,070,287	8,241,900
CONTRIBUTED SURPLUS (Note 8(e))	1,759,046	1,538,126
DEFICIT	(10,625,264)	(9,311,316)
	<u>204,069</u>	<u>468,710</u>
	<u>\$ 1,054,546</u>	<u>\$ 1,081,964</u>

APPROVED BY THE BOARD:

\_\_\_\_\_, Director  
 "Peter Palframan"

\_\_\_\_\_, Director  
 "Rochelle Stenzler"

**CANNASAT THERAPEUTICS INC.**  
**Unaudited Interim Statements of Operations, Comprehensive Loss  
and Deficit**

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>REVENUE</b>				
Interest income	\$ 5,027	\$ 4,897	\$ 17,812	\$ 13,208
<b>EXPENSES</b>				
General and administrative	290,737	262,377	819,971	824,861
Research and development	49,211	218,708	522,790	609,377
Amortization of equipment	776	515	1,827	1,379
Stock option compensation	35,050	80,216	142,713	208,364
Recovery on scientific research	(34,593)	-	(155,541)	(26,454)
	341,181	561,816	1,331,760	1,617,527
<b>LOSS BEFORE EQUITY LOSS</b>	<b>(336,154)</b>	<b>(556,919)</b>	<b>(1,313,948)</b>	<b>(1,604,319)</b>
<b>LOSS FROM EQUITY ACCOUNTED INVESTMENT (Note 7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22,626)</b>
<b>GAIN ON SALE OF EQUITY ACCOUNTED INVESTMENT (Note 7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>254,936</b>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(336,154)</b>	<b>(556,919)</b>	<b>(1,313,948)</b>	<b>(1,372,009)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(10,289,110)</b>	<b>(8,025,836)</b>	<b>(9,311,316)</b>	<b>(7,210,746)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$(10,625,264)</b>	<b>\$ (8,582,755)</b>	<b>\$ (10,625,264)</b>	<b>\$ (8,582,755)</b>
<b>LOSS PER SHARE - basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>83,586,594</b>	<b>74,643,849</b>	<b>79,401,148</b>	<b>72,714,682</b>

The accompanying notes are an integral part of these Financial Statements

**CANNASAT THERAPEUTICS INC.**  
**Unaudited Interim Statements of Cash Flows**

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>OPERATING</b>				
Net loss for the period	\$ (336,154)	\$ (556,919)	\$ (1,313,948)	\$ (1,372,009)
Items not affecting cash				
(Gain) from equity accounted investment	-	-	-	(232,310)
Amortization of equipment	776	515	1,827	1,379
Shares issued for services	-	-	-	25,000
Stock option compensation expense	35,050	80,216	142,713	208,364
	(300,328)	(476,188)	(1,169,408)	(1,369,576)
Changes in non-cash operating working capital items				
Sundry receivables	125,233	(28,090)	25,067	8,723
Accounts payable and accrued liabilities	(106,529)	107,105	237,223	60,065
	(281,624)	(397,173)	(907,118)	(1,300,788)
<b>INVESTING</b>				
Proceeds from sale of long term investment (Note 7)	-	-	-	1,120,000
Acquisition of capital assets	(2,705)	(1,669)	(9,524)	(1,669)
	(2,705)	(1,669)	(9,524)	1,118,331
<b>FINANCING</b>				
Share and warrant issuances, net of issue costs	808,239	202,005	922,594	652,970
	808,239	202,005	922,594	652,970
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>523,910</b>	<b>(196,837)</b>	<b>5,952</b>	<b>470,513</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>287,170</b>	<b>1,454,819</b>	<b>805,128</b>	<b>787,469</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 811,080</b>	<b>\$ 1,257,982</b>	<b>\$ 811,080</b>	<b>\$ 1,257,982</b>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>				
Cash	\$ 431,080	\$ 88,701	\$ 431,080	\$ 88,701
Cash equivalents	380,000	1,169,281	380,000	1,169,281
	\$ 811,080	\$ 1,257,982	\$ 811,080	\$ 1,257,982

SUPPLEMENTARY CASH FLOW INFORMATION (Note 13)

The accompanying notes are an integral part of these Financial Statements

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**1. DESCRIPTION OF BUSINESS**

Cannasat Therapeutics Inc. (the “Corporation” or “Cannasat”) is a publicly traded (CTH: TSX-V) 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 nine months ended September 30, 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 \$8,064,051 in operating activities from inception to September 30, 2009 and has an accumulated deficit of \$10,625,264 as at September 30, 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.

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**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 September 30, 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 September 30, 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 September 30, 2009.

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**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 September 30, 2009, the Corporation had cash and cash equivalents of \$811,080 and sundry receivables of \$28,569 (December 31, 2008 - \$805,128 and \$53,636) to settle current liabilities of \$850,477 (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 September 30, 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 1% 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.

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**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**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 sheet 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**

	September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	15,270	5,252	10,018
Furniture and fixtures	9,317	4,438	4,879
<b>Total</b>	<b>24,587</b>	<b>9,690</b>	<b>14,897</b>

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**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.

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

**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
<b>Total</b>	<b>74,643,849</b>	<b>4,594,016</b>	<b>5,008,333</b>	<b>8,241,900</b>

	as at September 30, 2009			
	Number of Shares #	Number of Options #	Number of Warrants #	Net Proceeds \$
Common	87,812,349	-	-	8,775,843
Stock options	-	5,933,750	-	-
Common share purchase warrants	-	-	13,338,350	294,444
<b>Total</b>	<b>87,812,349</b>	<b>5,933,750</b>	<b>13,338,350</b>	<b>9,070,287</b>

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

	as at September 30, 2009			
	Number of Shares #	Number of Shares Issuable on Exercise of Options #	Number of Shares Issuable on exercise of Warrants #	Total #
Common	87,812,349	-	-	87,812,349
Stock options	-	8,175,829	-	8,175,829
Common share purchase warrants	-	-	13,338,350	13,338,350
<b>Total</b>	<b>87,812,349</b>	<b>8,175,829</b>	<b>13,338,350</b>	<b>109,326,528</b>

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**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

**8. SHARE CAPITAL (continued)**

*b) Issued (continued)*

At September 30, 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 \$
<b>Total Shares and Proceeds, December 31, 2008</b>	74,643,849	9,004,010	914,578	8,089,432
February 27, 2009 (i)	3,870,000	329,350	18,764	310,586
August 6, 2009 (iv), (vi)	7,509,500	524,644	221,240	303,404
August 31, 2009 (v), (vi)	1,789,000	125,230	52,809	72,421
<b>Total Shares and Proceeds, September 30, 2009</b>	87,812,349	9,983,234	1,207,391	8,775,843
	Number of Warrants #	Proceeds \$	Share Issuance Costs \$	Net Proceeds \$
<b>Total Share Purchase Warrants and Proceeds, December 31, 2008</b>	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)	-	-	-
August 6, 2009 (iv), (vi)	7,509,500	226,306	95,432	130,874
August 6, 2009 (iv) in lieu of commissions	750,950	27,034	11,400	15,634
August 31, 2009(v), (vi)	1,789,000	53,670	22,632	31,038
August 31, 2009 (v) in lieu of commissions	178,900	6,621	2,793	3,828
<b>Total Share Purchase Warrants and Proceeds, September 30, 2009</b>	13,338,350	433,123	138,678	294,444
<b>TOTAL PROCEEDS FROM SHARES AND WARRANTS, SEPTEMBER 30, 2009</b>		10,416,357	1,346,070	9,070,287

Continued...

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**8. SHARE CAPITAL (continued)**

*b) Issued (continued)*

- 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.
- iv) On August 6, 2009, the Corporation, as part of a short form prospectus offering (the "Offering"), sold an aggregate of 7,509,500 units at a price of \$0.10 per unit for gross proceeds of \$750,950. Each unit consists of one common share and one 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 August 6, 2011. In connection with the sale of the units, the Corporation issued 750,950 common share purchase warrants to the Agents. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.10 per share until August 6, 2011.
- v) On August 31, 2009, the Corporation, as part of the Offering, sold an aggregate of 1,789,000 units at a price of \$0.10 per unit for gross proceeds of \$178,900. Each unit consists of one common share and one 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 August 31, 2011. In connection with the sale of the units, the Corporation issued 178,900 common share purchase warrants to the Agents. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.10 per share until August 31, 2011.
- vi) On March 30, 2009, the Corporation signed an engagement letter with Sandfire Securities Inc. (the "Agent") to act as lead agent in the Offering of units by the Corporation in an amount of up to \$2,500,000. Each unit consisted of one common share and one common share purchase warrant that were priced at \$0.10 per unit. The Corporation agreed to pay to the Agent a cash commission of 8% of the gross proceeds of the Offering. The Corporation 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 completion of the Offering, 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 was credited against the cash commission upon completion of the Offering. Additional financing costs include items such as legal and other professional expenses, travel, printing and regulatory filing fees. Deferred financing costs of \$25,000 and \$226,040 were recorded on the balance sheet in Q1 2009 and Q2 2009 respectively. When the prospectus offering closed on August 31, 2009, these deferred financing costs were reallocated to share issuance costs.

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**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

**8. SHARE CAPITAL (continued)**

*c) Stock options and warrants*

A summary of the status of options as at September 30, 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
Issued	1,550,000	1,550,000	0.100
Expired or forfeited	(210,266)	(349,765)	0.286
<b>Outstanding as at September 30, 2009</b>	<b>5,933,750</b>	<b>8,175,829</b>	<b>0.226</b>

The weighted average grant date fair value of the stock options issued during the period ended September 30, 2009 is \$0.09.

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 three month period ended March 31, 2009.

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**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

**8. SHARE CAPITAL (continued)**

*c) Stock options and warrants (continued)*

Stock options issued and outstanding as at September 30, 2009 are as follows:

Number of Options	Number of Shares issuable on exercise of options	Effective Strike Price (\$/share)	Vesting Date	Expiry Date
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	0.100	February 28, 2010	August 28, 2013
283,333	283,333	0.100	February 28, 2010	August 31, 2014
516,668	516,668	0.100	August 31, 2010	August 31, 2014
283,333	283,333	0.100	February 28, 2011	August 31, 2014
233,333	233,333	0.100	August 31, 2011	August 31, 2014
233,333	233,333	0.100	August 31, 2012	August 31, 2014
5,933,750	8,175,829			

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**CANNASAT THERAPEUTICS INC.**  
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**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 September 30, 2009 is 5,259,164

Details of the warrants outstanding as at September 30, 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	12,163,350	12,163,350	0.146
Expired	(3,833,333)	(5,583,333)	0.208
<b>Outstanding as at September 30, 2009</b>	<b>13,338,350</b>	<b>13,338,350</b>	<b>0.153</b>

The weighted average grant date fair value of the warrants issued during the period ended September 30, 2009 is \$0.03. The grant date fair value of the warrants granted during the period ended September 30, 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 117%, risk-free interest rate of 1.25% and an expected life of two years.

Warrants outstanding and exercisable as at September 30, 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
7,509,500	7,509,500	0.150	130,874	August 6, 2011
750,950	750,900	0.100	15,634	August 6, 2011
1,789,000	1,789,000	0.150	31,038	August 31, 2011
178,900	178,900	0.100	3,828	August 31, 2011
<b>13,338,350</b>	<b>13,338,350</b>		<b>\$ 294,444</b>	

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**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**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 September 30, 2009, 17,304,449 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	95,530
Compensation earned during the period – non-employee	31,183
Expiry of warrants, March 14, 2009	94,207
<u>Balance, September 30, 2009</u>	<u>\$ 1,759,046</u>

**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 could 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 was due on demand no earlier than the date of issuance of filed patents in specific jurisdictions. In the event that the filed patents were not issued, 88,236 Class A common shares at \$0.2833 per share could be issued at the option of the issuer as full and final settlement of the note. The second promissory note could 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. Both promissory notes were not converted to common shares prior to June 30, 2009. Included in general and administrative expenses is \$6,000 (September 30, 2008, - \$6,000) in interest expense relating to these promissory notes.

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

**11. RELATED PARTY TRANSACTIONS**

Related party transactions during the periods ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Management fees	\$25,500	\$42,500	\$97,833	\$122,500
Director fees	4,300	6,350	20,400	21,150
	<u>\$29,800</u>	<u>\$48,850</u>	<u>\$118,233</u>	<u>\$143,650</u>

At September 30, 2009, included in accounts payable and accrued liabilities is \$55,877 (December 31, 2008 - \$1,513) due to the Chief Executive Officer, Chief Scientific Officer and Chief Operating Officer and Chief Financial Officer of the Corporation. Also included in accounts payable and accrued liabilities at September 30, 2009, is \$20,400 (December 31, 2008 - \$NIL) due to directors of the Corporation. At September 30, 2009, included in sundry receivables is \$1,092 (December 31, 2008 - \$2,265) 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 \$285,000 and are all payable within one year.

The Corporation has entered into a lease for its office premises in Toronto. Minimum rental commitments approximate \$10,000 all due within three months.

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 a research and development agreement requiring total payments of approximately \$10,000 which are due upon the completion of certain performance criteria.

**CANNASAT THERAPEUTICS INC.**  
**Notes to the Unaudited Interim Financial Statements**  
**For the nine months ended September 30, 2009**

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**13. SUPPLEMENTARY CASH FLOW INFORMATION**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	2,020	2,140	6,062	2,798
The following significant transactions did not generate or use cash:				
Common shares issued for services	-	-	-	(25,000)
Contributed surplus	(59,156)	56,216	126,714	136,364
Compensation expense	(35,050)	(80,216)	(142,713)	(208,364)
Deferred financing costs reallocated to share and warrant issuance costs	-	-	(251,040)	-

**14. SUBSEQUENT EVENT**

On November 16, 2009, Cannasat announced that Anthony Giovinazzo had been appointed to succeed David Hill as Chief Executive Officer, and joins the Corporation as President and Chief Executive Officer. Mr. Giovinazzo is an executive with 31 years of international business experience, of which the last 16 years were in drug development for treatment of central nervous system diseases. Effective November 16, 2009, the Corporation granted Mr. Giovinazzo stock options to acquire 500,000 shares in the capital of the Corporation. The stock options have an exercise price equal to \$0.10 per share and an expiry date of 5 years from the date of grant.