CANNASAT THERAPEUTICS INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Audited

CANNASAT THERAPEUTICS INC.
December 31, 2009 and 2008

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
CANNASAT THERAPEUTICS INC.

We have audited the balance sheets of Cannasat Therapeutics Inc. as at December 31, 2009 and 2008 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
February 14, 2010
except for Note 15
which is at March 3, 2010

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CANNASAT THERAPEUTICS INC.
Balance Sheets
As at December 31,

		2009		2008 (*As restated Note 3(a)(i)*)
ASSETS				
CURRENT				
Cash and cash equivalents	$	483,197	$	805,128
Sundry receivables (Notes 5(a) and 11)		113,903		53,636
		597,100		858,764
EQUIPMENT (Note 6)		14,249		7,200
DEFERRED COMPENSATION EXPENSE (Note 8(d))		-		16,000
OTHER INTANGIBLE ASSETS (Note 9)		150,000		161,111
	$	761,349	$	1,043,075
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Notes 11 and 13)	$	765,491	$	513,254
Current portion of notes payable (Note 10)		-		100,000
		765,491		613,254
COMMITMENTS AND CONTINGENCIES (Note 13)				
GOING CONCERN (Note 2)				
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 8(b))		8,961,130		8,089,432
WARRANTS (Note 8(c))		294,444		152,468
CONTRIBUTED SURPLUS (Note 8(f))		1,841,596		1,538,126
(DEFICIT)		(11,101,312)		(9,350,205)
		(4,142)		429,821
	$	761,349	$	1,043,075

APPROVED BY THE BOARD:

“Ron Hosking”, Director   “Rochelle Stenzler”, Director

CANNASAT THERAPEUTICS INC.

Statements of Operations, Comprehensive Loss and Deficit
For the years ended December 31,

		2009		2008 *(As restated Note 3(a)(i))*
REVENUE				
Interest income	$	12,865	$	16,708
EXPENSES				
General and administrative		1,139,294		1,114,771
Research and development		616,297		889,600
Amortization of equipment and intangible assets		13,586		13,171
Stock option compensation expense		225,263		261,056
Recovery on scientific research		(230,468)		(26,454)
		1,763,972		2,252,144
(LOSS) BEFORE THE UNDERNOTED		(1,751,107)		(2,235,436)
GAIN ON SALE OF EQUITY ACCOUNTED INVESTMENT (Note 7)		-		254,936
(LOSS) FROM EQUITY ACCOUNTED INVESTMENT (Note 7)		-		(22,626)
NET (LOSS) AND COMPREHENSIVE (LOSS) FOR THE YEAR		(1,751,107)		(2,003,126)
(DEFICIT), BEGINNING OF YEAR		(9,350,205)		(7,347,079))
(DEFICIT), END OF YEAR	$	(11,101,312)	$	(9,350,205)
(LOSS) PER SHARE - basic and diluted	$	(0.02)	$	(0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		81,566,918		73,199,610

CANNASAT THERAPEUTICS INC.

Statements of Cash Flows
For the years ended December 31,

	2009	2008 *(As restated Note 3(a)(i))*
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss for the year	$ (1,751,107)	$ (2,003,126)
Items not affecting cash		
(Gain) on sale of equity accounted investment	-	(254,936)
Loss from equity accounted investment	-	22,626
Amortization of equipment and intangible assets	13,586	13,171
Value of shares issued for services	60,287	25,000
Value of shares issued for promissory note debt interest	11,000	-
Stock option compensation expense	225,263	261,056
	(1,440,971)	(1,936,209)
Changes in non-cash operating working capital items		
Sundry receivables	(60,267)	17,257
Accounts payable and accrued liabilities	` 266,237	142,807
	(1,235,001)	(1,776,145)
INVESTING		
Proceeds from sale of long-term investment (Note 7)	-	1,120,000
Acquisition of equipment	(9,524)	(1,666)
	(9,524)	1,118,334
FINANCING		
Share and warrant issuances, net of issue costs	922,594	675,470
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(321,931)	17,659
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	805,128	787,469
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 483,197	$ 805,128
CASH AND CASH EQUIVALENTS CONSIST OF		
Cash	103,197	167,474
Cash equivalents	380,000	637,654
	$ 483,197	$ 805,128

SUPPLEMENTARY CASH FLOW INFORMATION (Note 14)

1. DESCRIPTION OF BUSINESS

Cannasat Therapeutics Inc. (the "Corporation" or "Cannasat") is a publicly traded (CTH: TSX-V) specialty clinical development pharmaceutical company targeting diseases of the brain. 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 company 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 financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered to be particularly significant:

Going Concern
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 $8,391,935 in operating activities from inception to December 31, 2009 and has an accumulated deficit of $11,101,312 as at December 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.

Expenditures during the development stage
The Corporation is in its development stage and has incurred capital and non-capital expenditures prior to the commencement of commercial operations. The Corporation has chosen to expense the non-capital expenditures as incurred.

Cash and cash equivalents
Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of ninety days or less and which are not subject to significant risk of changes in value.

Equipment
Equipment is recorded at cost and is amortized on the diminishing balance method based on their estimated useful lives as follows:

Computer equipment	-	30% per annum
Furniture and fixtures	-	20% per annum.

Deferred compensation expense
The cost of stock option compensation granted to consultants is deferred and amortized over the period that the services are provided.

Continued

2. ACCOUNTING POLICIES AND GOING CONCERN (continued)

Other intangible assets
Other intangible assets comprise a license for patented products that expires when the last patent expires. The asset is recorded at cost and is amortized over its estimated useful life of 18 years.

Research and development costs
Research costs are expensed as incurred. Development costs are expensed as incurred except if the product is defined and the costs attributable thereto can be identified, the future market for the product is defined and there exists adequate resources to complete the project. The Corporation has expensed all research and development costs incurred to date.

Stock-option compensation
The Corporation records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

Income taxes
The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by the Corporation include factors affecting valuations of stock-option compensation, warrants, other intangible assets and the valuation of income tax accounts. The Corporation regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

Loss per share
Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from options and warrants excluded from the computation of diluted loss per share because they were anti-dilutive for the year ended December 31, 2009 were 8,225,829 (2008 – 6,975,594) and 13,338,350 (2008 – 6,758,333), respectively.

Continued

2. ACCOUNTING POLICIES AND GOING CONCERN (continued)

Financial instruments
Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables" or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive loss.

Comprehensive loss
Comprehensive loss, composed of net loss and other comprehensive loss, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive loss (“OCL”) includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive loss are disclosed in the statement of operations and comprehensive loss. Cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss ("AOCL") which is presented as a category in shareholders' equity. The Corporation does not currently have any OCL items or AOCL. Therefore, comprehensive loss is equal to net loss for the years ended December 31, 2009 and 2008.

Impairment of long-lived assets
Long-lived assets held for use are reviewed for impairment when events or circumstances indicate that its carrying value may not be recoverable. When the carrying value is not expected to be recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the asset's fair value, an impairment loss is recorded.

Comparative figures
Certain comparative amounts have been reclassified to conform to the current year's presentation.

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 January 1, 2009, the Company retrospectively adopted CICA section 3064, “Goodwill and Intangible Assets”. This Section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting the new standard, other intangible assets that were previously not amortized are now being amortized. The adoption of this new Section resulted in an adjustment to opening deficit of $27,778 as at January 1, 2008, an increase in net loss and comprehensive loss for the year ended December 31, 2008 of $11,111 and an increase to the ending deficit of $38,889 as at December 31, 2008.

Continued

3. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Accounting Changes (continued)

(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 December 31, 2009.

(b) Recent Accounting Pronouncements

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

(ii) Business Combinations
CICA handbook Section 1582 "Business Combinations", replaces Section 1581 "Business Combinations", and provides the Canadian equivalent to International Financial Reporting Standards 3 "Business Combinations". This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be re-measured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. Section 1582 is effective for fiscal years beginning on or after January 1, 2011.

(iii) Consolidations and Non-Controlling Interests
CICA handbook Sections 1601 "Consolidated Financial Statements", and 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". These new sections provide the Canadian equivalent to International Accounting Standard 27 "Consolidated and Separate Financial Statements". Sections 1601 and 1602 are effective for fiscal years beginning on or after January 1, 2011.

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, warrants 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 years ended December 31, 2009 and 2008.

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 of goods and services tax due from the Federal Government of Canada and amounts due from the Ontario portion of the Scientific Research and Experimental Development (SRED) tax incentive program. 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 December 31, 2009, the Corporation had cash and cash equivalents of $483,197 and sundry receivables of $113,903 (2008 - $805,128 and $53,636) to settle current liabilities of $765,491 (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.

Based on management's knowledge and experience of the financial markets, the Company believes the following movement is "reasonably possible" over the next 12 months. Since cash and cash equivalents have varying terms and rates, sensitivity to a plus or minus 1% change in rates could affect its net loss by approximately $4,800.

(c) Market Risk

(i) Interest rate risk
The Corporation has cash and cash equivalent balances as at December 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 0.5% 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 no interest-bearing debt and future financing will be primarily secured from private placements.

Continued

5. FINANCIAL RISK FACTORS (continued)

(c) *Market Risk (continued)*

(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. Management believes that the price risk concentration with respect to API is remote.

(d) 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 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.

6. EQUIPMENT

	December 31, 2009		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	15,270	5,613	9,657
Furniture and fixtures	9,318	4,726	4,592
Total	24,588	10,339	14,249

	December 31, 2008		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	5,745	4,286	1,459
Furniture and fixtures	9,318	3,577	5,741
Total	15,063	7,863	7,200

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 Corporation's share of the PPS loss from January 1, 2008 to June 23, 2008 was $22,626.

8. SHARE CAPITAL

a) *Authorized*

Unlimited number of common shares with no par value

b) *Issued and outstanding common shares*

	Number of Shares #	Value $
Balance, December 31, 2007	70,010,516	7,541,430
March 14, 2008 (i)	3,333,333	500,000
Warrant valuation (i)	-	(94,207)
June 27, 2008 (ii)	125,000	25,000
August 8, 2008 (iii)	1,175,000	235,000
Warrant valuation (iii)	-	(58,261)
Share issue costs	-	(59,530)
Balance, December 31, 2008	74,643,849	8,089,432
February 27, 2009 (iv)	3,870,000	387,000
Warrant valuation (iv)	-	(54,809)
August 6, 2009 (v and vi)	7,509,500	750,950
Warrant valuation (v and vi)	-	(130,874)
August 31, 2009 (v and vii)	1,789,000	178,900
Warrant valuation (v and vii)	-	(31,038)
December 18, 2009 (viii)	1,852,870	185,287
Share issue costs	-	(413,718)
Balance, December 31, 2009	89,665,219	8,961,130

i) On March 14, 2008, the Corporation issued 3,333,333 units at $0.15 per unit for gross proceeds of $500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Corporation for $0.20 per share until the earlier of March 14, 2009 and the period ending 20 days after prior written notice from the Corporation that the closing price of its shares on the Toronto Stock Exchange has been at least $0.30 per share for 20 consecutive trading days. The grant date fair value of the warrants was estimated at $103,730 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 2.5%, expected life of 1 year, expected dividend rate of 0%, and expected volatility of 97%. Share issue costs related to this private placement were $45,923 of which $9,523 was allocated to warrants.

Continued

8. SHARE CAPITAL (continued)

b) Issued and outstanding common shares (continued)

ii) On June 27, 2008, 125,000 common shares, valued at $25,000, were issued for consulting services provided during the second quarter of 2008. The Board of Directors of the Corporation approved this share issuance on June 25, 2008.

iii) On August 8, 2008 the Corporation issued an aggregate of 1,175,000 Units at a price of $0.20 per Unit raising gross proceeds of $235,000. Each Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share at a price of $0.22 for a period ending on the earlier of 18 months from the closing date, and a period ending 20 days after prior written notice from the Corporation that the closing price of its shares on the principal stock exchange of the Corporation has been at least $0.30 per share for 20 consecutive trading days. The fair value of the warrants was estimated at $61,842 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 2.8%, expected life of 1.5 years, expected dividend rate of 0%, and expected volatility of 96%. Share issue costs related to this private placement were $13,607 of which $3,581 was allocated to warrants.

iv) 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. The fair value of the warrants was estimated at $57,650 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.15%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 100%. Share issue costs related to this private placement were $21,605 of which $2,841 was allocated to warrants.

v) 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.

vi) 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. The fair value of the warrants was estimated at $226,306 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.45%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 118%. Share issue costs related to this private placement were $316,672 of which $95,432 was allocated to warrants.

Continued

8. SHARE CAPITAL (continued)

b) Issued and outstanding common shares (continued)

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. The fair value of the warrants was estimated at $15,634 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.45%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 118%.

vii) 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. The fair value of the warrants was estimated at $53,670 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.28%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 117%. Share issue costs related to this private placement were $75,441of which $22,632 was allocated to warrants.

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. The fair value of the warrants was estimated at $3,828 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.28%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 117%.

viii) On December 18, 2009, 1,852,870 common shares, valued at $185,287 were issued to employees, officers, directors (Note 11) and a promissory note holder (Note 10) of the Corporation for amounts owing for services, fees and debt. The Board of Directors of the Corporation approved this share issuance on December 16, 2009.

Continued

8. SHARE CAPITAL (continued)

c) Warrants

The number of warrants outstanding as at December 31, 2008 and 2009 and changes during the years ended on those dates is presented below:

	Number of Warrants #	Estimated Grant Date Fair Value $	Weighted Average Price / Share
Balance, December 31, 2007	4,939,402	264,143	0.259
March 14, 2008 (Note 8(b)(i))	3,333,333	94,207	0.200
Expired March 16, 2008	(361,086)	-	-
Expired August 3, 2008	(1,907,500)	(103,950)	0.300
August 8, 2008 (Note 8(b)(iii))	1,175,000	58,261	0.220
Expired October 24, 2008	(1,895,112)	(160,193)	0.300
Expired October 24, 2008	(275,704)	-	0.220
Balance, December 31, 2008	5,008,333	152,468	0.211
February 27, 2009 (Note 8(b)(iv))	1,935,000	54,809	0.150
Expired March 14, 2009	(3,333,333)	(94,207)	0.200
Expired March 16, 2009	(500,000)	-	0.208
August 6, 2009 (Note 8(b)(vi))	7,509,500	130,874	0.150
August 6, 2009 (Note 8(b)(vi))	750,950	15,634	0.100
August 31, 2009 (Note 8(b)(vii))	1,789,000	31,038	0.150
August 31, 2009 (Note 8(b)(vii))	178,900	3,828	0.100
Balance, December 31, 2009	13,338,350	294,444	0.153

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

Number of Warrants	Number of shares issuable on exercise of warrants #	Effective Strike Price ($/share)	Estimated Grant Date Fair 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	750,950	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
13,338,350	13,338,350		$ 294,444	

The weighted average grant date fair value of the warrants issued during the year ended December 31, 2009 is $0.02 (2008: $0.0.04).

Continued

8. SHARE CAPITAL (continued)

d) Stock options

The Company has in place a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the stock option plan is a maximum of 10% of the issued and outstanding common shares of the Company. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Company in a 12-month period. Option grants to persons providing consulting and investor services may not exceed 2% of the issued and outstanding common shares of the Comoany in any 12-month peirod. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company and shall not be lower than the discounted market price (as defined by the the TSX Venture) of the shares at the time of grant, subject to all applicable regulatory requirements.

The number of stock options outstanding as at December 31, 2008 and 2009 and changes during the years ended on those dates is as follows:

	Number of Options	Number of Shares Issuable on Exercise of Options	Weighted Exercise Price (/share)
	#	#	$
Options outstanding at December 31, 2007	3,243,740	5,896,214	0.280
Granted	1,850,000	1,850,000	0.200
Expired	(499,724)	(770,620)	0.293
Options outstanding at December 31, 2008	4,594,016	6,975,594	0.257
Granted	2,050,000	2,050,000	0.100
Expired	(360,266)	(799,765)	0.285
Outstanding as at December 31, 2009	6,283,750	8,225,829	0.215

The weighted average grant date fair value of the stock options issued during the year ended December 31, 2009 is $0.09 (2008: $0.14). The exercise price of stock options granted during the year were equal to the fair market value of the common shares on the date of grant. The fair value of the options granted during the year ended December 31, 2009, has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0% (2008: 0%), expected volatilities between 120% and 122% (2008: 94 - 98%), risk free rate of return interest rates between 2.33% and 2.60% (2008: 3.27% and 3.07%) and expected lives of 5 years (2008: 2 and 5 years).

In February 2004, 2,610,000 options granted were determined to have a value of $513,485. Of this amount, $16,000 was expensed during 2009, $96,000 was expensed during 2008 and $401,485 was expensed between 2004 and 2007.

Continued

8. SHARE CAPITAL (continued)

d) Stock options (continued)

Stock options issued and outstanding as at December 31, 2009 are as follows:

Number of Options	Number of Shares Issuable on Exercise of Options	Effective Strike Price ($/share)	Expiry Date
200,000	200,000	0.200	June 25, 2010
41,667	125,000	0.283	June 30, 2010
48,750	40,829	0.239	July 28, 2010
66,667	200,000	0.317	August 31, 2010
150,000	150,000	0.300	December 3, 2010
41,666	125,000	0.283	December 31, 2010
50,000	150,000	0.283	March 23, 2011
208,333	625,000	0.283	June 30, 2011
66,667	200,000	0.317	August 31, 2011
50,000	150,000	0.283	August 31, 2011
250,000	750,000	0.283	November 1, 2011
50,000	50,000	0.300	December 3, 2011
116,667	350,000	0.283	December 31, 2011
260,000	260,000	0.250	May 24, 2012
850,000	850,000	0.250	June 25, 2012
16,667	50,000	0.283	June 30, 2012
66,666	200,000	0.317	August 31, 2012
50,000	50,000	0.300	December 3, 2012
600,000	600,000	0.200	April 4, 2013
800,000	800,000	0.200	June 25, 2013
250,000	250,000	0.200	August 28, 2013
1,550,000	1,550,000	0.100	August 31, 2014
500,000	500,000	0.100	November 16, 2014
6,283,750	8,225,829		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at December 31, 2009 is 5,125,831. The weighted average exercise price of stock options that are exercisable as at December 31, 2009 is $0.260.

Continued

8. SHARE CAPITAL (continued)

e) 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. 34,608,879 of these escrowed shares 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. At December 31, 2009, 17,304,441 of the 72-month release shares are still subject to escrow. The remaining 4,096,958 escrowed shares were released over a period of 36 months ending on March 23, 2009.

f) 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, 2007	$ 1,108,927
Compensation earned during the period – employee	116,650
Compensation earned during the period – non-employee	48,406
Expiry of warrants, August 3, 2008 and October 24, 2008	264,143
Balance December 31, 2008	$ 1,538,126
Compensation earned during the period – employee	173,996
Compensation earned during the period – non-employee	35,267
Expiry of warrants, March 14, 2009	94,207
Balance December 31, 2009	$ 1,841,596

9. OTHER INTANGIBLE ASSETS

On June 10, 2005, the Corporation entered into a license agreement with a research and development company. 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.

	December 31, 2009		
	Cost $	Accumulated Amortization $	Net Book Value $
License	200,000	50,000	150,000

	December 31, 2008		
	Cost $	Accumulated Amortization $	Net Book Value $
License	200,000	38,889	161,111

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, including $25,000 in interest owed, were settled by the issuance of 1,250,000 common shares on December 18, 2009. (See Note 8(b)(viii)).

11. RELATED PARTY TRANSACTIONS

Related party transactions during the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Management fees	$ 206,250	$174,000
Director fees	38,850	27,650
Consulting services paid to a Director	3,000	-
	$248,100	201,650

At December 31, 2009, included in accounts payable and accrued liabilities is $98,560 (2008 - $1,513) due to officers and directors of the Corporation. At December 31, 2009, included in sundry receivables is $nil (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.

On February 27, 2009, certain officers and directors of the Corporation purchased 770,000 units as part of the private placement for gross proceeds of $77,000 (see Note 8(b)(iv)).

On December 18, 2009, 522,000 common shares were issued to officers and directors of the Corporation in settlement of $52,200 of amounts owing for services (see Note 8(b)(viii)).

12. INCOME TAXES

a) Provision for income taxes:

Major items causing the Corporation's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 33% (2008 – 33.5%) are as follows:

	December 31, 2009	December 31, 2008
Loss before income taxes	$ (1,751,107)	$(2,003,126)
Expected income tax recovery	$ (578,000)	$ (667,000)
Adjustments to benefit resulting from:		
Difference in income tax rates	140,000	90,000
Change in income tax rates	335,000	-
Share issue costs	(96,000)	(17,000)
Stock option compensation	56,000	76,000
(Gain) loss from Prairie Plant Systems Inc.	-	(34,000)
Other	6,000	(8,000)
	$ (137,000)	$ (560,000)
Change in valuation allowance	137,000	560,000
	$ -	$ -

b) The effect of temporary differences that give rise to future income tax assets and liabilities are as follows:

	December 31, 2009	December 31, 2008
Future income tax assets:		
Share issuance costs	$ 112,000	$ 76,000
Equipment	2,000	2,000
Tax loss carry forwards	2,465,000	2,364,000
	$ 2,579,000	$ 2,442,000
Future income tax liabilities	-	-
Valuation allowance	(2,579,000)	(2,442,000)
	$ -	$ -

c) The Corporation has approximately $9,861,000 of non-capital losses as at December 31, 2009, which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Available To	Amount ($)
2014	501,000
2015	1,596,000
2026	2,102,000
2027	2,048,000
2028	2,120,000
2029	1,494,000
	9,861,000

13. 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 $126,600 and are all payable within one year. In addition, the Corporation is party to certain management contracts which require that additional payments of approximately $108,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

The Corporation is subject to additional termination and stock option commitments, contingent upon the Corporation raising a cumulative of $5 million. Once raised, the Corporation will have additional management contract termination commitments of $285,400 and will be required to issue 3,733,163 stock options priced at the then fair market value, but not less than $0.10 per share.

On November 15, 2009, the former CEO resigned and is due $216,500 over a twelve month period, contingent upon the Corporation raising a minimum of $2 million and at the discretion of the Board. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

The Corporation has entered into a lease for its office premises in Toronto. Minimum rental commitments approximate $101,000 including $78,000 due within one year and 23,000 due the year following.

The Corporation has one contractual dispute for claims against them totalling $104,400. Included in accounts payable and accrued liabilities is $80,000 related to this dispute. Management believes this dispute will be settled before June 30, 2010.

The Corporation has entered into consulting agreements requiring total payments of approximately $26,000 all due within one year.

14. SUPPLEMENTARY CASH FLOW INFORMATION

	2009	2008
Income taxes paid	$ -	$ -
Interest paid	3,206	4,812
The following significant transactions did not generate or use cash:		
Common shares issued for services (Note 8(b)(viii))	(60,287)	(25,000)
Common shares issued for debt	(114,000)	-
Warrants issued for share issue costs	(19,462)	-

15. SUBSEQUENT EVENTS

a) On January 11, 2010, Ron Hosking replaced Peter Palframan on the Board of Directors. As a result, 200,000 unvested stock options previously granted to Peter Palframan were forfeited immediately.

b) On February 4, 2010, Cannasat announced that it has entered into a Letter of Intent (“LOI”) with Adagio Pharmaceuticals Ltd. granting Cannasat the option to execute a proposed exclusive, worldwide agreement to license all intellectual property relating to APL-130277, a reformulation of an approved Parkinson’s drug. The two parties are negotiating an exclusive worldwide license that would result in Cannasat assuming product development and commercialization rights to APL-130277 from Adagio in return for development milestones and royalties to Adagio, including common shares of Cannasat. The license agreement includes an exclusive option period for the first 12 months which allows Cannasat to conduct further due diligence and proof-of concept studies for APL-130277 prior to executive the full license. All aspects of the option and license agreements are subject to Board approval.

c) On February 8, 2010, 1,175,000 warrants exercisable at $0.22 per share expired unexercised.

d) On March 2, 2010, the Corporation and IntelGenx Corporation (“IntelGenx) signed a Letter-of-Intent to engage in a project to further develop tablets containing delta-9 tetrahydrocannabinol (“THC”) for sublingual or buccal delivery of THC. Once the formulations have been completed, one or more partners will be retained for clinical development and commercialization of the products. Upon successfully entering into a sub-licensing agreement with a marketing and/or commercialization partner, the parties agree to share royalties received from the sale of the products. In consideration of the rights and licenses to be granted by the Corporation to IntelGenx under the License Agreement, IntelGenx agrees to forgive $230,688 in indebtedness owed by the Corporation to IntelGenx.”

e) On March 3, 2010 the Corporation granted stock options to acquire 425,000 common shares. The stock options were granted to an employee, an officer and a director of the Corporation at an exercise price of $0.10 per share for a term of 5 years from date of grant.