

PART I

ITEM 1. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.



Unaudited Condensed Consolidated Interim Financial Statements of

InMed Pharmaceuticals Inc.

For the Three and Nine Months Ended March 31, 2023 and 2022

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InMed Pharmaceuticals Inc.

(Expressed in U.S. Dollars)

March 31, 2023

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InMed Pharmaceuticals Inc.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
As of March 31, 2023 (unaudited) and June 30, 2022
Expressed in U.S. Dollars

	Note	March 31, 2023	June 30, 2022
		\$	\$
ASSETS			
Current			
Cash and cash equivalents		9,604,057	6,176,866
Short-term investments		43,055	44,804
Accounts receivable, net		170,299	88,027
Inventories	4	1,329,931	2,490,854
Prepays and other current assets		695,203	797,225
Total current assets		11,842,545	9,597,776
Non-Current			
Property, equipment and ROU assets, net	5	753,241	904,252
Intangible assets, net	6	1,986,826	2,108,915
Other assets		147,489	176,637
Total Assets		14,730,101	12,787,580
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	7	1,829,924	2,415,265
Current portion of lease obligations	10	423,574	404,276
Deferred rent		16,171	-
Acquisition consideration payable		-	500,000
Total current liabilities		2,269,669	3,319,541
Non-current			
Lease obligations, net of current portion	10	72,794	389,498
Total Liabilities		2,342,463	3,709,039
Commitments and Contingencies (Note 14)			
Shareholders' Equity			
Common shares, no par value, unlimited authorized shares: 3,328,191 (June 30, 2022 - 650,667) issued and outstanding	8	77,620,252	70,718,461
Additional paid-in capital	8, 9	35,700,635	31,684,098
Accumulated deficit		(101,061,818)	(93,452,587)
Accumulated other comprehensive income		128,569	128,569
Total Shareholders' Equity		12,387,638	9,078,541
Total Liabilities and Shareholders' Equity		14,730,101	12,787,580
Related Party Transactions (Note 16)			

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

InMed Pharmaceuticals Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS (unaudited)

For the three and nine months ended March 31, 2023 and 2022

Expressed in U.S. Dollars

	Note	Three Months Ended		Nine Months Ended	
		March 31		March 31	
		2023	2022	2023	2022
		\$	\$	\$	\$
Sales		1,033,925	309,585	1,824,496	574,677
Cost of sales		841,414	127,308	1,415,068	280,845
Inventory write-down	4	-	-	576,772	-
Gross profit (loss)		192,511	182,277	(167,344)	293,832
Operating Expenses					
Research and development and patents		878,303	1,753,545	3,108,312	5,781,867
General and administrative		1,412,727	1,915,017	4,438,083	5,124,670
Amortization and depreciation	5, 6	50,689	53,340	148,786	131,669
Total operating expenses		2,341,719	3,721,902	7,695,181	11,038,206
Other Income (Expense)					
Interest and other income		155,497	30,964	343,881	62,389
Foreign exchange gain (loss)		(2,733)	32,996	(79,287)	(48,109)
Loss before income taxes		(1,996,444)	(3,475,665)	(7,597,931)	(10,730,094)
Tax expense		(1,500)	-	(11,300)	-
Net loss for the period		(1,997,944)	(3,475,665)	(7,609,231)	(10,730,094)
Net loss per share for the period Basic and diluted	11	(0.60)	(6.14)	(3.53)	(20.13)
Weighted average outstanding common shares Basic and diluted	11	3,328,191	566,062	2,156,283	533,070

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

InMed Pharmaceuticals Inc.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

For the three and nine months ended March 31, 2023 and 2022

Expressed in U.S. Dollars

	Note	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
		#	\$	\$	\$	\$	\$
Balance June 30, 2022		650,667	70,718,461	31,684,098	(93,452,587)	128,569	9,078,541
Activity for the six months to December 31, 2022							
Private placement	8	240,000	673,748	11,326,042	-	-	11,999,790
Share issuance costs	8	-	(115,955)	(1,895,311)	-	-	(2,011,266)
Agents' investment options		-	-	691,483	-	-	691,483
Exercise of pre-funded warrants	8	699,325	3,586,170	(3,585,698)	-	-	472
Loss for the period		-	-	-	(5,611,287)	-	(5,611,287)
Share-based compensation	9	-	-	187,318	-	-	187,318
Balance December 31, 2022		1,589,992	74,862,424	38,407,932	(99,063,874)	128,569	14,335,051
Activity for the three months to March 31, 2023							
Exercise of pre-funded warrants	8	1,738,199	2,757,828	(2,757,654)	-	-	174
Loss for the period		-	-	-	(1,997,944)	-	(1,997,944)
Share-based compensation	9	-	-	50,357	-	-	50,357
Balance March 31, 2023		3,328,191	77,620,252	35,700,635	(101,061,818)	128,569	12,387,638
	Note	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
		#	\$	\$	\$	\$	\$
Balance June 30, 2021		322,028	60,587,417	21,513,051	(74,852,470)	128,569	7,376,567
Activity for the six months to December 31, 2021							
Private placement	10	35,600	1,459,051	10,540,635	-	-	11,999,686
Share issuance costs	10	-	(247,336)	(1,786,831)	-	-	(2,034,167)
Agents' warrants		-	-	739,920	-	-	739,920
Exercise of pre-funded warrants	10	125,853	4,283,969	(4,283,654)	-	-	315
Acquisition of BayMedica	7	82,000	3,013,500	-	-	-	3,013,500
Loss for the period		-	-	-	(7,254,429)	-	(7,254,429)
Share-based compensation	11	-	-	325,921	-	-	325,921
Balance December 31, 2021		565,481	69,096,601	27,049,042	(82,106,899)	128,569	14,167,313
Activity for the three months to March 31, 2022							
Cashless exercise of warrants	10	5,873	728,730	(728,730)	-	-	-
Loss for the period		-	-	-	(3,475,665)	-	(3,475,665)
Share-based compensation	11	-	-	195,085	-	-	195,085
Balance March 31, 2022		571,354	69,825,331	26,515,397	(85,582,564)	128,569	10,886,733

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

InMed Pharmaceuticals Inc.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (unaudited)**

For the nine months ended March 31, 2023 and 2022

Expressed in U.S. Dollars

	Note	2023 \$	2022 \$
Cash provided by (used in):			
Operating Activities			
Net loss		(7,609,231)	(10,730,094)
Items not requiring cash:			
Amortization and depreciation	5, 6	148,786	131,669
Share-based compensation	9	237,675	521,006
Amortization of right-of-use assets		296,239	226,061
Loss on disposal of assets		-	11,355
Change in value of short-term investments		(392)	46
Unrealized foreign exchange loss		2,138	312
Inventory write-down	4	576,772	-
Bad debts		25,085	-
Changes in operating assets and liabilities:			
Inventories		584,151	(933,260)
Prepays and other current assets		102,022	(323,653)
Other non-current assets		5,507	6,580
Accounts receivable		(107,357)	(22,535)
Accounts payable and accrued liabilities		(585,341)	(195,125)
Deferred rent		16,171	3,760
Lease obligations		(317,490)	(232,633)
Total cash used in operating activities		(6,625,265)	(11,536,511)
Investing Activities			
Cash acquired from acquisition of BayMedica		-	91,566
Payment of acquisition consideration payable		(500,000)	-
Payment of deposit on equipment		(128,198)	-
Purchase of property and equipment		-	(39,108)
Total cash (used in) provided by investing activities		(628,198)	52,458
Financing Activities			
Shares issued for cash	8	12,000,436	12,000,001
Share issuance costs	8	(1,319,782)	(1,294,247)
Repayment of debt		-	(261,514)
Settlement of debt upon acquisition of subsidiary		-	(425,000)
Total cash provided by financing activities		10,680,654	10,019,240
Increase (decrease) in cash during the period		3,427,191	(1,464,813)
Cash and cash equivalents beginning of the period		6,176,866	7,363,126
Cash and cash equivalents end of the period		9,604,057	5,898,313

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

INMED PHARMACEUTICALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022
(Expressed in U.S. Dollars)

1. CORPORATE INFORMATION AND CONTINUING OPERATIONS

Business

InMed Pharmaceuticals Inc. (“InMed” or the “Company”) was incorporated in the Province of British Columbia on May 19, 1981 under the *Business Corporations Act* of British Columbia. InMed is a clinical stage pharmaceutical company developing a pipeline of prescription-based products, including rare cannabinoids and novel cannabinoid analogs, targeting the treatment of diseases with high unmet medical needs as well as developing proprietary manufacturing technologies to produce rare cannabinoids for sale in the health and wellness industry.

The Company’s shares are listed on the Nasdaq Capital Market (“Nasdaq”) under the trading symbol “INM”. InMed’s office and principal place of business is located at #310 – 815 West Hastings Street, Vancouver, B.C., Canada, V6C 1B4.

Liquidity

Through March 31, 2023, the Company has funded its operations primarily with proceeds from the sale of common stock. The Company has incurred recurring losses and negative cash flows from operations since its inception, including net losses of approximately \$7.6 million and \$10.7 million for the nine months ended March 31, 2023 and 2022, respectively. In addition, the Company had an accumulated deficit of approximately \$101.1 million at March 31, 2023. The Company expects to continue to generate operating losses for the foreseeable future.

As of the issuance date of these condensed consolidated interim financial statements, the Company expects its cash and cash equivalents of \$9.6 million as of March 31, 2023 will be sufficient to fund its operating expenses and capital expenditure requirements into the first quarter of calendar 2024, and possibly into the second quarter of calendar 2024, depending on the level and timing of realizing BayMedica revenues from the sale of bulk rare cannabinoids in the health & wellness sector as well as the level and timing of the Company operating expenses. The future viability of the Company is dependent on its ability to raise additional capital to finance its operations. As a result of the recurring losses and requirement for cash in the first quarter of calendar 2024 or the second quarter of calendar 2024, the Company has concluded that there is substantial doubt about its ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

The Company expects to continue to seek additional funding through equity financings, debt financings or other capital sources, including collaborations with other companies, government contracts or other strategic transactions. The Company may not be able to obtain financing on acceptable terms, or at all. The terms of any financing may adversely affect the holdings or the rights of the Company’s existing shareholders.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its commitments, realize its assets and discharge its liabilities in the normal course. These condensed consolidated interim financial statements do not reflect adjustments to the carrying values of assets and liabilities that would be necessary if the Company was unable to continue as a going concern and such adjustments could be material.

INMED PHARMACEUTICALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022

(Expressed in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles as applied in the United States (“US GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for financial information. Accordingly, these financial statements do not include all the information and footnotes required for complete financial statements and should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes thereto for the year ended June 30, 2022.

These unaudited condensed consolidated interim financial statements reflect all adjustments, consisting solely of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods presented. The results of operations for the three and nine months ended March 31, 2023 and 2022 are not necessarily indicative of results that can be expected for a full year. These unaudited condensed consolidated interim financial statements follow the same significant accounting policies as those described in the notes to the audited consolidated financial statements of the Company for the year ended June 30, 2022.

The functional currency of the Company and its subsidiaries is the U.S. Dollar. These condensed consolidated interim financial statements are presented in U.S. Dollars. References to “\$” and “US\$” are to United States (“U.S.”) dollars and references to “C\$” are to Canadian dollars.

Use of Estimates

The preparation of financial statements in compliance with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as of the balance sheet date, and the corresponding revenues and expenses for the periods reported. It also requires management to exercise judgment in applying the Company’s accounting policies. In the future, actual experience may differ from these estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are the estimate of useful life of intangible assets, the application of the going concern assumption, and determining the fair value of share-based payments and warrants.

INMED PHARMACEUTICALS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022

(Expressed in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)***Recent Accounting Pronouncements Not Yet Adopted***

The Company has reviewed recent accounting pronouncements and concluded that they are either not applicable to the Company or that there was no material impact or no material impact is expected in the consolidated financial statements as a result of future adoption.

3. CUSTOMER CONCENTRATION

The Company's 4 largest customers, represent 22%, 21%, 17% and 11%, totaling approximately 72% of our sales during the three months ended March 31, 2023. The Company's 3 largest customers, represent 17%, 15% and 14%, totaling approximately 46% of its sales during the nine months ended March 31, 2023. As of March 31, 2023, 3 customers represented 29%, 20% and 12%, totaling 61% of total gross outstanding accounts receivable.

The Company's 2 largest customers, represent 38% and 35%, totaling approximately 73% of our sales during the three months ended March 31, 2022. The Company's 3 largest customers, represent 28%, 20% and 17%, totaling approximately 65% of our sales during the nine months ended March 31, 2022.

4. INVENTORIES

Inventories consisted of the following:

	March 31, 2023	June 30, 2022
	\$	\$
Raw materials	387,071	292,577
Work in process	548,593	1,724,851
Finished goods	394,267	473,426
Inventories	<u>1,329,931</u>	<u>2,490,854</u>

During the nine months ended March 31, 2023, the write-down of inventories to net realizable value was \$576,772 (2021 - \$Nil). Contributing factors to the decrease in net realizable value included lower demand and downward pricing pressure for certain products.

5. PROPERTY, EQUIPMENT AND ROU ASSETS, NET

Property, equipment and ROU assets consisted of the following:

	March 31, 2023	June 30, 2022
	\$	\$
Right-of-Use Assets (leases)	1,167,436	1,167,436
Equipment	364,716	212,877
Leasehold Improvements	40,409	40,409
Property and equipment	1,572,561	1,420,722
Less: accumulated depreciation and amortization	(819,320)	(516,470)
Property, equipment and ROU assets, net	<u>753,241</u>	<u>904,252</u>

INMED PHARMACEUTICALS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022

(Expressed in U.S. Dollars)

5. PROPERTY, EQUIPMENT AND ROU ASSETS, NET (cont'd)

Depreciation expense on property, equipment and leasehold improvements for the three and nine months ended March 31, 2023, was \$10,586 and \$26,697 (2022 - \$7,908 and \$18,371). Amortization expense related to the right-of-use assets for the three and nine months ended March 31, 2023, was \$91,935 and \$272,568 (2022 - \$89,450 and \$199,058) and was recorded in general and administrative expenses.

6. INTANGIBLE ASSETS

	March 31, 2023	June 30, 2022
	<u>\$</u>	<u>\$</u>
Intellectual property	1,736,420	1,736,420
Patents	1,191,000	1,191,000
Intangible assets	2,927,420	2,927,420
Less: accumulated depreciation	(940,594)	(818,505)
Intangible assets, net	<u>1,986,826</u>	<u>2,108,915</u>

Acquired intellectual property is recorded at cost and is amortized on a straight-line basis over 18 years.

Acquired patents consist of patents related to the development of cannabinoid analogs. This intangible asset is being amortized over an estimated useful life of 18 years.

At March 31, 2023, the definite-lived intangible assets had a weighted average estimated remaining useful life of approximately 12 years.

Amortization expense on intangible assets for the three and nine months ended March 31, 2023 was \$40,103 and \$122,089 (2022 - \$45,430 and \$113,296). The Company expects amortization expense to be incurred over the next five years as follows:

	<u>\$</u>
2023 (remaining)	39,230
2024	156,920
2025	156,920
2026	156,920
2027	156,920
Thereafter	1,319,916
	<u>1,986,826</u>

INMED PHARMACEUTICALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022
(Expressed in U.S. Dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	March 31, 2023	June 30, 2022
	\$	\$
Trade payables	737,501	1,166,068
Accrued research and development expenses	322,050	839,638
Employee compensation, benefits and related accruals	692,636	139,120
Accrued general and administrative expenses	77,737	270,439
Accounts payable and accrued liabilities	<u>1,829,924</u>	<u>2,415,265</u>

8. SHARE CAPITAL AND RESERVES

On September 7, 2022, the Company effected a one-for-25 reverse stock split of its issued and outstanding common shares. Accordingly, all common share, stock option, per common share and warrant amounts for all periods presented in the condensed consolidated interim financial statements and notes thereto have been adjusted retrospectively to reflect this reverse stock split.

a) Authorized

As of March 31, 2023, the Company's authorized share structure consisted of: (i) an unlimited number of common shares without par value; and (ii) an unlimited number of preferred shares without par value. No preferred shares were issued and outstanding as of March 31, 2023 and June 30, 2022.

The Company may issue preferred shares and may, at the time of issuance, determine the rights, preference and limitations pertaining to these shares. Holders of preferred shares may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding up of the Company before any payment is made to the holders of common shares.

b) Common Shares

During the period ended March 31, 2023, the Company completed the following:

September 2022 Private Placement Offering:

Transaction Description	Number	Issue Price	Total
Shares Issued	90,000	\$ 8.680	\$ 781,200
Pre-funded Warrants Issued	601,245	\$ 8.6799	5,218,746
Gross Proceeds			\$ 5,999,946
Allocated to Additional Paid-in Capital			(5,589,570)
			\$ 410,376
Share Issuance Costs			\$ (77,242)

INMED PHARMACEUTICALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
 FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022
 (Expressed in U.S. Dollars)

8. SHARE CAPITAL AND RESERVES (cont'd)

b) Common Shares (cont'd)

On September 13, 2022, the Company closed a private placement of its common shares and issued an aggregate of 90,000 common shares and 601,245 pre-funded warrants, for gross proceeds of \$5,999,946. The pre-funded warrants were determined to be common stock equivalents. Each common share and each pre-funded warrant were sold in the offering with an investment option to purchase a common share. Transaction costs were allocated proportionally between common shares and investment options with \$77,242 allocated to common shares and the balance of \$1,052,101 allocated to additional paid-in capital and recorded as a component of shareholders' equity in the consolidated balance sheet. As of March 31, 2023, there were no pre-funded warrants outstanding.

November 2022 Private Placement Offering:

Transaction Description	Number	Issue Price	Total
Shares Issued	150,000	\$ 3.300	\$ 495,000
Pre-funded Warrants Issued	1,668,185	\$ 3.2999	5,504,844
Gross Proceeds			\$ 5,999,844
Allocated to Additional Paid-in Capital			(5,736,472)
			\$ 263,372
Share Issuance Costs			\$ (38,713)

On November 21, 2022, the Company closed a private placement of its common shares and issued an aggregate of 150,000 common shares and 1,668,185 pre-funded warrants, for gross proceeds of \$5,999,844. The pre-funded warrants were determined to be common stock equivalents. Each common share and each pre-funded warrant were sold in the offering with an investment option to purchase a common share. Transaction costs were allocated proportionally between common shares and investment options with \$38,713 allocated to common shares and the balance of \$843,210 allocated to additional paid-in capital and recorded as a component of shareholders' equity in the consolidated balance sheet. As of March 31, 2023, there were no pre-funded warrants outstanding.

c) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from July 1, 2022 to March 31, 2023:

	Number	Weighted Average Share Price	Aggregate Intrinsic Value
Balance at July 1, 2022	244,767	\$ 41.99	-
Cancelled	(179,231)	\$ 18.50	-
Expired/Forfeited	(12,114)	\$ 11.25	-
Balance at March 31, 2023	53,422	\$ 127.75	-

d) Agents' Warrants

The following is a summary of changes in agents' warrants from July 1, 2022 to March 31, 2023:

	Number	Weighted Average Share Price	Aggregate Intrinsic Value
Balance at July 1, 2022	12,109	\$ 92.91	-
Balance at March 31, 2023	12,109	\$ 92.91	-

INMED PHARMACEUTICALS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022

(Expressed in U.S. Dollars)

8. SHARE CAPITAL AND RESERVES (cont'd)

e) Preferred Investment Options

On September 13, 2022, the Company closed a private placement of its common shares and 1,382,490 preferred investment options were issued with an exercise price of \$8.44 per share, were immediately exercisable upon issuance, and expire 7 years following the date of issuance. The fair value of preferred investment options was calculated using the Black-Scholes option pricing model and was determined to be \$10.91 per option. Assumptions used included a weighted average risk-free interest rate of 3.12%, expected term of 7 years, weighted average volatility factor of 114.42% and a weighted average dividend yield of 0%. The allocated value of the investment options was recorded in additional paid-in capital. On November 21, 2022, these preferred investment options were surrendered to the Company for cancellation.

On November 21, 2022, the Company closed a private placement of its common shares and 3,272,733 preferred investment options were issued with an exercise price of \$3.044 per share, were immediately exercisable upon issuance, and expire 7 years following the date of issuance. The fair value of preferred investment options was calculated using the Black-Scholes option pricing model and was determined to be \$2.278 per option. Assumptions used included a weighted average risk-free interest rate of 2.92%, expected term of 7 years, weighted average volatility factor of 116.52% and a weighted average dividend yield of 0%. The allocated value of these investment options was recorded in additional paid-in capital.

	Number	Weighted Average Share Price	Aggregate Intrinsic Value
Balance at July 1, 2022	233,100	\$ 18.50	-
Granted	4,655,223	\$ 4.65	-
Cancelled	(1,615,590)	\$ 9.89	-
Balance at March 31, 2023	<u>3,272,733</u>	<u>\$ 3.044</u>	<u>-</u>

f) Agents' Investment Options

On September 13, 2022, the Company closed a private placement of its common shares and 44,931 preferred investment options were issued for services with an exercise price of \$10.85 per share, were immediately exercisable upon issuance, and expire approximately 7 years following the date of issuance. The fair value of agents' investment options was calculated using the Black-Scholes option pricing model and was determined to be \$10.06 per option. Assumptions used included a weighted average risk-free interest rate of 3.24%, expected term of 5 years, weighted average volatility factor of 116.88% and a weighted average dividend yield of 0%. The allocated value of these agents' investment options was recorded in additional paid-in capital.

On November 21, 2022, the Company closed a private placement of its common shares and 118,182 preferred investment options were issued for services with an exercise price of \$4.125 per share, were immediately exercisable upon issuance, and expire approximately 7 years following the date of issuance. The fair value of agents' investment options was calculated using the Black-Scholes option pricing model and was determined to be \$2.03 per option. Assumptions used included a weighted average risk-free interest rate of 3.18%, expected term of 5 years, weighted average volatility factor of 117.97% and a weighted average dividend yield of 0%. The allocated value of these agents' investment options was recorded in additional paid-in capital.

	Number	Weighted Average Share Price	Aggregate Intrinsic Value
Balance at July 1, 2022	15,152	\$ 26.81	-
Granted	163,113	\$ 5.98	-
Balance at March 31, 2023	<u>178,265</u>	<u>\$ 7.75</u>	<u>-</u>

INMED PHARMACEUTICALS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2023 AND 2022

(Expressed in U.S. Dollars)

9. SHARE-BASED PAYMENTS

a) Option Plan Details

On March 24, 2017, and as amended on November 20, 2020, the Company's shareholders approved: (i) the adoption of a new stock option plan (the "Plan") pursuant to which the Board of Directors may, from time to time, in its discretion and in accordance with regulatory requirements, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed twenty percent (20%) of the issued and outstanding common shares at the date the options are granted (on a non-diluted and rolling basis); and (ii) the application of the new stock option plan to all outstanding stock options of the Company that were granted prior to March 24, 2017 under the terms of the Company's previous stock option plan.

As of March 31, 2023, there were 43,404 (June 30, 2022 – 18,163) options available for future allocation pursuant to SEC rules and 20% of the issued and outstanding shares according to the terms of the Plan. The option price under each option shall not be less than the closing price on the day prior to the date of grant. All options vest upon terms as set by the Board of Directors, either over time, up to 36 months, or upon the achievement of certain corporate milestones.

Stock options granted prior to May 2021 were granted with Canadian dollar exercise prices (United States dollar amounts for weighted average exercise prices and aggregate intrinsic value are calculated using prevailing rates as at June 30, 2022). Commencing in May 2021, stock options are granted with United States dollar exercise prices.

The following is a summary of changes in outstanding options from July 1, 2022 to March 31, 2023:

	<u>Number</u>	<u>Weighted Average Exercise Price \$</u>
Balance at July 1, 2022	55,603	128.59
Granted	61,720	1.85
Expired/Forfeited	<u>(6,961)</u>	<u>238.00</u>
Balance at March 31, 2023	<u>110,362</u>	<u>48.20</u>
March 31, 2023:		
Vested and exercisable	38,839	123.77
Unvested	<u>71,523</u>	<u>7.16</u>

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9. SHARE-BASED PAYMENTS (cont'd)

b) Fair Value of Options Issued During the Period

i) Weighted Average Fair Value at Grant Date of Options Granted:

The weighted average fair value at grant date of options granted during the nine months ended March 31, 2023, was \$1.37 per option (year ended June 30, 2022 - \$21.04). Assumptions used for options granted during the nine months ended March 31, 2023 included a weighted average risk-free interest rate of 3.74% (year ended June 30, 2022 - 1.17%), weighted average expected life of 3.3 years calculated using the Simplified Method for directors, officers and employees, weighted average volatility factor of 122.98% (year ended June 30, 2022 - 97.15%), weighted average dividend yield of 0% (year ended June 30, 2022 - 0%) and a 5% forfeiture rate (year ended June 30, 2022 - 5%).

ii) Expenses Arising from Share-based Payment Transactions:

Total expenses arising from share-based payment transactions recognized during the three months ended March 31, 2023, were \$50,357 (2022 - \$195,085). \$28,442 was allocated to general and administrative expenses (2022 - \$103,401) and the remaining \$21,915 was allocated to research and development expenses (2022 - \$91,684). Total expenses arising from share-based payment transactions recognized during the nine months ended March 31, 2023, were \$187,318 (2022 - \$521,006). \$137,555 was allocated to general and administrative expenses (2022 - \$307,885) and the remaining \$100,120 was allocated to research and development expenses (2022 - \$213,121). Unrecognized compensation cost at March 31, 2023 related to unvested options was \$101,420 which will be recognized over a weighted-average vesting period of 3.9 years.

10. LEASE OBLIGATIONS

The Company is committed to minimum lease payments as follows:

Maturity Analysis	March 31, 2023
	\$
Less than one year	437,425
One to five years	63,951
More than five years	-
Total undiscounted lease liabilities ⁽¹⁾	501,376
Less: imputed interest	(5,008)
Present value of lease liabilities	496,368
Less: Current portion of lease liabilities	(423,574)
Non-current portion of lease liabilities	72,794

⁽¹⁾ Excludes estimated variable operating costs of \$92,964 and \$58,004 on an annual basis through to April 30, 2024 and August 31, 2024, respectively.

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11. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period. The pre-funded warrants were determined to be common stock equivalents and have been included in the weighted average number of shares outstanding for calculation of the basic earnings per share number. As of March 31, 2023, the outstanding stock options of 110,362 and warrants of 3,516,529 are anti-dilutive (2022 – 56,382 and 257,698 respectively) and are excluded from the weighted average number of common shares.

12. SEGMENT INFORMATION

The following table presents information about the Company's reportable segments for the three and nine months ended March 31, 2023 and 2022:

	Three Months Ended March 31,					
	2023			2022		
	InMed	BayMedica	Total	InMed	BayMedica	Total
	\$	\$	\$	\$	\$	\$
Sales	-	1,033,925	1,033,925	-	309,585	309,585
Cost of sales	-	(841,414)	(841,414)	-	(127,308)	(127,308)
Operating expenses	(1,711,010)	(630,709)	(2,341,719)	(2,977,705)	(744,197)	(3,721,902)
Other income	104,093	47,171	151,264	36,745	27,215	63,960
Net loss	(1,606,917)	(391,027)	(1,997,944)	(2,940,960)	(534,705)	(3,475,665)
Unrestricted cash	9,441,977	162,080	9,604,057	5,386,206	512,107	5,898,313

	Nine Months Ended March 31,					
	2023			2022		
	InMed	BayMedica	Total	InMed	BayMedica	Total
	\$	\$	\$	\$	\$	\$
Sales	-	1,824,496	1,824,496	-	574,677	574,677
Cost of sales	-	(1,415,068)	(1,415,068)	-	(280,845)	(280,845)
Inventory write-down	-	(576,772)	(576,772)	-	-	-
Operating expenses	(5,613,299)	(2,081,882)	(7,695,181)	(9,443,083)	(1,595,123)	(11,038,206)
Other income (expense)	123,973	129,321	253,294	(34,358)	48,638	14,280
Net loss	(5,489,326)	(2,119,905)	(7,609,231)	(9,477,441)	(1,252,653)	(10,730,094)
Unrestricted cash	9,441,977	162,080	9,604,057	5,386,206	512,107	5,898,313

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13. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statements of cash flows. During the nine months ended March 31, 2023, the following transactions were excluded from the statement of cash flows:

- i) On September 13, 2022, the Company issued 44,931 preferred investment options to its placement agent. The fair value of these investment options was \$451,897 and was included in share issuance costs related to the September 2022 private placement.
- ii) On November 21, 2022, the Company issued 118,182 preferred investment options to its placement agent. The fair value of these investment options was \$239,587 and was included in share issuance costs related to the November 2022 private placement.

During the nine months ended March 31, 2022, the following transactions were excluded from the statement of cash flows:

- i) On July 2, 2021, the Company issued warrants to its placement agent. The fair value of these warrants was \$739,920 and was included in share issuance costs related to the July 2021 private placement.
- ii) On October 13, 2021, the Company issued 2,050,000 common shares to BayMedica's equity and convertible debt holders, pursuant to the acquisition of BayMedica. The fair value of these common shares was \$3,013,500 and was included in the total consideration for the acquisition of BayMedica.
- iii) On March 22 and 23, 2022, a total of 14,760 warrants were exercised on a cashless basis resulting in the issuance of 5,873 common shares.

14. COMMITMENTS AND CONTINGENCIES

Pursuant to the terms of agreements with various contract research organizations, as of March 31, 2023, the Company is committed for contract research services and materials at a cost of approximately \$2,169,023, expected to occur in the twelve months following March 31, 2023.

Pursuant to the terms of agreements with various vendors, as of March 31, 2023, the Company is committed for contract materials and equipment at a cost of approximately \$445,259, expected to occur in the twelve months following March 31, 2023.

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14. COMMITMENTS AND CONTINGENCIES (cont'd)

Pursuant to the terms of a May 31, 2017 Technology Assignment Agreement between the Company and the University of British Columbia ("UBC"), the Company is committed to pay royalties to UBC on certain licensing and royalty revenues received by the Company for biosynthesis of certain drug products that are covered by the agreement. To date, no payments have been required to be made.

Pursuant to the terms of a December 13, 2018 Collaborative Research Agreement with UBC in which the Company owns all rights, title and interests in and to any intellectual property, in addition to funding research at UBC, the Company is committed to make a one-time payment upon filing of any PCT patent application arising from the research. To date, one such payment has been made to UBC.

Pursuant to the terms of a November 1, 2018 Contribution Agreement with National Research Council Canada, as represented by its Industrial Research Assistance Program (NRC-IRAP), under certain circumstances contributions received, including the disposition of the underlying intellectual property developed in part with NRC-IRAP contributions, may become repayable.

Short-term investments include guaranteed investment certificates, with one year terms, of \$43,055 (June 30, 2022 - \$44,676) that are pledged as security for a corporate credit card.

The Company has entered into certain agreements in the ordinary course of operations that may include indemnification provisions, which are common in such agreements. In some cases, the maximum amount of potential future indemnification is unlimited; however, the Company currently holds commercial general liability insurance. This insurance limits the Company's liability and may enable the Company to recover a portion of any future amounts paid. Historically, the Company has not made any indemnification payments under such agreements and it believes that the fair value of these indemnification obligations is minimal. Accordingly, the Company has not recognized any liabilities relating to these obligations for any period presented.

Pursuant to a technology licensing agreement, the Company is committed to issue, subject to regulatory approval, up to 700 warrants to purchase 700 common shares upon the achievement of certain milestones. The exercise price of the warrants will be equal to the five-day VWAP of the common shares prior to each milestone achievement and the warrants will be exercisable for a period of three years for issuance date.

BayMedica LLC ("BayMedica"), a wholly-owned indirect subsidiary of the Company, entered into a patent license agreement ("Agreement") with a third party (the "Licensor") in an agreement dated February 15, 2021. BayMedica is required to make future royalty payments to the Licensor based on net sales of licensed products to maintain an exclusive license. In December 2021, BayMedica amended the Agreement including the deferral of the 2021 payments to 2022. As of March 31, 2023, BayMedica has paid \$300,000 for the minimum payments under the Agreement. On February 10, 2023, BayMedica received a letter from the Licensor alleging a breach of the Agreement and asserting a right to monies thereunder. On April 6, 2023, BayMedica sent a letter to the Licensor disputing the Licensor's interpretation of the Agreement and considering the counterparty's only remedy under the Agreement to be either (a) the conversion of an exclusive technology license into a non-exclusive one or (b) to terminate the Agreement. The interpretation of a contract under Ontario law requires consideration of the surrounding circumstances at the time the contract was negotiated, and BayMedica is of the view that the text of the Agreement and the surrounding circumstances show that the remedy discussed above reflects the intention of the parties. On May 3, 2023, BayMedica received a further letter from the Licensor demanding payment of \$950,209 and stated that it will commence legal proceedings to recover same. To date, the Licensor has not initiated a lawsuit. If a lawsuit is brought alleging a breach of the Agreement, the proceeding will be subject to final, binding and non-appealable arbitration under the *Arbitration Act, 1991* (Ontario) and determined pursuant to Ontario law. BayMedica intends to vigorously defend its position. At this time, it is not possible to reasonably estimate a potential loss due to the terms of the Agreement, the nature of the legal theory advanced by the counterparty, and the requirement under Ontario law that a contract must be interpreted in light of the "surrounding circumstances" at the time the contract was formed. Management will be better positioned to determine whether it is possible to estimate any potential loss following documentary and oral discovery, if any.

From time to time, the Company may be subject to various legal proceedings and claims related to matters arising in the ordinary course of business. The Company does not believe it is currently subject to any material matters where there is at least a reasonable possibility that a material loss may be incurred.

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15. FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities.

The fair values of short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these instruments. Cash and cash equivalents are measured at fair value using Level 1 inputs.

a) Market Risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. The Company does not currently have significant commodity price risk or equity price risk.

Foreign Currency Risk:

Foreign currency risk is the risk that the future cash flows or fair value of the Company's financial instruments that are denominated in a currency that is not the Company's functional currency (U.S. dollar) will fluctuate due to changes in foreign exchange rates. Portions of the Company's cash and cash equivalents and accounts payable and accrued liabilities are denominated in Canadian dollars.

Accordingly, the Company is exposed to fluctuations in exchange rates, primarily against the Canadian dollar.

As of March 31, 2023, the Company has a net excess of Canadian dollar denominated cash and cash equivalents in excess of Canadian dollar denominated accounts payable and accrued liabilities of C\$1,969,113 which is equivalent to US\$1,454,977 at the March 31, 2023 exchange rate. The Canadian dollar financial assets generally result from holding Canadian dollar cash to settle anticipated near-term accounts payable and accrued liabilities denominated in Canadian dollars. The Canadian dollar financial liabilities generally result from purchases of supplies and services from suppliers in Canada.

Each increase (decrease) of 1% in the Canadian dollar in relation to the U.S. dollar results in a gain (loss), with a corresponding effect on cash flows, of \$14,550 based on the March 31, 2023 net Canadian dollar assets (liabilities) position. During the nine months ended March 31, 2023, the Company recorded foreign exchange loss of \$86,214 (2022 - \$35,228) related to Canadian dollars.

Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at March 31, 2023, holdings of cash and cash equivalents of \$8,795,454 (June 30, 2022 - \$5,087,615) are subject to floating interest rates. The balance of the Company's cash holdings of \$808,603 (June 30, 2022 - \$1,089,251) are non-interest bearing.

As of March 31, 2023, the Company held variable rate guaranteed investment certificates, with one-year terms, of \$43,055 (June 30, 2022 - \$44,676).

The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks or credit unions with comparable credit ratings. The Company regularly monitors compliance to its cash management policy.

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15. FINANCIAL RISK MANAGEMENT (cont'd)

a) Credit Risk:

Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents, short-term investments and loan receivable. Cash and cash equivalents and short-term investments are maintained with financial institutions of reputable credit and may be redeemed upon demand. In the normal course of business, the Company does not provide third party loans.

The carrying amount of financial assets represents the maximum credit exposure. Credit risk exposure is limited through maintaining cash and cash equivalents and short-term investments with high-credit quality financial institutions and management considers this risk to be minimal for all cash and cash equivalents and short-term investments assets based on changes that are reasonably possible at each reporting date.

b) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it has sufficient cash to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. A key risk in managing liquidity is the degree of uncertainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. As at March 31, 2023, the Company has cash and cash equivalents and short-term investments of \$9,647,112 (June 30, 2022 - \$6,221,670), current liabilities of \$2,269,669 (June 30, 2022 - \$3,181,316) and a working capital surplus of \$9,572,876 (June 30, 2022 - \$6,416,460).

16. RELATED PARTY TRANSACTIONS

On February 11, 2022, the Board of Directors appointed Janet Grove as a director of the Company. Ms. Grove is a Partner of Norton Rose Fulbright Canada LLP ("NRF"). From February 11, 2022 to March 31, 2023, NRF rendered legal services in the amount of \$580,761 to the Company. These transactions were in the normal course of operations and were measured at the exchange amount which represented the amount of consideration established and agreed to by NRF. No legal services rendered by NRF were rendered by Ms. Grove directly.