Unaudited Condensed Consolidated Interim Financial Statements of

InMed Pharmaceuticals Inc.

For the Three and Six Months Ended December 31, 2018

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InMed Pharmaceuticals Inc.
(Expressed in Canadian Dollars)
December 31, 2018

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Financial Statements

InMed Pharmaceuticals Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (unaudited)

As at December 31, 2018 and June 30, 2018

Expressed in Canadian Dollars

	Note	December 31 2018	June 30 2018
ASSETS			
Current			
Cash and cash equivalents		$ 15,527,671	$ 24,134,277
Short-term investments	15	7,427,310	2,342,615
Accounts receivable		46,339	53,373
Prepaids and advances		358,236	203,477
Total current assets		23,359,556	26,733,742
Non-Current			
Property and equipment	4	51,668	55,732
Intangible assets	5	1,227,851	1,273,670
Total Assets		$ 24,639,075	$ 28,063,144
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade payables		550,176	937,759
SHAREHOLDERS' EQUITY			
Share capital	6	68,079,139	68,058,698
Contributed surplus	6, 7	12,819,627	10,381,759
Accumulated deficit		(56,809,867)	(51,315,072)
		24,088,899	27,125,385
		$ 24,639,075	$ 28,063,144

Commitments (Note 15)
Subsequent Events (Note 18)

Approved on behalf of the Board of Directors by:

/s/ Eric A. Adams
Eric A. Adams, Director

/s/ Adam Cutler
Adam Cutler, Director

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

InMed Pharmaceuticals Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

For the three and six months ended December 31, 2018 and 2017

Expressed in Canadian Dollars

		Three Months Ended December 31		Six Months Ended December 31	
	Note	2018	2017	2018	2017
Expenses					
General and administrative	8	$ 921,597	$ 735,294	$ 1,734,633	$ 1,576,634
Research and development	9	946,848	418,317	1,573,942	795,433
Amortization and depreciation	4, 5	31,688	30,409	62,729	57,035
Foreign exchange (gain) loss		(147,838)	(1,528)	(91,002)	2,996
Share-based payments	7	1,023,269	362,824	2,447,059	933,372
Total expenses		2,775,564	1,545,316	5,727,361	3,365,470
Interest income		121,993	1,707	232,566	1,707
Total comprehensive loss for the period		$ (2,653,571)	$ (1,543,609)	$ (5,494,795)	$ (3,363,763)
Basic and diluted loss per share for the period	11	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.03)

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

InMed Pharmaceuticals Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (unaudited)

For the six months ended December 31, 2018 and 2017

Expressed in Canadian Dollars

	Note	Share Capital	Shares & Warrants Subscribed	Contributed Surplus	Accumulated Deficit	Total
Balance June 30, 2017		$43,153,871	$ -	$7,606,735	($42,794,152)	$7,966,454
Loss for the period		-	-	-	(3,363,763)	(3,363,763)
Shares and warrants subscribed for	6	-	7,673,734	-	-	7,673,734
Share-based payments	7	-	-	933,372	-	933,372
Shares issued on exercise of warrants	6	592,066	-	-	-	592,066
Fair value of agents' warrants exercised	6	59,776	-	(59,776)	-	-
Shares issued on exercise of stock options	6	1,218,781	-	(637,656)	-	581,125
Balance December 31, 2017		**$45,024,494**	**$7,673,734**	**$7,842,675**	**($46,157,915)**	**$14,382,988**

	Note	Share Capital	Shares & Warrants Subscribed	Contributed Surplus	Accumulated Deficit	Total
Balance June 30, 2018		$68,058,698	$ -	$10,381,759	($51,315,072)	$27,125,385
Loss for the period		-	-	-	(5,494,795)	(5,494,795)
Share-based payments	7	-	-	2,447,059	-	2,447,059
Shares issued on exercise of stock options	6	20,441	-	(9,191)	-	11,250
Balance December 31, 2018		**$68,079,139**	**$ -**	**$12,819,627**	**($56,809,867)**	**$24,088,899**

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 six months ended December 31, 2018 and 2017

Expressed in Canadian Dollars

	Note	2018	2017
OPERATING ACTIVITIES			
Cash flows from operating activities			
Loss for the period		$ (5,494,795)	$ (3,363,763)
Adjustments to reconcile loss to net cash used in operating activities			
Amortization and depreciation	4, 5	62,729	57,035
Share-based payments	7	2,447,059	933,372
Accrued interest income on short-term investments		(55,944)	-
Changes in non-cash working capital balances:			
Prepaids and advances		(154,759)	40,567
Taxes recoverable		7,034	39,872
Trade payables		(387,583)	(73,194)
Total cash outflows from operating activities		(3,576,259)	(2,366,111)
Cash Flows From Investing Activities			
Purchase of short-term investments		(5,028,750)	-
Purchase of property and equipment	4	(12,847)	(40,295)
Total cash outflows from investing activities		(5,041,597)	(40,295)
Cash Flows From Financing Activities			
Subscriptions received	6	-	7,673,734
Shares issued for cash	6	11,250	1,173,191
Share issue costs	6	-	(179,401)
Cash provided by financing activities		11,250	8,667,524
Increase (decrease) in cash during the period		(8,606,606)	6,261,118
Cash and cash equivalents beginning of the period		24,134,277	6,707,796
Cash and cash equivalents end of the period		$ 15,527,671	$ 12,968,914

See note 14 for Non-Cash Transactions

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

1. CORPORATION INFORMATION

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.

The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "IN", and under the trading symbol "IMLFF" on the OTCQX® Best Market. Prior to March 26, 2018, the Company's shares were listed on the Canadian Securities Exchange ("CSE"). Prior to May 4, 2018, the Company's shares traded on the OTCQB® Venture Market.

InMed is a pre-clinical stage biopharmaceutical company specializing in the research and development of novel, cannabinoid-based therapies combined with innovative drug delivery systems.

InMed's corporate office and principal place of business is located at #340 – 200 Granville Street, Vancouver, B.C., Canada, V6C 1S4.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements for the three and six month periods ended December 31, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company's June 30, 2018 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee.

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2018 annual financial statements except for new standards, interpretations and amendments mandatorily effective for the first time from July 1, 2018 and income tax expense which is expected for the full financial year.

These consolidated financial statements were authorized for issue by the Board of Directors on February 11, 2019.

These condensed consolidated interim financial statements have been prepared on the historical cost basis.

These condensed consolidated interim financial statements are presented in Canadian Dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of Consolidation

These consolidated financial statements include the accounts of the inactive subsidiaries: Biogen Sciences Inc., Meridex Network Corporation and Sweetnam Consulting Inc.

A subsidiary is an entity that the Company controls, either directly or indirectly, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company transactions and balances including unrealized income and

2. BASIS OF PREPARATION AND SUMMARY OF SIGNFICANT ACCOUNTING POLICIES (cont'd)

Basis of Consolidation (cont'd)

expenses arising from intercompany transactions are eliminated in preparing consolidated financial statements.

Continuing Operations

These consolidated 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. The Company has a history of operating losses and negative cash flows from operations. The Company's ability to continue its operations on a going concern basis is dependent upon receiving continued support from its suppliers, its ability to raise additional financing through issuing equity or debt, and ultimately achieving profitable operations. There is no assurance that the Company will be successful in these efforts. These consolidated 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.

New Standards Applicable in the Reporting Period

IFRS 9, Financial Instruments ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The adoption of this policy did not have a material impact on the financial results as the Company's financial assets are cash and cash equivalents and short-term investments which are measured at amortized cost. The Company does not enter into any hedging activities.

Future Accounting Pronouncements

The standards listed below include only those which the Company reasonably expects may be applicable to the Company at a future date. The Company is currently assessing the impact of the standards on the consolidated financial statements.

IFRS 16 Leases

Issued by IASB - January 2016
Effective for annual periods beginning on or after January 1, 2019, which corresponds to the Company's fiscal year ending June 30, 2020.

Earlier application permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNFICANT ACCOUNTING POLICIES (cont'd)

Future Accounting Pronouncements (cont'd)

IFRS 16 Leases (cont'd)

- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Company has not yet evaluated the impact of IFRS 16.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income (loss) in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial period are discussed below:

Estimate of useful life of intangible assets

In the determination of the estimated useful life for intangible assets, which include the Company's Bioinformatics Assessment Tool and certain patents, management assesses a variety of internal and external factors such as the expected usage of the intangible assets by the Company, technical or commercial obsolescence and expected actions by competitors or potential competitors.

Application of going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

Assets' impairment

In the determination of potential impairment charges, management looks at the higher of value in use or fair value less costs to sell in the case of assets and at significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Share-based payments and warrants

Management determines costs for share-based payments and warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Research and development costs

Research and development costs is a critical accounting estimate due to the magnitude of and the assumptions that are required to calculate third-party accrued and prepaid research and development expenses. Research and development costs are charged to expense as incurred and include, but are not limited to, personnel compensation, including salaries and benefits, services provided by contract research organizations that conduct preclinical studies, costs of filing and prosecuting patent applications, and lab supplies.

The amount of expenses recognized in a period related to service agreements is based on estimates of the work performed using an accrual basis of accounting. These estimates are based on services provided and goods delivered, contractual terms and experience with similar contracts. We monitor these factors and adjust our estimates accordingly.

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

	Equipment	Leashold Improvements	Total
Cost			
Balance at June 30, 2017	$ 34,723	$ 0	$ 34,723
Assets acquired	19,078	36,561	55,639
Balance at June 30, 2018	$ 53,801	$ 36,561	$ 90,362
Assets acquired	12,847	0	12,847
Balance at December 31, 2018	**$ 66,648**	**$ 36,561**	**$ 103,209**
Depreciation and impairment losses			
Balance at June 30, 2017	$ 7,674	$ 0	$ 7,674
Depreciation for the period	12,093	14,863	26,956
Balance at June 30, 2018	$ 19,767	$ 14,863	$ 34,630
Depreciation for the period	7,612	9,299	16,911
Balance at December 31, 2018	**$ 27,379**	**$ 24,162**	**$ 51,541**
Carrying amounts			
Carrying value at June 30, 2017	$ 34,034	$ 21,698	$ 55,732
Carrying value at December 31, 2018	**$ 39,269**	**$ 12,399**	**$ 51,668**

5. INTANGIBLE ASSETS

	Intellectual Property
Costs	
Balance at June 30, 2017	$ 1,636,000
Balance at June 30, 2018	$ 1,636,000
Balance at December 31, 2018	**$ 1,636,000**
Accumulated depletion and impairment losses	
Balance at June 30, 2017	$ 271,442
Amortization	90,888
Balance at June 30, 2018	$ 362,330
Amortization	45,819
Balance at December 31, 2018	**$ 408,149**
Carrying amounts	
Carrying value at June 30, 2018	$ 1,273,670
Carrying value at December 31, 2018	**$ 1,227,851**

The acquired intellectual property, which consists of the Company's Bioinformatics Assessment Tool and certain intellectual property, is recorded at cost and is amortized on a straight line basis over an estimated useful life of 18 years net of any accumulated impairment losses.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES

a) Authorized

As at December 31, 2018, the Company's authorized share structure consisted of: (i) an unlimited number of common shares without par value; and (ii) unlimited number of preferred shares without par value.

b) Common Shares

	Number	Issue Price	Total
Balance at June 30, 2017	127,649,466		$43,153,871
Issued for private placement	13,428,571	$0.70	9,400,000
Issued for public placement	16,611,244	$0.90	14,950,120
Share issue costs	—	—	(3,501,022)
Issued for services	35,718	$1.17	41,790
Issued for exercise of warrants	5,895,775	$0.15 - $0.65	721,395
Fair value of agents' warrants exercised	—	—	135,385
Issued for exercise of stock options	7,230,295	$0.11 - $0.45	1,622,950
Fair value of stock options exercised	—	—	1,534,210
Balance at June 30, 2018	170,851,069		$68,058,698
Issued for exercise of warrants	7,564	$0.65	—
Issued for exercise of stock options	25,000	$0.45	11,250
Grant date fair value of stock options exercised	—	—	9,191
Balance at December 31, 2018	**170,883,633**	—	**$68,079,139**

During the six months ended December 31, 2018, the Company completed the following:

i) The Company issued an aggregate 7,564 common shares pursuant to the exercise of 35,000 share purchase warrants at a weighted average exercise price of $0.65 per share. Included in the total number of share purchase warrants exercised were 35,000 share purchase warrants with an exercise price of $0.65 each that, pursuant to the terms of a May 31, 2017 financing, were exercised on a net cashless basis, based on the five-day volume-weighted average trading price of the common shares of the Company on the TSX ending on the date immediately preceding the date of exercise. The exercise of these 35,000 share purchase warrants resulted in the issuance of 7,564 common shares but, as they were exercised on a net cashless basis, no cash was received.

ii) The Company issued an aggregate 25,000 common shares pursuant to the exercise of 25,000 stock options at a weighted average exercise price of $0.45 per share.

6. SHARE CAPITAL AND RESERVES (cont'd)

b) Common Shares (cont'd)

During the year ended June 30, 2018, the Company completed the following:

iii) On June 21, 2018, the Company completed a public placement ("June-2018 Financing") of 16,611,244 units ("June-2018 Units"), at a price of $0.90 per June-2018 Unit for gross proceeds of $14,950,120. Each June-2018 Unit consists of one common share and one share purchase warrant (a "June-2018 Warrant"), or an aggregate of 16,611,244 full June-2018 Warrants. Each full June-2018 Warrant is exercisable by the holder to acquire one additional common share at a price of $1.25 for a period of twenty-four (24) months expiring on June 21, 2020. The June-2018 Warrants trade on the TSX under the symbol "IN.WT".

Share issue costs from the sale of June-2018 Units of $1,996,001 is comprised of $995,758 in underwriter's commission, the non-cash fair value of $553,199 for 1,106,397 warrants ("June-2018 Agent Warrants") issued to the underwriter and $447,044 of other transaction costs. Each June-2018 Agent Warrant is exercisable in whole or in part at an exercise price of $1.05 for a period of twenty-four (24) months expiring on June 21, 2020.

iv) On January 3, 2018, the Company completed a non-brokered private placement ("Jan-2018 Financing") for 13,428,571 units ("Jan-2018 Units"), at a price of $0.70 per Jan-2018 Unit for gross proceeds of $9,400,000. Each Unit consists of one common share and one non-transferable share purchase warrant (a "Jan-2018 Warrant"). Each Jan-2018 Warrant is exercisable by the holder to acquire one additional common share at a price of $1.25 for a period of eighteen (18) months expiring on July 3, 2019.

Share issue costs from the sale of Jan-2018 Units of $1,505,022 is comprised of $621,687 in finders' fees, the non-cash fair value of $694,557 for 433,556 warrants ("January-2018 Agent Warrants") issued to finders and $188,778 of other transaction costs. The January-2018 Agent Warrants have identical terms as the January-2018 Warrants described above. Of the $621,687 in finders' fees, $41,790 was settled on February 9, 2018 via the issuance of 35,718 common shares at the $1.17 closing price on the date of issuance of these shares.

v) The Company issued an aggregate 5,895,775 common shares pursuant to the exercise of 8,232,095 share purchase warrants at a weighted average exercise price of $0.44 per share. Included in the total number of share purchase warrants exercised were 3,710,984 share purchase warrants, with a weighted average exercise price of $0.19 each, that were exercised for cash and 4,521,111 share purchase warrants with an exercise price of $0.65 each that, pursuant to the terms of a May 31, 2017 financing, were exercised on a net cashless basis, based on the five-day volume-weighted average trading price of the common shares of the Company on the stock exchange that the Company's shares were trading on at that time (either the TSX or CSE) ending on the date immediately preceding the date of exercise. The exercise of these 4,521,111 share purchase warrants resulted in the issuance of 2,184,791 common shares but, as they were exercised on a net cashless basis, no cash was received.

vi) The Company issued an aggregate 7,230,295 common shares pursuant to the exercise of 7,345,000 stock options at a weighted average exercise price of $0.23 per share. Included in the total number of stock options exercised were 300,000 stock options with an exercise price of $0.195 per share that, pursuant to the terms of a settlement agreement with the stock option holder, were exercised on a net cashless basis, based on the $0.51 per common share closing price of the Company on the CSE on the date immediately preceding the date of exercise. The exercise of these 300,000 stock options resulted in the issuance of 185,295 common shares.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES (cont'd)

c) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from July 1, 2017 to December 31, 2018:

	Number	Weighted Average Share Price
Balance as at June 30, 2017	9,434,000	$0.49
Granted	30,039,815	$1.25
Exercised	(7,561,111)	$0.45
Balance as at June 30, 2018	31,912,704	$1.21
Exercised	(35,000)	$0.65
Balance as at December 31, 2018	**31,877,704**	**$1.22**

Included in the total number of share purchase warrants exercised were 35,000 share purchase warrants that, pursuant to the terms of a May 31, 2017 financing, were exercised on a net cashless basis, based on the five-day volume-weighted average trading price of the common shares of the Company on the TSX ending on the date immediately preceding the date of exercise. The exercise of these 35,000 share purchase warrants resulted in the issuance of 7,564 common shares but, as they were exercised on a net cashless basis, no cash was received.

At December 31, 2018, 31,877,704 share purchase warrants were outstanding. Each warrant entitles the holders thereof the right to purchase one common share as follows:

Issuance Date	Number	Exercise Price	Expiry Date
May 31, 2017	1,837,889	$0.65	May 31-19
January 3, 2018	13,428,571	$1.25	July 3-19
June 21, 2018	16,611,244	$1.25	June 21-20
Balance as at December 31, 2018	**31,877,704**		

The weighted average remaining contractual life of the share purchase warrants at December 31, 2018 was 1.0 year.

d) Agents' Warrants

The following is a summary of changes in agents' warrants from July 1, 2017 to December 31, 2018:

	Number	Weighted Average Share Price
Balance as at June 30, 2017	670,984	$0.40
Granted	1,539,953	$1.11
Exercised	(670,984)	$0.40
Balance as at June 30, 2018	1,539,953	$1.11
Balance as at December 31, 2018	**1,539,953**	**$1.11**

(Expressed in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES (cont'd)

d) Agents' Warrants (cont'd)

At December 31, 2018, 1,539,953 Agents' Warrants were outstanding. Each warrant entitles the holders thereof the right to purchase one common share as follows:

Issuance Date	Number	Exercise Price	Expiry Date
January 3, 2018	433,556	$1.25	July 3-19
June 21, 2018	1,106,397	$1.05	June 21-20
Balance as at December 31, 2018	**1,539,953**		

The weighted average remaining contractual life of the Agents' Warrants at December 31, 2018 was 1.2 years.

e) Contributed Surplus

Contributed surplus consists of the grant date fair value of stock options and agent warrants granted since inception, less amounts transferred to share capital for exercised stock options and agent warrants. If granted options vest and then subsequently expire or are forfeited, no reversal of contributed surplus is recognized.

f) Nature and Purpose of Equity Reserves

The reserves recorded in equity on the Company's Statement of Financial Position include 'Contributed Surplus' and 'Accumulated Deficit'.

'Contributed Surplus' is used to recognize the value of stock option grants and agents' warrants prior to exercise.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings (loss) from year to year.

7. SHARE-BASED PAYMENTS

a) Option Plan Details

On March 24, 2017, the Company held a special meeting of its shareholders at which 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 the requirements of the TSX, 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); (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 at December 31, 2018, there was 16,411,727 (June 30, 2018 – 17,575,214) options available for future allocation pursuant to the terms of the Plan. The option price under each option shall be 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. Starting in May 2016, the Board of Directors adopted a practice of having options vest over time, typically 18 to 24 months, and/or upon the achievement of certain corporate milestones.

(Expressed in Canadian Dollars)

7. SHARE-BASED PAYMENTS (cont'd)

a) Option Plan Details (cont'd)

The following is a summary of changes in options from July 1, 2018 to December 31, 2018:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Expired/Cancelled	Closing Balance	Vested and Exercisable	Unvested
4-Mar-15	4-Mar-20	$0.360	200,000	-	-	-	200,000	200,000	-
25-Aug-15	25-Aug-20	$0.210	50,000	-	-	-	50,000	50,000	-
23-Nov-15	23-Nov-20	$0.145	200,000	-	-	-	200,000	200,000	-
27-Nov-15	27-Nov-20	$0.140	550,000	-	-	-	550,000	550,000	-
16-May-16	16-May-21	$0.080	2,000,000	-	-	-	2,000,000	2,000,000	-
10-Jun-16	10-Jun-21	$0.130	800,000	-	-	-	800,000	800,000	-
15-Jun-16	15-Jun-21	$0.110	2,000,000	-	-	-	2,000,000	2,000,000	-
26-Jul-16	26-Jul-21	$0.11	750,000	-	-	-	750,000	750,000	-
12-Sep-16	12-Sep-21	$0.11	1,000,000	-	-	-	1,000,000	1,000,000	-
28-Oct-16	28-Oct-21	$0.195	400,000	-	-	-	400,000	400,000	-
15-Nov-16	15-Nov-21	$0.165	750,000	-	-	-	750,000	750,000	-
12-Dec-16	12-Dec-21	$0.14	160,000	-	-	-	160,000	160,000	-
13-Jan-17	13-Jan-22	$0.25	1,000,000	-	-	-	1,000,000	800,000	200,000
20-Feb-17	20-Feb-22	$0.37	100,000	-	-	-	100,000	80,000	20,000
22-Feb-17	22-Feb-22	$0.41	50,000	-	-	-	50,000	50,000	-
2-Jun-17	2-Jun-22	$0.45	940,000	-	(25,000)	-	915,000	702,500	212,500
10-Jul-17	10-Jul-22	$0.33	355,000	-	-	-	355,000	155,000	200,000
3-Mar-18	3-Mar-23	$1.55	2,500,000	-	-	-	2,500,000	650,000	1,850,000
16-May-18	16-May-23	$1.05	2,790,000	-	-	-	2,790,000	697,500	2,092,500
31-Aug-18	31-Aug-23	$0.82	-	270,000	-	-	270,000	-	270,000
20-Sep-18	20-Sep-23	$0.80	-	150,000	-	-	150,000	-	150,000
20-Dec-18	05-Dec-23	$0.45	-	775,000	-	-	775,000	-	775,000
			16,595,000	1,195,000	(25,000)	-	17,765,000	11,995,000	5,770,000
Weighted Average Exercise Price			$0.52	$0.58	$0.45	-	$0.53	$0.29	$1.02
Weighted Average Life Remaining			3.66	4.85	-	-	3.27	2.78	4.30

(Expressed in Canadian Dollars)

7. SHARE-BASED PAYMENTS (cont'd)

a) Option Plan Details (cont'd)

The following is a summary of changes in options from July 1, 2017 to June 30, 2018:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Expired/Cancelled	Closing Balance	Vested and Exercisable	Unvested
4-Apr-14	4-Apr-19	$0.255	250,000	-	(250,000)	-	-	-	-
5-Jun-14	5-Jun-19	$0.18	50,000	-	(50,000)	-	-	-	-
31-Jul-14	31-Jul-19	$0.18	50,000	-	(50,000)	-	-	-	-
25-Nov-14	25-Nov-19	$0.180	50,000	-	(50,000)	-	-	-	-
2-Mar-15	2-Mar-20	$0.345	150,000	-	(150,000)	-	-	-	-
4-Mar-15	4-Mar-20	$0.360	200,000	-	-	-	200,000	200,000	-
25-Aug-15	25-Aug-20	$0.210	150,000	-	(100,000)	-	50,000	50,000	-
23-Nov-15	23-Nov-20	$0.145	200,000	-	-	-	200,000	200,000	-
27-Nov-15	27-Nov-20	$0.140	1,300,000	-	(750,000)	-	550,000	550,000	-
16-May-16	16-May-21	$0.080	2,000,000	-	-	-	2,000,000	2,000,000	-
10-Jun-16	10-Jun-21	$0.130	1,000,000	-	(200,000)	-	800,000	800,000	-
15-Jun-16	15-Jun-21	$0.110	2,000,000	-	-	-	2,000,000	2,000,000	-
26-Jul-16	26-Jul-21	$0.11	1,750,000	-	(1,000,000)	-	750,000	600,000	150,000
12-Sep-16	12-Sep-21	$0.11	1,000,000	-	-	-	1,000,000	800,000	200,000
28-Oct-16	28-Oct-21	$0.195	2,700,000	-	(2,150,000)	(150,000)	400,000	400,000	-
15-Nov-16	15-Nov-21	$0.165	750,000	-	-	-	750,000	500,000	250,000
12-Dec-16	12-Dec-21	$0.14	300,000	-	(140,000)	-	160,000	160,000	-
13-Jan-17	13-Jan-22	$0.25	1,000,000	-	-	-	1,000,000	600,000	400,000
20-Feb-17	20-Feb-22	$0.37	100,000	-	-	-	100,000	60,000	40,000
22-Feb-17	22-Feb-22	$0.41	50,000	-	-	-	50,000	50,000	-
2-Jun-17	2-Jun-22	$0.45	1,150,000	-	(60,000)	(150,000)	940,000	490,000	450,000
10-Jul-17	10-Jul-22	$0.33	-	400,000	(45,000)	-	355,000	55,000	300,000
14-Aug-17	14-Aug-22	$0.275	-	1,350,000	(1,350,000)	-	-	-	-
12-Sep-17	12-Sep-22	$0.425	-	1,000,000	(1,000,000)	-	-	-	-
3-Mar-18	3-Mar-23	$1.55	-	2,700,000	-	(200,000)	2,500,000	100,000	2,400,000
16-May-18	16-May-23	$1.05	-	2,790,000	-	-	2,790,000	25,000	2,765,000
			16,200,000	8,240,000	(7,345,000)	(500,000)	16,595,000	9,640,000	6,955,000
Weighted Average Exercise Price			$0.17	$0.97	$0.23	$0.81	$0.52	$0.17	$1.01
Weighted Average Life Remaining			4.04	4.57	-	-	3.66	3.06	4.49

The table above has been revised from the previously issued June 30, 2018 financial statements to reflect the forfeiture of 500,000 stock options that occurred in fiscal 2018.

(Expressed in Canadian Dollars)

7. SHARE-BASED PAYMENTS (cont'd)

b) Fair Value of Options Issued During the Period

i) The weighted average fair value at grant date of options granted during the six months ended December 31, 2018 was $0.52 per option (year ending June 30, 2018 - $0.93). Assumptions used for options granted during the six months ended December 31, 2018 included a weighted average risk-free interest rate of 2.12% (year ending June 30, 2018 – 1.98%), weighted average expected life of 5 years (year ending June 30, 2018 – 5 years), weighted average volatility factor of 144.43% (year ending June 30, 2018 – 186.86%), weighted average dividend yield of 0% (year ending June 30, 2018 – 0%) and a 5% forfeiture rate (year ending June 30, 2018 – 5%). The expected price volatility is based on historic volatility of the Company, based on the expected life of the options, adjusted for any expected changes to future volatility due to publicly available information.

ii) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the six months ended December 31, 2018 were $2,447,059 (December 31, 2017 - $933,372).

iii) Weighted average remaining contractual life of stock options

The weighted average remaining contractual life of stock options at December 31, 2018 was 3.27 years (June 30, 2018 – 3.66 years).

8. ADMINISTRATIVE AND GENERAL EXPENSES

	Three Months Ended Dec 31		Six Months Ended Dec 31	
	2018	2017	**2018**	2017
General and Administrative Expenses include:				
Accounting and legal	$ **135,356**	$ 101,610	$ **255,749**	$ 162,225
Consulting	**16,327**	-	**29,362**	-
Conferences	**-**	538	**-**	538
Corporate development	**-**	56,250	**-**	107,569
Investor relations, website development and marketing	**178,344**	302,288	**333,787**	814,457
Office and administration fees	**74,812**	45,628	**115,096**	95,200
Regulatory fees	**14,008**	4,275	**53,152**	19,152
Rent	**49,214**	27,044	**98,840**	43,587
Shareholder communcation	**80,810**	33,019	**87,927**	36,493
Transfer agent fees	**3,163**	4,379	**7,336**	6,319
Travel	**14,471**	41,828	**33,688**	56,249
Salaries and employee benefits	**355,092**	118,435	**719,696**	234,845
Total General and Administrative Expenses	$ **921,597**	$ 735,294	$ **1,734,633**	$ 1,576,634

(Expressed in Canadian Dollars)

9. RESEARCH AND DEVELOPEMENT EXPENSES

	Three Months Ended Dec 31		Six Months Ended Dec 31	
	2018	2017	2018	2017
Research and Development Expenses include:				
R&D personnel compensation	$ 319,741	170,632	$ 559,705	$ 327,713
External contractors	565,740	158,343	841,472	286,426
Patents	55,621	17,590	126,852	66,524
Research supplies	8,457	65,842	46,128	105,797
Other	15,289	5,910	17,785	8,973
Gross research and development expenses	964,848	418,317	1,591,942	795,433
Less research grant revenue	(18,000)	-	(18,000)	-
Net Research and Development Expenses	$ 946,848	$ 418,317	$ 1,573,942	$ 795,433

Effective November 1, 2018, the Company entered into a contribution agreement with the National Research Council Canada Industrial Research Assistance Program ("NRC IRAP") to receive funding of up to C$500,000 to support its ongoing R&D efforts in cannabinoid biosynthesis. It is expected that this funding will be earned over 18 months subsequent to November 1, 2018.As grant income is earned, it will be recognized as a recovery of research and development expenditures. Gross research and development expenses are reduced by $18,000 of grant income (December 31, 2017 – $Nil) earned in the period.

10. RELATED PARTY TRANSACTIONS

Key management personnel are those persons having authority and responsibility for planning, directing and controlling our activities as a whole. We have determined that key management personnel consists of the members of the Board of Directors along with senior officers of the Company. The table below presents data for the six month period ending December 31, 2018 as compared to the same period ending December 31, 2017.

	December 31 2018	December 31 2017
Key management personnel compensation comprised:		
Share based payments	$2,149,082	$505,401
Salaries and consulting fees	$1,051,394	$422,000
	$3,200,476	$927,401

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.

	Three Months Ending		Six Months Ending	
	Dec 31 2018	Dec 31 2017	Dec 31 2018	Dec 31 2017
Loss attributable to common shareholders	($2,653,571)	$ (1,543,609)	($5,494,795)	($3,363,763)
Weighted average number of common shares	170,883,633	132,555,929	170,869,956	131,730,504
Basic and diluted loss per share	($0.02)	($0.01)	($0.03)	($0.03)

12. INCOME TAXES

As at June 30, 2018, the Company has non-capital loss carry-forwards of approximately $27,775,178 (June 30, 2017 - $21,533,718) available to offset future taxable income in Canada. These non-capital loss carryforwards begin to expire in 2026.

The Company's tax position is calculated annually and readers are referred to the audited consolidated financial statements for the year ended June 30, 2018 for further details.

13. SEGMENTED INFORMATION

The Company operates in one segment, the biopharmaceutical research and development of novel, cannabinoid-based drug therapies.

14. 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 six months ended December 31, 2018 and 2017 the following transactions were excluded from the statements of cash flows:

i) In the six months ending December 31, 2018, 35,000 (December 31, 2017 – 1,845,500) share purchase warrants, with an exercise price of $0.65 each, were exercised. Pursuant to the terms of a May 31, 2017 financing, these share purchase warrants were exercised on a net cashless basis, based on the five-day volume-weighted average trading price of the common shares of the Company on the TSX ending on the date immediately preceding the date of exercise (see Note 6). The exercise of these 35,000 share purchase warrants resulted in the issuance of 7,564 common shares (December 31, 2017 – 525,274);
ii) Included in the total number of stock options exercised in the three months ending December 31, 2017 were 300,000 stock options with an exercise price of $0.195 per share that, pursuant to the terms of a settlement agreement with the stock option holder, were exercised on a net cashless basis, based on the $0.51 per common share closing price of the Company on the CSE on the date immediately preceding the date of exercise. The exercise of these 300,000 stock options resulted in the issuance of 185,295 common shares.

15. COMMITMENTS

Pursuant to the terms of agreements with various contract research organizations, the Company is committed for contract research services at a cost of approximately $384,661. A total of $311,161 of these expenditures are expected to occur in fiscal 2019 and the balance of $73,500 in fiscal 2020.

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.

On June 22, 2017, the Company entered into an agreement to sublet office space with a sub-landlord. Under this agreement, the Company is leasing office premises at an annual cost of approximately $77,500 plus annual operating costs estimated at $101,500. The term of the sublease is from September 1, 2017 to August 31, 2019 (see Note 18).

Pursuant to the terms of an agreement with an employee, until July 10, 2019, if at any time its working capital is below $750,000, the Company is committed to place into escrow $125,000 to fund any potential severance amount due under that agreement.

15. COMMITMENTS (cont'd)

Short-term investments include guaranteed investment certificates with a face value of $57,500 (June 30, 2018 - $28,750) that are pledged as security for a corporate credit card.

16. CAPITAL MANAGEMENT

The Company considers all components of shareholders' equity as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development of the business. The Company is not exposed to any externally imposed capital requirements.

17. FINANCIAL RISK MANAGEMENT

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 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 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 US dollars. Accordingly, the Company is exposed to fluctuations in the US and Canadian dollar exchange rates.

As at December 31, 2018, the Company had a net excess of US dollar denominated cash and cash equivalents in excess of US dollar denominated accounts payable and accrued liabilities of US$2,015,100, which is equivalent to CDN$2,748,999 at the December 31, 2018 exchange rate. The US dollar financial assets generally result from holding US dollar cash to settle anticipated near-term accounts payable and accrued liabilities denominated in US dollars. The US dollar financial liabilities generally result from purchases of supplies and services from suppliers from outside of Canada.

Each change of 1% in the US dollar in relation to the Canadian dollar results in a gain or loss, with a corresponding effect on cash flows, of $27,490 based on the December 31, 2018 net US dollar assets (liabilities) position. During the six months ended December 31, 2018, the Company recorded foreign exchange gain of $91,002 (December 31, 2017 – loss of $2,996).

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 December 31, 2018, holdings of cash and cash equivalent of $8,229,284 (June 30, 2018 - $21,549,764) are subject to floating interest rates. In addition, the Company held fixed rate guaranteed investment certificates, cashable within ninety days of purchase, with a book value of $7,256,988 (June 30, 2018 – 2,518,436). The balance of the Company's cash holdings of $41,399 (June 30, 2018 - $66,077) are non-interest bearing.

17. FINANCIAL RISK MANAGEMENT (cont'd)

As at December 31, 2018, the Company held short-term investments in the form of a fixed rate guaranteed investment certificate, with terms of 6 to 12 months, with a face value of $7,300,000 (June

30, 2018 - $2,300,000) and variable rate guaranteed investment certificates, with one year terms, with face value of $57,500 (June 30, 2018 - $28,750).

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.

The Company, as at December 31, 2018, does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents and short-term investments held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

<u>Credit Risk:</u>

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 and short-term investments. Cash and cash equivalents and short-term investments are maintained with financial institutions of reputable credit and may be redeemed upon demand.

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.

<u>Liquidity Risk:</u>

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 will always have sufficient cash to allow it 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. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. As at December 31, 2018, the Company has cash and cash equivalents and short-term investments of $22,954,981 (June 30, 2018 - $26,476,892), current liabilities of $550,176 (June 30, 2018 - $937,759) and a working capital surplus of $22,809,380 (June 30, 2018 - $25,795,983).

18. SUBSEQUENT EVENTS

The sublease on the Company's current office premises expires on August 31, 2019. On January 14, 2019, the Company executed a lease for new office premises at an annual cost of approximately $129,800, increasing up to $143,300 in the last year of the lease, plus annual operating costs estimated at $78,500. The term of this new lease is from September 1, 2019 to August 31, 2024.