



Consolidated Financial Statements of

InMed Pharmaceuticals Inc.

For the Year Ended June 30, 2018

Suite 340 – 200 Granville Street
Vancouver, BC, Canada, V6C 1S4
Tel: 604-669-7207



InMed Pharmaceuticals Inc.
(Expressed in Canadian Dollars)
June 30, 2018

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KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of InMed Pharmaceuticals Inc.

We have audited the accompanying consolidated financial statements of InMed Pharmaceuticals Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of InMed Pharmaceuticals Inc. as at June 30, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

September 12, 2018
Vancouver, Canada

InMed Pharmaceuticals Inc.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at June 30

Expressed in Canadian Dollars

	Note	2018	2017
ASSETS			
Current			
Cash and cash equivalents		\$ 24,134,277	\$ 6,707,796
Short-term investments	5	2,342,615	-
Taxes recoverable	6	53,373	59,148
Prepays and advances		203,477	177,577
Total current assets		26,733,742	6,944,521
Non-Current			
Property and equipment	7	55,732	27,049
Intangible assets	8	1,273,670	1,364,558
Total Assets		\$ 28,063,144	\$ 8,336,128
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade payables		937,759	369,674
SHAREHOLDERS' EQUITY			
Share capital	9	68,058,698	43,153,871
Contributed surplus	9, 10	10,381,759	7,606,735
Accumulated deficit		(51,315,072)	(42,794,152)
		27,125,385	7,966,454
		\$ 28,063,144	\$ 8,336,128

Commitments (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 consolidated financial statements

InMed Pharmaceuticals Inc.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

For the years ended June 30

Expressed in Canadian Dollars

	Note	2018	2017
Expenses			
General and administrative	11	\$ 3,367,698	\$ 2,320,922
Research and development	12	1,927,137	746,162
Amortization and depreciation	7, 8	117,845	97,823
Foreign exchange (gain) loss		(287)	322
Share-based payments	10	3,196,864	1,308,620
Total expenses		8,609,257	4,473,849
Interest income		88,337	-
Total comprehensive loss for the year		\$ (8,520,920)	\$ (4,473,849)
Basic and diluted loss per share for the year	14	\$ (0.06)	\$ (0.05)

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

InMed Pharmaceuticals Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended June 30, 2018 and June 30, 2017

Expressed in Canadian Dollars

	Note	Share Capital	Obligation to issue Shares	Shares Subscribed	Contributed Surplus	Accumulated Deficit	Total
Balance June 30, 2016		\$32,777,875	\$70,000	\$131,400	\$6,402,550	(\$38,320,303)	\$1,061,522
Loss for the year		-	-	-	-	(4,473,849)	(4,473,849)
Share-based payments for services	9	206,646	-	-	-	-	206,646
Shares issued for intangible assets	8	70,000	(70,000)	-	-	-	-
Share-based payments	10	-	-	-	1,308,620	-	1,308,620
Shares issued as settlement for debt	9	108,169	-	-	-	-	108,169
Shares issued in equity financings	9	9,050,099	-	(131,400)	-	-	8,918,699
Shares issued on exercise of warrants	9	1,789,746	-	-	(111,288)	-	1,678,458
Shares issued on exercise of stock options	10	290,258	-	-	(137,633)	-	152,625
Fair value of agents' warrants	9	-	-	-	144,486	-	144,486
Share issue costs	9	(1,138,922)	-	-	-	-	(1,138,922)
Balance June 30, 2017		\$43,153,871	\$0	\$0	\$7,606,735	(\$42,794,152)	\$7,966,454

	Note	Share Capital	Obligation to issue Shares	Shares & Warrants Subscribed	Contributed Surplus	Accumulated Deficit	Total
Balance June 30, 2017		\$43,153,871	\$0	\$0	\$7,606,735	(\$42,794,152)	\$7,966,454
Loss for the period		-	-	-	-	(8,520,920)	(8,520,920)
Shares issued for cash	9	24,350,120	-	-	-	-	24,350,120
Share issue costs	9	(3,501,023)	-	-	-	-	(3,501,023)
Share-based payments for services	9	41,790	-	-	-	-	41,790
Share-based payments	10	-	-	-	3,196,864	-	3,196,864
Shares issued on exercise of warrants	9	721,395	-	-	-	-	721,395
Fair value of agents' warrants	9	-	-	-	1,247,755	-	1,247,755
Fair value of agents' warrants exercised	9	135,385	-	-	(135,385)	-	-
Shares issued on exercise of stock options	10	3,157,160	-	-	(1,534,210)	-	1,622,950
Balance June 30, 2018		\$68,058,698	\$0	\$0	\$10,381,759	(\$51,315,072)	\$27,125,385

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

InMed Pharmaceuticals Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30
Expressed in Canadian Dollars

	Note	2018	2017
OPERATING ACTIVITIES			
Cash flows from operating activities			
Loss for the year		\$ (8,520,920)	\$ (4,473,849)
Adjustments to reconcile loss to net cash used in operating activities			
Amortization and depreciation	7, 8	117,845	97,823
Share-based payments	10	3,196,864	1,308,620
Shares issued for services	9	-	206,646
Accrued interest income on short-term investments		(13,868)	-
Changes in non-cash working capital balances:			
Prepays and advances		(25,900)	(129,276)
Taxes recoverable	6	5,775	25,974
Trade payables		568,086	(112,334)
Total cash outflows from operating activities		(4,672,118)	(3,076,396)
Cash Flows From Investing Activities			
Purchase of short-term investments		(2,328,750)	-
Purchase of property and equipment	7	(55,639)	(25,393)
Total cash outflows from investing activities		(2,384,389)	(25,393)
Cash Flows From Financing Activities			
Shares issued for cash	9	26,694,465	10,749,780
Share issue costs	9	(2,211,477)	(994,436)
Cash provided by financing activities		24,482,988	9,755,344
Increase in cash during the year		17,426,481	6,653,555
Cash and cash equivalents beginning of the year		6,707,796	54,241
Cash and cash equivalents end of the year		\$ 24,134,277	\$ 6,707,796

See note 17 for Non-Cash Transactions

The accompanying notes form an integral part of these consolidated 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 NATURE OF OPERATIONS

These consolidated financial statements 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 consolidated financial statements were authorized for issue by the Board of Directors on September 12, 2018.

These consolidated financial statements have been prepared on the historical cost basis as modified, when applicable, by the revaluation of available-for-sale financial assets.

These consolidated 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 4.

Basis of Consolidation

These consolidated financial statements include the accounts of the inactive subsidiaries: Biogen Sciences Inc. (“BSI”) 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 expenses arising from intercompany transactions are eliminated in preparing consolidated financial statements.

2. BASIS OF PREPARATION AND NATURE OF OPERATIONS (cont'd)

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents includes cash-on-hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Property and Equipment

Equipment and leasehold improvements are recorded at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of equipment and leasehold improvements comprises their purchase price. The useful lives of equipment and leasehold improvements are reviewed at least once per year. When parts of an item of equipment or leasehold improvements have different useful lives, they are accounted for as separate items (major components) of equipment or leasehold improvements. Equipment and leasehold improvements are depreciated using the straight-line method based on their estimated useful lives as follows:

- Computer equipment – 30% per annum
- Leasehold improvements – lesser of initial lease term of 24 months or useful life

Intangible Assets

Intangible assets is comprised of acquired intellectual property, which consists of the Company's Bioinformatics Assessment Tool and certain patents. The 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.

Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of Non-Financial Assets (cont'd)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the “cash-generating unit”, or “CGU”).

The Company’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Financial Assets

Financial assets are classified into the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company’s accounting policy is as follows:

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Taxes recoverable and other receivables are included in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Assets (cont'd)

Available-For-Sale Investments

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost. Short term investments are included in this category and the book value approximates the fair value.

On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held-for-trading or is designated as FVTPL. A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future, it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking or if it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash and cash equivalents are included in this category.

Impairment of Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables are included in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by year end.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets.

Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. The fair value of warrants issued to investors is included as part of share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings / Loss Per Share

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year. Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based Payments

The fair value, at the grant date, of equity-settled share awards is charged to income or loss over the period for which the benefits of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of share options expected to vest. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors:

- Exercise price
- Expected life of the award
- Expected volatility
- Current market price of the underlying shares
- Risk-free interest rate
- Dividend yield

Short-term Investments

Short-term investments include investments with original maturities of greater than three months and less than twelve months that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Research and Development Costs

The Company conducts research and development programs and incurs costs related to these activities, including research and development personnel compensation, services provided by contract research organizations, costs of filing and prosecuting patent applications, and lab supplies. Research and development costs, net of contractual reimbursements from development partners, are expensed in the periods in which they are incurred.

Research Grants

Research grants are recognized as a recovery of research expenditures in the consolidated statement of comprehensive loss when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The Company only recognizes grant proceeds on the consolidated statement of comprehensive loss when the proceeds have been spent on research expenses. Grant amounts received in advance are recorded as deferred grant proceeds.

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 9 Financial Instruments

Issued by IASB - July, 2014

Effective for annual periods beginning on or after January 1, 2018

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives. The main features introduced by this new standard compared with predecessor IFRS are as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Future Accounting Pronouncements (cont'd)

IFRS 9 Financial Instruments (cont'd)

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).
- *Derecognition:*
The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The Company has not completed its evaluation of the impact of IFRS 9 but it is not expected to be significant.

IFRS 16 Leases

Issued by IASB - January, 2016

Effective for annual periods beginning on or after January 1, 2019

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.

3. SIGNIFICANT 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.

4. 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.

4. 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.

5. SHORT-TERM INVESTMENTS

Short-term investments include guaranteed investment certificates with a face value of \$28,750 that are pledged as security for a corporate credit card.

6. RECEIVABLES

	June 30 2018	June 30 2017
Taxes recoverable	\$ 53,373	\$ 59,148
	\$ 53,373	\$ 59,148

Taxes recoverable represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada.

Management considers that the fair values of these receivables, which are expected to be recovered quarterly, are not materially different from their carrying amounts because these amounts have short maturity periods on inception.

INMED PHARMACEUTICALS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017
(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Equipment	Leasehold Improvements	Total
Cost			
Balance at June 30, 2016	\$ 9,330	\$ —	\$ 9,330
Assets acquired	25,393	—	25,393
Balance at June 30, 2017	\$ 34,723	\$ —	\$ 34,723
Assets acquired	19,078	36,561	55,639
Balance June 30, 2018	\$ 53,801	\$ 36,561	\$ 90,362
Depreciation and impairment losses			
Balance at June 30, 2016	\$ 4,604	\$ —	\$ 4,604
Depreciation for the period	3,070	—	3,070
Balance at June 30, 2017	\$ 7,674	\$ —	\$ 7,674
Depreciation for the period	12,093	14,863	26,956
Balance June 30, 2018	\$ 19,767	\$ 14,863	\$ 34,630
Carrying amounts			
Carrying value at June 30, 2017	\$ 27,049	\$ —	\$ 27,049
Carrying value at June 30, 2018	\$ 34,034	\$ 21,698	\$ 55,732

8. INTANGIBLE ASSETS

	Intellectual Property
Costs	
Balance at June 30, 2016	\$1,636,000
Balance at June 30, 2017	\$1,636,000
Balance at June 30, 2018	\$1,636,000
Accumulated amortization and impairment losses	
Balance at June 30, 2016	\$176,689
Amortization	94,753
Balance at June 30, 2017	\$271,442
Amortization	90,888
Balance at June 30, 2018	\$362,330
Carrying amounts	
Carrying value at June 30, 2017	\$1,364,558
Carrying value at June 30, 2018	\$1,273,670

The acquired intellectual property, which consists of the Company's Bioinformatics Assessment Tool and certain patents, 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.

8. INTANGIBLE ASSETS (cont'd)

Acquisitions

On October 28, 2015, the Company entered into a purchase agreement with Dr. Sazzad Hossain, the Company's Chief Scientific Officer, to acquire certain patents from Dr. Hossain, in return for the obligation of the Company to issue 1,000,000 common shares to Dr. Hossain. The 1,000,000 common shares have an aggregate recorded value at \$140,000, or \$0.14 per share, as determined by the closing price of the shares on the CSE on October 28, 2015. As at June 30, 2016, 500,000 of such common shares had been issued to Dr. Hossain; accordingly, the Company had an obligation to issue a further 500,000 common shares valued at \$70,000 to Dr. Hossain under the terms of the purchase agreement between the parties dated October 28, 2015. These 500,000 common shares were issued on May 5, 2017 (Note 9).

On May 10, 2014, the Company entered into a Share Purchase Agreement ("SPA") to acquire Biogen Sciences Inc. ("BSI"), a privately held British Columbia biopharmaceutical company focused on drug discovery and development of the therapeutic science of cannabinoids. On May 21, 2014, pursuant to the terms of the SPA the Company acquired 100% of the outstanding common shares of BSI. The aggregate purchase price included the issuance of 4,000,000 common shares of the Company to the vendors with a recorded value of \$1,360,000 (issue price of \$0.34, as determined by the closing price of the shares on the CSE on May 21, 2014) and the issuance of 400,000 common shares of the Company as finders' fees with a recorded value of \$136,000 (issue price of \$0.34, as determined by the closing price of the shares on the CSE on May 21, 2014).

The Company determined the acquisition of BSI did not meet the definition of a business pursuant to IFRS and accordingly the purchase has been accounted for as an asset acquisition, with the primary assets acquired being the intellectual property which includes the Bioinformatics Assessment Tool and a pending patent application. Pursuant to the completion of the acquisition, BSI became a wholly owned subsidiary of InMed.

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9. SHARE CAPITAL AND RESERVES

a) Authorized

As at June 30, 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, 2016	68,232,862		\$32,777,875
Issued shares for debt	983,355	\$0.11	108,169
Issued for private placement	31,383,334	\$0.07 - \$0.18	3,295,500
Issued for public placement	12,788,000	\$0.45	5,754,599
Issued for intangible assets	500,000	\$0.14	70,000
Issued for services	641,165	\$0.17 - \$0.415	206,646
Issued for exercise of warrants	12,325,750	\$0.13 - \$0.30	1,678,458
Grant date fair value of agents' warrants exercised	—	—	111,288
Issued for exercise of stock options	875,000	\$0.14 - \$0.345	152,625
Grant date fair value of stock options exercised	—	—	137,633
Cancellation of escrow shares	(80,000)	—	—
Share issue costs	—	—	(1,138,922)
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	—	—	(3,501,023)
Issued for services	35,718	\$1.17	41,790
Issued for exercise of warrants	5,895,775	\$0.15 - \$0.65	721,395
Grant date fair value of agents' warrants exercised	—	—	135,385
Issued for exercise of stock options	7,230,295	\$0.11 - \$0.45	1,622,950
Grant date fair value of stock options exercised	—	—	1,534,210
Balance at June 30, 2018	170,851,069	—	\$68,058,698

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

- i) 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.

9. SHARE CAPITAL AND RESERVES (cont'd)

b) Common Shares (cont'd)

- ii) 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. For 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.

- iii) 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.
- iv) 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.

9. SHARE CAPITAL AND RESERVES (cont'd)

b) Common Shares (cont'd)

During the year ended June 30, 2017, the Company completed the following:

- v) On July 6, 2016, the Company issued an aggregate 983,355 common shares pursuant to the settlement of trade payable debt in the amount of \$108,169 at an issue price of \$0.11 per common share.
- vi) On July 28, 2016, the Company completed a non-brokered private placement ("July-2016 Financing") for 4,350,000 units ("July-2016 Units"), at a price of \$0.07 per July-2016 Unit for gross proceeds of \$304,500 (which includes subscriptions of \$131,400 received as at June 30, 2016). Each July-2016 Unit consists of one common share and one non-transferable share purchase warrant (a "July-2016 Warrant"). Each July-2016 Warrant is exercisable by the holder to acquire one additional common share at a price of \$0.15 for a period of twelve (12) months expiring on July 28, 2017.

Finders' fees of 7.0% on a portion of the gross proceeds received by the Company from the sale of Units sold pursuant to the July-2016 Financing included cash of \$2,706, and 28,000 warrants ("July-2016 Agent Warrants"). Each July-2016 Agent Warrant is exercisable in whole or in part at an exercise price of \$0.15 for a period of 12 months expiring on July 28, 2017.

- vii) On October 27, 2016, the Company completed a non-brokered private placement (the "October-2016 Financing") for 18,750,000 common shares, at a price of \$0.08 per share for gross proceeds of \$1,500,000.

Finders' fees of 7.5% on a portion of the gross proceeds received by the Company from the sale of Units sold pursuant to the October-16 Financing included cash of \$637, and 237,500 compensation shares valued at \$0.17 per share.

- viii) On January 18, 2017, the Company completed a non-brokered private placement (the "January-2017 Financing") for 8,283,334 common shares, at a price of \$0.18 per share for gross proceeds of \$1,491,000.

Finders' fees of 7.5% on a portion of the gross proceeds received by the Company from the sale of Units sold pursuant to the January-2017 Financing included cash of \$45,237, 153,665 compensation shares valued at \$0.415 per share, and 170,364 warrants ("January-2017 Agent Warrants"). Each January-2017 Agent Warrant is exercisable in whole or in part at an exercise price of \$0.18 for a period of 12 months expiring on January 18, 2018.

- ix) Pursuant to a February 21, 2017 agreement with a consultant to the Company, on March 1, 2017 the Company issued 250,000 common shares at a value of \$0.41 per common share, being the closing price of the shares on February 21, 2017 on the CSE, as partial payment for services.

9. SHARE CAPITAL AND RESERVES (cont'd)

b) Common Shares (cont'd)

- x) On May 1, 2017, the Company cancelled and returned to treasury 80,000 common shares of the Company which had been held in escrow since February 9, 2000 pursuant to an escrow agreement between the Company, Montreal Trust Company of Canada (now part of Computershare Investor Services Inc.), and two shareholders. These 80,000 common shares were originally issued upon the closing of a reverse takeover transaction on February 9, 2000 as performance shares and were placed into escrow on closing. Under the terms of the Escrow Agreement, any such performance shares not released by February 9, 2010 were to be cancelled. As none of the performance criteria were achieved, none of these common shares were ever released from escrow prior to their cancellation on May 1, 2017.
- xi) On May 5, 2017, the Company issued the remaining 500,000 common shares, valued at \$70,000, due to the Company's Chief Scientific Officer, pursuant to an October 28, 2015 purchase agreement to acquire certain patents from Dr. Hossain.
- xii) On May 31, 2017, the Company completed a public placement ("May-2017 Financing") of 12,788,000 units ("Units"), at a price of \$0.45 per Unit for gross proceeds of \$5,754,601. Each Unit consists of one common share and one-half non-transferable share purchase warrant (a "May-2017 Warrant"), or an aggregate of 6,394,000 full May-2017 Warrants. Each full May-2017 Warrant is exercisable by the holder to acquire one additional common share at a price of \$0.65 for a period of twenty-four (24) months expiring on May 31, 2019. The May-2017 Warrants are only exercisable on a net cashless basis, based on the five-day volume-weighted average trading price of the common shares of the Company on the CSE ending on the date immediately preceding the date of exercise.

Underwriters' commissions of up to 7.0% on the gross proceeds received by the Company from the sale of Units sold pursuant to the May-2017 Financing included cash of \$370,132 and 535,620 warrants ("Agent Warrants"). Each Agent Warrant is exercisable in whole or in part at an exercise price of \$0.45 for a period of 12 months expiring on May 31, 2018.
- xiii) During the year ending June 30, 2017, the Company issued an aggregate 12,325,750 common shares pursuant to the exercise of share purchase warrants at a weighted average exercise price of \$0.14 per share.
- xiv) During the year ending June 30, 2017, the Company issued an aggregate 875,000 common shares pursuant to the exercise of stock options at a weighted average exercise price of \$0.17 per share.

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9. SHARE CAPITAL AND RESERVES (cont'd)

c) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from July 1, 2016 to June 30, 2018:

	Number	Weighted Average Share Price
Balance as at June 30, 2016	11,504,998	\$0.15
Granted	10,744,000	\$0.45
Exercised	(11,715,000)	\$0.14
Expired	(1,099,998)	\$0.30
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

Included in the total number of share purchase warrants exercised were 3,040,000 share purchase warrants, with a weighted average exercise price of \$0.15 each, that were exercised for cash and 4,521,111 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 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.

At June 30, 2018, 31,912,704 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	1,872,889	\$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 June 30, 2018	31,912,704		

The weighted average remaining contractual life of the share purchase warrants at June 30, 2018 was 1.51 years.

9. SHARE CAPITAL AND RESERVES (cont'd)

d) Agents' Warrants

The following is a summary of changes in agents' warrants from July 1, 2016 to June 30, 2018:

	Number	Weighted Average Share Price
Balance as at June 30, 2016	581,450	\$0.14
Granted	733,984	\$0.38
Expired	(610,750)	\$0.13
Exercised	(33,700)	\$0.29
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

At June 30, 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 June 30, 2018	1,539,953		

The weighted average remaining contractual life of the Agents' Warrants at June 30, 2018 was 1.71 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.

10. 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 June 30, 2018, there was 17,075,214 (June 30, 2017 – 9,329,893) 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.

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10. 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	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)	-	550,000	550,000	-
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)	-	1,090,000	540,000	550,000
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	-	-	2,700,000	100,000	2,600,000
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)	-	17,095,000	9,840,000	7,255,000
Weighted Average Exercise Price			\$0.17	\$0.97	\$0.23	-	\$0.53	\$0.17	\$1.02
Weighted Average Life remaining			4.04	4.57	-	-	3.67	3.07	4.49

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10. SHARE-BASED PAYMENTS (cont'd)

a) Option Plan Details (cont'd)

The following is a summary of changes in options from July 1, 2016 to June 30, 2017:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Cancelled	Closing Balance	Vested and Exercisable	Unvested
4-Apr-14	4-Apr-19	\$0.255	375,000	-	(125,000)	-	250,000	250,000	-
5-Jun-14	5-Jun-19	\$0.18	50,000	-	-	-	50,000	50,000	-
31-Jul-14	31-Jul-19	\$0.18	50,000	-	-	-	50,000	50,000	-
25-Nov-14	25-Nov-19	\$0.180	100,000	-	(50,000)	-	50,000	50,000	-
2-Mar-15	2-Mar-20	\$0.345	200,000	-	(50,000)	-	150,000	150,000	-
4-Mar-15	4-Mar-20	\$0.360	200,000	-	-	-	200,000	200,000	-
15-Apr-15	15-Apr-20	\$0.295	2,400,000	-	-	(2,400,000)	-	-	-
25-May-15	25-May-20	\$0.235	400,000	-	-	(400,000)	-	-	-
25-Aug-15	25-Aug-20	\$0.210	200,000	-	(50,000)	-	150,000	150,000	-
23-Nov-15	23-Nov-20	\$0.145	200,000	-	-	-	200,000	200,000	-
27-Nov-15	27-Nov-20	\$0.140	1,900,000	-	(600,000)	-	1,300,000	1,300,000	-
16-May-16	16-May-21	\$0.080	2,000,000	-	-	-	2,000,000	1,100,000	900,000
10-Jun-16	10-Jun-21	\$0.130	1,000,000	-	-	-	1,000,000	600,000	400,000
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	-	-	1,750,000	1,200,000	550,000
12-Sep-16	12-Sep-21	\$0.11	-	1,000,000	-	-	1,000,000	400,000	600,000
28-Oct-16	28-Oct-21	\$0.195	-	2,700,000	-	-	2,700,000	1,900,000	800,000
15-Nov-16	15-Nov-21	\$0.165	-	750,000	-	-	750,000	250,000	500,000
12-Dec-16	12-Dec-21	\$0.14	-	300,000	-	-	300,000	100,000	200,000
13-Jan-17	13-Jan-22	\$0.25	-	1,000,000	-	-	1,000,000	200,000	800,000
20-Feb-17	20-Feb-22	\$0.37	-	100,000	-	-	100,000	20,000	80,000
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	-	-	1,150,000	25,000	1,125,000
			11,075,000	8,800,000	(875,000)	(2,800,000)	16,200,000	10,245,000	5,955,000
Weighted Average Exercise Price		\$0.17	\$0.21	\$0.17	\$0.29	\$0.17	\$0.15	\$0.21	
Weighted Average Life remaining		4.38	4.38	-	-	4.04	3.86	4.35	

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10. 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 year ended June 30, 2018 was \$0.93 per option (year ending June 30, 2017 - \$0.16). Assumptions used for options granted during the year included a weighted average risk-free interest rate of 1.98% (year ending June 30, 2017 – 0.85%), weighted average expected life of 5 years (year ending June 30, 2017 – 5 years), weighted average volatility factor of 186.86% (year ending June 30, 2017 – 193.45%), weighted average dividend yield of 0% (year ending June 30, 2017 – 0%) and a 5% forfeiture rate (year ending June 30, 2017 – 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 year ended June 30, 2018 were \$3,196,864 (June 30, 2017 - \$1,308,620).

iii) Weighted average remaining contractual life of stock options

The weighted average remaining contractual life of stock options at June 30, 2018 was 3.67 years (June 30, 2017 – 4.04 years).

11. ADMINISTRATIVE AND GENERAL EXPENSES

	June 30	
	2018	2017
General and Administrative Expenses include:		
Accounting and legal	\$ 417,432	\$ 407,784
Consulting	87,366	236,626
Conferences	2,588	(1,268)
Corporate development	176,319	170,117
Investor relations, website development and marketing	1,049,253	844,275
Office and administration fees	179,139	96,682
Regulatory fees	259,058	21,112
Rent	133,090	50,957
Shareholder communication	75,395	72,987
Transfer agent fees	28,692	40,778
Travel	97,562	92,132
Salaries and employee benefits	861,804	288,740
Total General and Administrative Expenses	\$ 3,367,698	\$ 2,320,922

12. RESEARCH AND DEVELOPEMENT EXPENSES

	June 30	
	2018	2017
Research and Development Expenses include:		
R&D personnel compensation	\$ 798,139	\$ 341,814
External contractors	900,791	276,288
Patents	88,793	114,935
Research supplies	128,825	12,035
Other	10,589	1,090
Total Research and Development Expenses	\$ 1,927,137	\$ 746,162

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13. 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 year.

	June 30 2018	June 30 2017
Key management personnel compensation comprised:		
Share based payments	\$2,516,432	\$617,311
Salaries and consulting fees	\$1,355,653	\$868,072
	<u>\$3,872,085</u>	<u>\$1,485,383</u>

14. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year.

	June 30 2018	June 30 2017
Loss attributable to common shareholders	(\$8,520,920)	(\$4,473,849)
Weighted average number of common shares	142,451,768	89,452,627
Basic and diluted loss per share	(\$0.06)	(\$0.05)

15. INCOME TAXES

The following is a reconciliation of income taxes calculated at the combined Canadian federal and provincial income statutory corporate tax rate of 26.5% (June 30, 2017 – 26.0%) to the tax expense:

	June 30 2018	June 30 2017
Income (loss) before taxes	\$ (8,520,920)	\$ (4,473,849)
Income tax expense (recovery) at the statutory rate	(2,258,044)	(1,163,201)
Increase (reduction) in income taxes resulting from:		
Change in unrecognized temporary differences	1,627,461	36,604
Permanent differences	847,789	340,707
Other	(217,206)	785,890
Income tax expense (recovery)	<u>\$ —</u>	<u>\$ —</u>

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15. INCOME TAXES (cont'd)

Deferred tax assets and liabilities have been recognized for the following:

	June 30 2018	June 30 2017
Non-capital losses	\$ 505,644	\$ 256,801
Intangible assets	(505,644)	(256,801)
	<u>\$ —</u>	<u>\$ —</u>

The following table is a summary of the unrecognized deductible temporary differences and unused tax losses:

	June 30 2018	June 30 2017
Non-capital losses carried forward	\$ 25,908,054	\$ 20,546,022
Other temporary differences	(5,629)	93,185
	<u>\$ 25,902,425</u>	<u>\$ 20,639,207</u>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available against which the Company can utilize the benefits therefrom.

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.

16. SEGMENTED INFORMATION

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

17. 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 years ended June 30, 2018 and June 30, 2017 the following transactions were excluded from the statements of cash flows:

- i) In the year ending June 30, 2018, 4,521,111 (June 30, 2017 – Nil) 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 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 (see Note 9);
- ii) Finders' fees of \$41,790 for the Jan-2018 Financing were settled on February 9, 2018 via the issuance of 35,718 common shares at the \$1.17 closing price on the CSE on the date of issuance of these shares (see Note 9);

17. NON-CASH TRANSACTIONS (cont'd)

- iii) Included in the total number of stock options exercised in the year ending June 30, 2018 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 (see Note 9);
- iv) The grant of 1,539,953 (June 30, 2017 – 733,984) Agents Warrants for recorded value of \$1,247,755 (June 30, 2017 – \$144,486) – see Note 9;
- v) The issuance of Nil (June 30, 2017 – 250,000) common shares to officers and consultants for services provided for a recorded value of \$Nil (June 30, 2017– \$102,500) – see Note 9;
- vi) The issuance of Nil (June 30, 2017 – 391,165) compensation shares as finders' fees on financings for recorded value of \$Nil (June 30, 2017– \$104,146) – see Note 9; and
- vii) The issuance of Nil (June 30, 2017 – 983,355) common shares pursuant to settlement of debt of \$Nil (June 30, 2017 - \$108,169) – see Note 9.

18. 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 \$714,363. All of these expenditures are expected to occur in fiscal 2019.

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 finalized an agreement to sublet office space with a sub-landlord. Under this agreement, the Company is leasing 3,868 square feet 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.

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.

19. 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.

20. 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 foreign exchange risk, commodity risk or equity price risk. In the future as the Company's expands its research and development activities outside of Canada there will be an increase in foreign exchange risk.

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 June 30, 2018, holdings of cash and cash equivalent of \$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 book value of \$2,518,436. The balance of the Company's cash holdings of \$ 66,077 are non-interest bearing.

As at June 30, 2018, the Company held short-term investments in the form of a fixed rate guaranteed investment certificate, with a 181 day term, with a face value of \$2,300,000 and variable rate guaranteed investment certificates, with one year terms, with face value of \$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. The Company regularly monitors compliance to its cash management policy.

The Company, as at June 30, 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.

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 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.

20. FINANCIAL RISK MANAGEMENT (cont'd)

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 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 June 30, 2018, the Company has cash and cash equivalents and short-term investments of \$26,476,892 (June 30, 2017 - \$6,707,796), current liabilities of \$937,759 (June 30, 2017 - \$369,674) and a working capital surplus of \$25,795,983 (June 30, 2017 - \$6,574,847).