Consolidated Financial Statements of

InMed Pharmaceuticals Inc.

For the Year Ended June 30, 2020

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InMed Pharmaceuticals Inc.
(Expressed in Canadian Dollars)
June 30, 2020

INDEX **Page**

Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of InMed Pharmaceuticals Inc.

Opinion

We have audited the consolidated financial statements of InMed Pharmaceuticals Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at June 30, 2020 and 2019
- the consolidated statements of operations and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at June 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity has incurred recurring losses and negative cash flows from operations since its inception and has an accumulated deficit.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 2 to the financial statements which indicates that the Entity has changed its accounting policy for IFRS 16 – *Leases* and has applied that change prospectively.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Information Form".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Information Form" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Rikki P. Senghera.

Vancouver, Canada
September 8, 2020

InMed Pharmaceuticals Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at June 30, 2020 and 2019
Expressed in Canadian Dollars

	Note	2020	2019
ASSETS			
Current			
Cash and cash equivalents		$ 7,912,156	$ 12,873,961
Short-term investments	16	57,761	5,165,093
Accounts receivable		61,794	84,987
Prepaids and other assets		570,905	424,275
Total current assets		8,602,616	18,548,316
Non-Current			
Property and equipment	4	549,869	55,829
Intangible assets	5	1,091,642	1,184,720
Total Assets		$ 10,244,127	$ 19,788,865
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payables and accrued liabilities		$ 2,190,432	$ 1,562,865
Current portion of lease obligations	12	93,986	-
Total current liabilities		2,284,418	1,562,865
Non-current			
Lease obligations	12	337,989	-
		2,622,407	1,562,865
SHAREHOLDERS' EQUITY			
Share capital	6	68,579,890	68,579,890
Contributed surplus		15,468,817	14,216,224
Accumulated deficit		(76,426,987)	(64,570,114)
		7,621,720	18,226,000
		$ 10,244,127	$ 19,788,865

Commitments and Contingencies (Note 16)
Subsequent Events (Note 16)

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.

The Company adopted IFRS 16 Leases as described in Note 2. Under this adoption, the comparative information has not been restated.

InMed Pharmaceuticals Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended June 30, 2020 and 2019
Expressed in Canadian Dollars

		2020		2019
Operating Expenses				
Research and development	$	7,104,932	$	5,638,619
General and administrative		3,533,014		3,797,867
Amortization and depreciation		221,218		124,344
Share-based payments		1,252,593		4,083,157
Total operating expenses		12,111,757		13,643,987
Finance Costs and Other Income (Loss)				
Interest expense on lease obligations		(25,426)		-
Interest income		171,934		433,803
Foreign exchange gain (loss)		108,376		(44,858)
Total net and comprehensive loss for the period	$	(11,856,873)	$	(13,255,042)
Basic and diluted loss per share for the period	$	(2.27)	$	(2.56)

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

The Company adopted IFRS 16 Leases as described in Note 2. Under this adoption, the comparative information has not been restated.

InMed Pharmaceuticals Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended June 30, 2020 and 2019

Expressed in Canadian Dollars

	Note	Share Capital	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		-	-	(13,255,042)	(13,255,042)
Share-based payments	7	-	4,083,157	-	4,083,157
Shares issued on exercise of stock options	6	521,192	(248,692)	-	272,500
Balance June 30, 2019		**$68,579,890**	**$14,216,224**	**($64,570,114)**	**$18,226,000**

	Note	Share Capital	Contributed Surplus	Accumulated Deficit	Total
Balance June 30, 2019		$68,579,890	$14,216,224	($64,570,114)	$18,226,000
Net loss for the period		-	-	(11,856,873)	(11,856,873)
Share-based payments	7	-	1,252,593	-	1,252,593
Balance June 30, 2020		**$68,579,890**	**$15,468,817**	**($76,426,987)**	**$7,621,720**

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

The Company adopted IFRS 16 Leases as described in Note 2. Under this adoption, the comparative information has not been restated.

InMed Pharmaceuticals Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

Expressed in Canadian Dollars

	Note	2020	2019
OPERATING ACTIVITIES			
Cash Flows from Operating Activities			
Net loss for the period		$ (11,856,873)	$ (13,255,042)
Adjustments to reconcile loss to net cash used in operating activities			
Amortization and depreciation	4, 5	221,218	124,344
Share-based payments	7	1,252,593	4,083,157
Loss on sale of assets		3,097	-
Interest accretion on lease obligations		25,426	-
Changes in non-cash working capital balances:			
Prepaids and other assets		(170,953)	(220,798)
Interest income accrued on short-term investments		107,332	(93,726)
Accounts receivable		23,193	(31,614)
Accounts payable and accrued liabilities		627,567	625,106
Total cash used in operating activities		(9,767,400)	(8,768,573)
Cash Flows From Investing Activities			
Maturity of short-term investments		5,057,500	4,628,750
Purchase of short-term investments		(57,500)	(7,357,502)
Purchase of property and equipment	4	(57,163)	(35,491)
Proceeds on disposal of property and equipment		726	-
Total cash provided by (used in) investing activities		4,943,563	(2,764,243)
Cash Flows From Financing Activities			
Payments on lease obligations	12	(97,375)	-
Shares issued for cash	6	-	272,500
Deferred financing costs		(40,593)	-
Total cash provided by (used in) financing activities		(137,968)	272,500
Decrease in cash during the period		(4,961,805)	(11,260,316)
Cash and cash equivalents beginning of the period		12,873,961	24,134,277
Cash and cash equivalents end of the period		$ 7,912,156	$ 12,873,961

See note 15 for Non-Cash Transactions

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

The Company adopted IFRS 16 Leases as described in Note 2. Under this adoption, the comparative information has not been restated.

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. InMed is a clinical stage pharmaceutical company specializing in the research and development of novel, cannabinoid-based therapies and an integrated system for the manufacturing of pharmaceutical-grade cannabinoids.

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.

InMed's corporate office and principal place of business is located at #310 – 815 West Hastings Street, Vancouver, B.C., Canada, V6C 1B4.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNFICANT ACCOUNTING POLICIES

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 4, 2020.

These consolidated financial statements have been prepared on the historical cost basis as modified, when applicable, by the revaluation of financial assets recorded at fair value, if any.

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 3.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, including inactive subsidiaries: Biogen Sciences Inc., Sweetnam Consulting Inc., and InMed Pharmaceutical Ltd. The Company's former inactive subsidiary, Meridex Network Corporation, was wound up into InMed effective April 17, 2019. 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.

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.

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 and has no current sources of revenue. The Company's ability to continue its operations on a going concern basis over the next twelve months after the period end date is supported by its available cash and cash equivalents to meet its obligations. Until such time as the Company can generate substantial product revenue and achieve profitable operations, continuing operations are dependent upon its ability to raise additional financing through issuing equity or debt and ultimately achieving profitable operations.

Through June 30, 2020, the Company has funded its operations primarily with proceeds from the sale of common stock. The Company has incurred recurring losses and negative cash flows from operations since its inception, including net losses of $11.9 million and $13.3 million for the years ended June 30, 2020 and 2019, respectively. In addition, the Company had an accumulated deficit of $76.4 million as of June 30, 2020. The Company expects to continue to generate operating losses for the foreseeable future.

As of the issuance date of these consolidated financial statements, the Company expects its cash and cash equivalents of $7.9 million as of June 30, 2020 will be sufficient to fund its operating expenses and capital expenditure requirements into the first quarter of fiscal 2022. The future viability of the Company beyond that point is dependent on its ability to raise additional capital to finance its operations. These factors may cast significant doubt about the Company's ability to continue as a going concern for the future, which the Company defines as within one year from the reporting date of these consolidated financial statements.

The Company is seeking an equity financing and expects in the future to seek additional funding through equity financings, debt financings or other capital sources, including collaborations with other companies, government contracts or other strategic transactions. The Company may not be able to obtain financing on acceptable terms, or at all.

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, which adjustments could be material.

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 when acquired that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Deferred Financing Costs

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred financing costs until such financings are consummated. After consummation of the equity financing, these costs are recorded as a reduction to shareholders' equity generated as a result of the financing. Should the in-process equity financing be abandoned, the deferred financing costs will be expensed immediately as a charge to operating expenses in the consolidated statements of operations and comprehensive loss. As of June 30, 2020, $396,150 of deferred financing costs were capitalized and recorded as other assets on the consolidated statement of financial position.

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 or useful life

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Intangible Assets

Intangible assets are comprised of acquired intellectual property which 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.

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 Instruments

IFRS 9, Financial Instruments replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that provided guidance for the recognition, classification, and measurement of financial assets and financial liabilities, as well as the impairment of financial assets and hedge accounting.

On July 1, 2018 (the date of initial application of IFRS 9), the Company's management assessed the financial assets and financial liabilities held by the Company and classified its financial instruments into the appropriate IFRS 9 categories. The Company's financial instruments consist of cash and cash equivalents, short-term investments and accounts receivable, and simple financial liabilities arising from normal business operations, and the Company has assessed its financial instruments to be measured and classified at amortized cost.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as Fair Value Through Profit or Loss:

- It is held with a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual term gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the Company's financial assets are classified as amortized cost under IFRS 9 and the new classification requirements did not have an impact on the Company's financial assets. IFRS 9 largely retained the existing requirements in IAS 39 for the classification of financial liabilities. IFRS 9 did not have any impact regarding the classification of financial liabilities.

There are no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9.

The Company applies the simplified approach in determining expected credit losses, which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial assets measured at amortized cost. Credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the consolidated statements of operations and comprehensive 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 for temporary differences which are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, the carry-forward of unused tax loses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of these deferred tax assets to be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

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.

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
- Anticipated forfeitures
- 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.

Government Grants

Research grants are recognized as a recovery of related expenditures in the consolidated statement of operations and 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. For research related grants, the Company only recognizes grant proceeds on the consolidated statement of operations and comprehensive loss when the proceeds have been spent on research expenses. Grant amounts received in advance are recorded as deferred grant proceeds.

New Standards Applicable in the Reporting Period

On January 13, 2016, the IASB published a new standard, IFRS 16 Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The mandatory effective date of the new standard is applicable for annual periods beginning on or after January 1, 2019. The Company has adopted IFRS 16 Leases as of July 1, 2019 using the modified retrospective approach. Under this approach, there is no restatement of prior period financial information. On initial application of IFRS 16 at the commencement of the lease on July 1, 2019, the Company recognized right-of-use assets of $568,840 and lease obligations of $503,924 in an operating lease arrangement for which the Company is considered the lessee with lease terms of more than 12 months. There was no impact to opening accumulated deficit. Please refer to "Changes in significant accounting policies" below and Note 12 for more information.

Changes in significant accounting policies

<u>Leases – Policy applicable before July 1, 2019:</u>

Prior to July 1, 2019, capital leases were expensed in the period incurred.

<u>Leases – Policy applicable from July 1, 2019:</u>

Effective July 1, 2019, the Company adopted IFRS 16 Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset

(Expressed in Canadian Dollars)

or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured as the present value of future lease payments excluding payments made at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Company applied the definition of a lease under IFRS 16 Leases to contracts effective for periods on or after July 1, 2019.

The Company has elected to apply the practical expedient to exclude initial direct costs such as annual operating costs from the measurement of the right-of-use asset at the date of initial application.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

The following table lists the Company's operating lease obligations recognized on initial application of IFRS 16 Leases at July 1, 2019.

Operating lease commitment disclosed as of July 1, 2019	**$1,064,120**
Estimated variable lease payments not included in lease obligations	**($392,570)**
Prepaid portion of lease obligation	**($64,916)**
Discounted using the incremental borrowing rate at July 1, 2019	**($102,710)**
Lease obligations recognized as at July 1, 2019	**$503,924**

When measuring lease liabilities for leases classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at July 1, 2019 of 8%.

IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;

- an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and

- if it is not probable the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount of expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company adopted IFRIC Interpretation 23 in its consolidated financial statements for the fiscal year beginning on July 1, 2019. Based on an analysis of the Company's historic tax filing positions as of July 1, 2019, the Interpretation did not have an impact on the consolidated financial statements.

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 the statement of operations and comprehensive 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 consolidated financial statements within the next financial period are discussed below:

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.

Estimate of useful life of intangible assets

In the determination of the estimated useful life for intangible assets, which include the Company’s in-licensed intellectual property 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.

Assets’ impairment

Management uses judgement to determine if there has been a triggering event, indicating a potential impairment of intangible assets. 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, forfeiture 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.

COVID-19 impacts

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. Management uses judgement to assess the impact of the pandemic on the Company's ability to obtain debt and equity financing in the future, and impairment in the value of its long-lived assets.

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

	Equipment	Leasehold Improvements	Right of Use Asset	Total
Cost				
Balance at June 30, 2018	$ 53,801	$ 36,561	$ -	$ 90,362
Assets acquired	20,584	14,907	-	35,491
Balance at June 30, 2019	$ 74,385	$ 51,468	$ -	$ 125,853
Disposition of assets	(6,070)	(36,561)	-	(42,631)
Assets acquired	17,341	39,822	-	57,163
Adoption of IFRS 16	-	-	568,840	568,840
Balance, June 30, 2020	**$ 85,656**	**$ 54,729**	**$ 568,840**	**$ 709,225**
Depreciation and impairment losses				
Balance at June 30, 2018	$ 19,767	$ 14,863	$ -	$ 34,630
Depreciation for the period	16,797	18,597	-	35,394
Balance at June 30, 2019	$ 36,564	$ 33,460	$ -	$ 70,024
Disposition of assets	(2,247)	(36,561)	-	(38,808)
Depreciation for the period	21,111	12,222	94,807	128,140
Balance, June 30, 2020	**$ 55,428**	**$ 9,121**	**$ 94,807**	**$ 159,356**
Carrying amounts				
Carrying value at June 30, 2019	$ 37,821	$ 18,008	$ -	$ 55,829
Carrying value at June 30, 2020	**$ 30,228**	**$ 45,608**	**$ 474,033**	**$ 549,869**

5. INTANGIBLE ASSETS

	Intellectual Property
Costs	
Balance at June 30, 2018 and 2019	$ 1,636,000
Balance, June 30, 2020	**$ 1,636,000**
Accumulated amortization	
Balance at June 30, 2018	$ 362,330
Amortization	88,950
Balance at June 30, 2019	$ 451,280
Amortization	93,078
Balance, June 30, 2020	**$ 544,358**
Carrying amounts	
Carrying value at June 30, 2019	$ 1,184,720
Carrying value at June 30, 2020	**$ 1,091,642**

The acquired 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. At June 30, 2020, the acquired intellectual property has an estimated remaining useful life of approximately 13 years.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES

On June 30, 2020, the Company effected a one-for-33 reverse stock split of its issued and outstanding common shares. Accordingly, all common share, stock option, per common share and warrant amounts for all periods presented in the consolidated financial statements and notes thereto have been adjusted retrospectively to reflect this reverse stock split.

a) Authorized

As at June 30, 2020, 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, 2018	5,177,296	$	-	$	68,058,698
Issued for exercise of warrants (Note 15)	229	$	21.45		-
Issued for exercise of stock options	43,182	$	6.31		272,500
Fair value of stock options exercised	-	$	-		248,692
Balance at June 30, 2019 and June 30, 2020	**5,220,707**	$	-	$	68,579,890

c) Share Purchase Warrants

All share purchase warrants expired on June 21, 2020. Each warrant entitled the holders thereof the right to purchase one common share.
The following is a summary of changes in share purchase warrants from July 1, 2018 to June 30, 2020:

	Number	Weighted Average Share Price
Balance as at June 30, 2018	967,052	$39.93
Exercised	(1,061)	$21.45
Expired	(55,694)	$21.45
Balance as at June 30, 2019	910,297	$41.25
Expired	(910,297)	$41.25
Balance as at June 30, 2020	-	-

d) Agents' Warrants

All agents' warrants expired on June 21, 2020. Each warrant entitled the holders thereof the right to purchase one common share.

(Expressed in Canadian Dollars)

The following is a summary of changes in agents' warrants from July 1, 2018 to June 30, 2020:

	Number	Weighted Average Share Price
Balance as at June 30, 2018 and 2019	46,665	$36.63
Expired	(46,665)	$36.63
Balance as at June 30, 2020	**-**	**-**

7. SHARE-BASED PAYMENTS

a) Option Plan Details

On March 24, 2017, 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, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed twenty percent (20%) of the issued and outstanding common shares at the date the options are granted (on a non-diluted and rolling basis); and (ii) the application of the new stock option plan to all outstanding stock options of the Company that were granted prior to March 24, 2017 under the terms of the Company's previous stock option plan.

As at June 30, 2020, there was 455,508 (June 30, 2019 – 445,052) 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, either over time, typically 12 to 36 months, and/or upon the achievement of certain corporate milestones.

The following is a summary of changes in outstanding options from July 1, 2018 to June 30, 2020:

	Number	Weighted Average Exercise Price
Balance as at June 30, 2018	502,878	$17.22
Granted	145,454	$16.41
Exercised	(43,182)	$6.31
Expired/Forfeited	(6,060)	$33.33
Balance as at June 30, 2019	599,090	$17.64
Granted	52,728	$8.78
Expired/Forfeited	(63,183)	$37.39
Balance as at June 30, 2020	**588,635**	**$14.73**

(Expressed in Canadian Dollars)

The following is a summary of changes in options from July 1, 2019 to June 30, 2020:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Expired/ Forfeited	Closing Balance	Vested and Exercisable	Unvested
4-Mar-15	4-Mar-20	$11.880	6,061	-	-	(6,061)	-	-	-
25-Aug-15	25-Aug-20	$6.930	1,515	-	-	-	1,515	1,515	-
23-Nov-15	23-Nov-20	$4.785	6,061	-	-	-	6,061	6,061	-
27-Nov-15	27-Nov-20	$4.620	1,515	-	-	-	1,515	1,515	-
16-May-16	16-May-21	$2.640	60,606	-	-	-	60,606	60,606	-
10-Jun-16	10-Jun-21	$4.290	24,242	-	-	-	24,242	24,242	-
15-Jun-16	15-Jun-21	$3.630	60,606	-	-	-	60,606	60,606	-
21-Jul-16	26-Jul-21	$3.630	22,727	-	-	-	22,727	22,727	-
12-Sep-16	12-Sep-21	$3.630	30,303	-	-	-	30,303	30,303	-
28-Oct-16	28-Oct-21	$6.435	12,121	-	-	-	12,121	12,121	-
12-Dec-16	12-Dec-21	$4.620	4,848	-	-	-	4,848	4,848	-
13-Jan-17	13-Jan-22	$8.250	30,303	-	-	-	30,303	30,303	-
20-Feb-17	20-Feb-22	$12.210	3,030	-	-	-	3,030	3,030	-
22-Feb-17	22-Feb-22	$13.530	1,515	-	-	-	1,515	1,515	-
2-Jun-17	2-Jun-22	$14.850	21,667	-	-	-	21,667	21,667	-
10-Jul-17	10-Jul-22	$10.890	10,758	-	-	-	10,758	10,758	-
8-Mar-18	8-Mar-23	$51.150	74,242	-	-	(37,879)	36,363	36,363	-
16-May-18	16-May-23	$33.660	81,516	-	-	(3,788)	77,728	77,728	-
31-Aug-18	31-Aug-23	$27.060	8,182	-	-	-	8,182	6,137	2,045
20-Sep-18	20-Sep-23	$26.400	4,545	-	-	-	4,545	3,409	1,136
5-Dec-18	5-Dec-23	$14.850	23,485	-	-	(2,273)	21,212	15,909	5,303
14-Jan-19	14-Jan-24	$16.500	4,244	-	-	(1,061)	3,183	3,183	-
21-Jan-19	21-Jan-24	$16.830	3,030	-	-	-	3,030	1,515	1,515
4-Feb-19	4-Feb-24	$26.070	4,545	-	-	-	4,545	2,272	2,273
4-Mar-19	4-Mar-24	$19.800	10,757	-	-	-	10,757	5,378	5,379
27-May-19	27-May-24	$14.355	86,666	-	-	(12,121)	74,545	37,272	37,273
1-Jul-19	1-Jul-24	$10.890	-	3,030	-	-	3,030	926	2,104
9-Aug-19	9-Aug-24	$8.910	-	30,303	-	-	30,303	-	30,303
3-Dec-19	3-Dec-24	$8.250	-	9,091	-	-	9,091	-	9,091
12-Jan-20	11-Jan-25	$8.250	-	10,304	-	-	10,304	-	10,304
			599,090	**52,728**	**-**	**(63,183)**	**588,635**	**481,909**	**106,726**
Weighted Average Exercise Price			$ 17.64	$ 8.78	$ -	$ 37.39	$ 14.73	$ 15.20	$ 12.59
Weighted Average Life Remaining			3.19	4.24	-	-	2.32	1.95	4.01

(Expressed in Canadian Dollars)

The following is a summary of changes in options from July 1, 2018 to June 30, 2019:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Expired/ Forfeited	Closing Balance	Vested and Exercisable	Unvested
4-Mar-15	4-Mar-20	$11.880	6,061	-	-	-	**6,061**	6,061	-
25-Aug-15	25-Aug-20	$6.930	1,515	-	-	-	**1,515**	1,515	-
23-Nov-15	23-Nov-20	$4.785	6,061	-	-	-	**6,061**	6,061	-
27-Nov-15	27-Nov-20	$4.620	16,667	-	(15,152)	-	**1,515**	1,515	-
16-May-16	16-May-21	$2.640	60,606	-	-	-	**60,606**	60,606	-
10-Jun-16	10-Jun-21	$4.290	24,242	-	-	-	**24,242**	24,242	-
15-Jun-16	15-Jun-21	$3.630	60,606	-	-	-	**60,606**	60,606	-
21-Jul-16	26-Jul-21	$3.630	22,727	-	-	-	**22,727**	22,727	-
12-Sep-16	12-Sep-21	$3.630	30,303	-	-	-	**30,303**	30,303	-
28-Oct-16	28-Oct-21	$6.435	12,121	-	-	-	**12,121**	12,121	-
15-Nov-16	15-Nov-21	$5.445	22,727	-	(22,727)	-	**-**	-	-
12-Dec-16	12-Dec-21	$4.620	4,848	-	-	-	**4,848**	4,848	-
13-Jan-17	13-Jan-22	$8.250	30,303	-	-	-	**30,303**	30,303	-
20-Feb-17	20-Feb-22	$12.210	3,030	-	-	-	**3,030**	3,030	-
22-Feb-17	22-Feb-22	$13.530	1,515	-	-	-	**1,515**	1,515	-
2-Jun-17	2-Jun-22	$14.850	28,485	-	(5,303)	(1,515)	**21,667**	21,667	-
10-Jul-17	10-Jul-22	$10.890	10,758	-	-	-	**10,758**	7,727	3,031
8-Mar-18	8-Mar-23	$51.150	75,757	-	-	(1,515)	**74,242**	41,666	32,576
16-May-18	16-May-23	$33.660	84,546	-	-	(3,030)	**81,516**	40,758	40,758
31-Aug-18	31-Aug-23	$27.060	-	8,182	-	-	**8,182**	2,046	6,136
20-Sep-18	20-Sep-23	$26.400	-	4,545	-	-	**4,545**	1,136	3,409
5-Dec-18	5-Dec-23	$14.850	-	23,485	-	-	**23,485**	5,871	17,614
14-Jan-19	14-Jan-24	$16.500	-	4,244	-	-	**4,244**	-	4,244
21-Jan-19	21-Jan-24	$16.830	-	3,030	-	-	**3,030**	-	3,030
4-Feb-19	4-Feb-24	$26.070	-	4,545	-	-	**4,545**	-	4,545
4-Mar-19	4-Mar-24	$19.800	-	10,757	-	-	**10,757**	-	10,757
27-May-19	27-May-24	$14.355	-	86,666	-	-	**86,666**	-	86,666
			502,878	**145,454**	**(43,182)**	**(6,060)**	**599,090**	**386,324**	**212,766**
Weighted Average Exercise Price			$ 17.22	$ 16.41	$ 6.31	$ 33.33	**$ 17.64**	$ 13.68	$ 24.83
Weighted Average Life Remaining			2.66	4.73	-	-	**3.19**	2.53	4.40

(Expressed in Canadian Dollars)

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, 2020 was $6.72 per option (year ending June 30, 2019 - $13.59). Assumptions used for options granted during the year ended June 30, 2020 included a weighted average risk-free interest rate of 1.28% (year ending June 30, 2019 – 1.68%), weighted average expected life of 5 years (year ending June 30, 2019 – 5 years), weighted average volatility factor of 104.65% (year ending June 30, 2019 – 119.89%), weighted average dividend yield of 0% (year ending June 30, 2019 – 0%) and a 5% forfeiture rate (year ending June 30, 2019 – 5%).

ii) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the year ended June 30, 2020 were $1,252,593 (June 30, 2019 - $4,083,157) which is net of reversals for actual forfeitures and a reserve for anticipated forfeitures totaling $458,951 (June 30, 2019 - $214,903).

iii) Weighted average remaining contractual life of stock options

The weighted average remaining contractual life of stock options at June 30, 2020 was 2.32 years (June 30, 2019 – 3.19 years).

8. RESEARCH AND DEVELOPMENT EXPENSES

	Year Ended June 30, 2020	2019
External contractors	$ 4,133,280	$ 2,878,456
Other	20,175	26,747
Patents	365,694	268,314
Research supplies	1,028,484	1,163,830
Salaries & benefits	1,805,290	1,414,310
Gross research and development expenses	7,352,923	5,751,657
Less research grant revenue	(247,991)	(113,038)
Net Research and Development Expenses	$ 7,104,932	$ 5,638,619

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 $500,000 to support its ongoing R&D efforts in cannabinoid biosynthesis. It is expected that this funding will be earned over the period commencing November 1, 2018 through the end of calendar 2020. Research grant revenue is recognized as a recovery of research and development expenditures when earned. (See Note 16)

(Expressed in Canadian Dollars)

9. GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended June 30, 2020	2019
Accounting and legal	$ 626,996	$ 729,971
Consulting	34,908	42,048
Investor relations and marketing	474,943	706,229
Office and administration fees	294,901	278,138
Regulatory fees	64,660	83,001
Rent	95,092	199,767
Salaries & benefits	1,674,652	1,521,609
Shareholder communcation	141,116	124,263
Transfer agent fees	41,143	30,018
Travel and conferences	82,349	82,823
Unrealized holding loss	2,254	-
Total General and Administrative Expenses	$ 3,533,014	$ 3,797,867

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 year ending June 30, 2020 as compared to the year ending June 30, 2019.

	Year Ended June 30, 2020	June 30, 2019
Key management personnel compensation comprised :		
Share based payments	$ 763,928	$ 3,509,011
Salaries and consulting fees	2,559,762	2,430,469
	$ 3,323,690	$ 5,939,480

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. As the outstanding warrants and stock options are all anti-dilutive, they are excluded from the weighted average number of common shares in the table below.

	Year Ended June 30, 2020	June 30, 2019
Loss attributable to common shareholders	($11,856,873)	($13,255,042)
Weighted average number of common shares	5,220,707	5,177,296
Basic and diluted loss per share	($2.27)	($2.56)

(Expressed in Canadian Dollars)

12. LEASE OBLIGATIONS

Effective July 1, 2019, the Company adopted IFRS 16 Leases using the modified retrospective approach and, accordingly, the information presented for the year ending June 30, 2019 has not been restated and it remains as previously reported under IAS 17 and related interpretations.

The following table lists the Company's operating lease obligations recognized on commencement of the lease for the Company's new office premises at July 1, 2019.

Lease obligations recognized as at July 1, 2019	$503,924
Discounted using the incremental borrowing rate at July 1, 2019	8%
Estimated annual variable lease payments not included in lease obligations	$78,500

The Company is committed to minimum lease payments as follows:

Maturity Analysis	June 30, 2020
Less than one year	119,014
One to five years	387,261
More than five years	-
Total undiscounted lease liabilities [1]	506,275

[1] Excludes estimated variable operating costs of $78,500 on an annual basis through to August 31, 2024.

The components of lease expense are as follows:

	Year Ended			
		June 30, 2020		June 30, 2019
Amortization of right-of-use assets	$	94,807	$	-
Interest expense on lease obligations		25,426		-
Finance lease expense		120,233		-
Operating lease expense		71,949		-
Variable lease expense		59,119		-
Total lease expense	$	**251,301**	$	-

13. INCOME TAXES

The following is a reconciliation of income taxes calculated at the combined Canadian federal and provincial income statutory corporate tax rate of 27.0% (June 30, 2019 – 27.0%) to the tax expense:

		June 30, 2020		June 30, 2019
Income (loss) before taxes	$	**(11,856,873)**	$	(13,255,042)
Income tax expense (recovery) at the statutory rate		**(3,201,356)**		(3,578,861)
Increase (reduction) in income taxes resulting from:				
Change in unrecognized temporary differences		**2,846,195**		3,727,682
Permanent differences		**340,462**		1,104,850
True-up and other		**14,699**		(1,253,671)
Income tax expense (recovery)	$	**-**	$	-

(Expressed in Canadian Dollars)

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

		June 30, 2020	June 30, 2019
Non-capital losses	$	287.217	179,641
Right-of-use asset		(127,989)	-
Intangible assets and property and equipment, net		(159,228)	(179,641)
	$	-	-

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

		June 30, 2020	June 30, 2019
Non-capital losses carried forward	$	49,649,865	37,152,473
Other temporary differences		600,253	2,556,182
	$	50,250,118	39,708,655

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, 2020, the Company has non-capital loss carry-forwards of approximately $49,649,865 (June 30, 2019 - $37,817,809) available to offset future taxable income in Canada. These non-capital loss carryforwards begin to expire in 2026.

14. SEGMENTED INFORMATION

The Company operates in one segment, the pharmaceutical research and development of novel, cannabinoid-based therapies and an integrated system for the manufacturing of pharmaceutical-grade cannabinoids.

15. 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 year ended June 30, 2020, the following transactions were excluded from the statements of cash flows:

i) On January 14, 2019, the Company executed a lease for new office premises (see Note 12). The term of this new lease is from July 1, 2019 to August 31, 2024. In accordance with IFRS 16 Leases, on commencement of the lease on July 1, 2019, the Company recognized right-of-use assets of $568,840 and a lease liability of $503,924; and

ii) As at June 30, 2020, the Company has unpaid deferred financing costs of $355,557.

During the year ended June 30, 2019, the following transactions were excluded from the statements of cash flows:

i) In the year ending June 30, 2019, 1,061 share purchase warrants, with an exercise price of $21.45 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 1,061 share purchase warrants resulted in the issuance of 229 common shares.

16. COMMITMENTS AND CONTINGENCIES

Pursuant to the terms of agreements with various contract research organizations, as at June 30, 2020, the Company is committed for contract research services and materials at a cost of approximately $1,434,973. A total of $1,412,015 of these expenditures are expected to occur in the twelve months following June 30, 2020 and the balance of $22,958 in the following twelve-month period.

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

Pursuant to the terms of a December 13, 2018 Collaborative Research Agreement with UBC in which the Company owns all right, title and interest in and to any intellectual property, in addition to funding research at UBC, the Company is committed to making a one-time payment upon filing of any patent application arising from the research. To date no payments have been required to be made.

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

Short-term investments include guaranteed investment certificates with a face value of $57,500 (June 30, 2019 - $57,500) that are pledged as security for a corporate credit card.

In July 2020, in connection with a proposed offering of our common shares in the United States, two inadvertent disclosures of already publicly available information were made that may have exceeded the scope permissible under Rule 134 of the Securities Act of 1933, and thus may not be entitled to the "safe-harbor" provided by Rule 134. As a result, either of the two inadvertent disclosures could be determined to not be in compliance for a registered securities offering under Section 5 of the Securities Act of 1933. If either of the two inadvertent disclosures are determined by a court to be a violation by the Company of the Securities Act of 1933, the recipients of the inadvertent disclosures who purchase our common shares in the Company’s planned offering may have a rescission right, which could to require the Company to repurchase those shares at their original purchase price with interest or a claim for damages if the purchaser no longer owns the securities, for one year following the date of the violation. The Company could also incur considerable expense if it were to contest any such claims. Consequently, a contingent liability may arise out of this possible violation of the Securities Act of 1933. The likelihood and magnitude of this contingent liability, if any, is not determinable at this time.

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

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

17. 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.

18. FINANCIAL RISK MANAGEMENT

Fair value:

Fair value measurements recognized in the statement of financial position must be categorized in accordance with the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

The following table summarizes the classification and carrying values of the Company's financial instruments at June 30, 2020 and 2019:

June 30, 2020	Level 1	Level 2	Total
Financial assets			
Cash and cash equivalents	7,912,156	-	7,912,156
Short-term investments	-	57,761	57,761
Accounts receivable	-	61,794	61,794
Total financial assets	7,912,156	119,555	8,031,711
Financial liabilities			
Accounts payable and accrued liabilities	-	2,190,432	2,190,432
Total financial liabilities	-	2,190,432	2,190,432

June 30, 2019	Level 1	Level 2	Total
Financial assets			
Cash and cash equivalents	12,873,961	-	12,873,961
Short-term investments	-	5,165,093	5,165,093
Accounts receivable	-	84,987	84,987
Total financial assets	12,873,961	5,250,080	18,124,041
Financial liabilities			
Accounts payable and accrued liabilities	-	1,562,865	1,562,865
Total financial liabilities	-	1,562,865	1,562,865

Market Risk:

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

Foreign Currency Risk:

Foreign currency risk is the risk that the future cash flows or fair value of the Company's financial instruments that are denominated in a currency that is not the Company's functional currency 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 June 30, 2020, the Company has a net excess of US dollar denominated cash and cash equivalents in excess of US dollar denominated accounts payable and accrued liabilities of US$847,219, which is equivalent to $1,154,590 at the June 30, 2020 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 $11,546 based on the June 30, 2020 net US dollar assets (liabilities) position. During the year ended June 30, 2020, the Company recorded a foreign exchange gain of $60,542 (June 30, 2019 –foreign exchange loss of $33,888) related to US dollars.

As at June 30, 2020, the Company has a net excess of Euros denominated accounts payable and accrued liabilities in excess of Euros denominated cash and cash equivalents of €49,345, which is equivalent to $75,522 at the June 30, 2020 exchange rate. The Euros financial assets generally result from holding Euros to settle anticipated near-term accounts payable and accrued liabilities denominated in Euros dollars. The Euros financial liabilities generally result from purchases of supplies and services from suppliers from outside of Canada.

Each change of 1% in the Euros in relation to the Canadian dollar results in a gain or loss, with a corresponding effect on cash flows, of $755 based on the June 30, 2020 net Euros assets (liabilities) position. During the year ended June 30, 2020, the Company recorded a foreign exchange gain of $47,834 (June 30, 2019 – $Nil) related to Euros.

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, 2020, holdings of cash and cash equivalents of $5,870,134 (June 30, 2019 - $3,063,398) 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 $Nil (June 30, 2019 – $9,512,120). The balance of the Company's cash holdings of $2,042,022 (June 30, 2019 - $298,443) are non-interest bearing.

As at June 30, 2020, the Company held short-term investments in the form of variable rate guaranteed investment certificates, with one year terms, with face value of $57,500 (June 30, 2019 - $57,500) and fixed rate guaranteed investment certificates, with terms of 6 to 12 months, with a face value of $Nil (June 30, 2019 - $5,000,000).

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 June 30, 2020, 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.

Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it has sufficient cash to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. A key risk in managing liquidity is the degree of uncertainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. As at June 30, 2020, the Company has cash and cash equivalents and short-term investments of $7,969,917 (June 30, 2019 - $18,039,054), current liabilities of $2,190,432 (June 30, 2019 - $1,562,865), and a working capital surplus of $6,318,198 (June 30, 2019 - $16,985,451).