ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is subject to the safe harbor created by those sections. For more information, see "Cautionary Note Regarding Forward-Looking Statements." When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that impact our business. In particular, we encourage you to review the risks and uncertainties described in "Risk Factors" in this Annual Report on Form 10-K. These risks and uncertainties could cause actual results to differ materially from those projected or implied by our forward-looking statements contained in this report. These forward-looking statements are made as of the date of this report, and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by law.

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements for the year ended June 30, 2023, and the related notes thereto, which have been prepared in accordance with U.S. GAAP, included in our Form 10-K filing. Throughout this discussion, unless the context specifies or implies otherwise the terms "InMed," "Company," "we," "us," and "our" refer to InMed Pharmaceuticals Inc.

All dollar amounts stated herein are in U.S. dollars unless specified otherwise.

Overview

We are a clinical stage pharmaceutical company developing a pipeline of prescription-based products, including rare cannabinoids and novel cannabinoid analogs, targeting the treatment of diseases with high unmet medical needs. Together with our subsidiary, BayMedica, we also have significant know-how in developing proprietary manufacturing approaches to produce cannabinoids for various market sectors. Our know-how includes traditional approaches such as chemical synthesis and biosynthesis, as well as a proprietary, integrated manufacturing approach called IntegraSyn. We are dedicated to delivering new therapeutic alternatives to patients and consumers who may benefit from cannabinoid-based products. Our approach leverages on the several thousand years' history of health benefits attributed to the *Cannabis* plant and brings this anecdotal information into the 21st century by applying tried, tested and true scientific approaches to establish non-plant-derived (synthetically manufactured), individual cannabinoid compounds as Product Candidates for InMed's pharmaceutical product development pipeline or specific rare cannabinoid Products sold to end-product manufacturers by BayMedica. While our activities do not involve direct use of *Cannabis* nor extracts from the plant, we note that the FDA has, to date, not approved any marketing application for *Cannabis* for the treatment of any disease or condition and has approved only one *Cannabis*-derived and three *Cannabis*-related drug products. Our ingredients are synthetically made and, therefore, we have no interaction with the *Cannabis* plant. We do not grow nor utilize *Cannabis* nor its extracts in any of our Products or Product Candidates; our current pharmaceutical drug Product Candidates are applied topically (not inhaled nor ingested); and, we do not utilize THC or CBD, the most common cannabinoid compounds that are typically extracted from the *Cannabis* plant, in any of our Products or Product Candidates. The API under development for our initial two drug candidates, INM-755 for EB and INM-088 for glaucoma, is CBN. Additional uses of both INM-755 and INM-088 are being explored, as well as the application of novel cannabinoid analogs to treat diseases including but not limited to neurodegenerative diseases such as Alzheimer's, Parkinson's, and Huntington's.

We believe we are positioned to develop multiple pharmaceutical Product Candidates in diseases which may benefit from medicines based on rare cannabinoid compounds. Most currently approved cannabinoid therapies are based specifically on CBD and/or THC and are often delivered orally, which has limitations and drawbacks, such as side effects (including the intoxicating effects of THC). Currently, we intend to deliver our rare cannabinoid pharmaceutical Product Candidates through various topical formulations (cream for dermatology, eye drops for ocular

diseases) as a way of enabling treatment of the specific disease at the site of disease while seeking to minimize systemic exposure and any related unwanted systemic side effects, including any drug-drug interactions and any metabolism of the active pharmaceutical ingredient by the liver. The cannabinoid Products sold through our B2B raw material supply business are integrated into various product formats by the companies who then further commercializes such products. We access rare cannabinoids via all non-extraction approaches, including chemical synthesis, biosynthesis and our proprietary integrated IntegraSyn approach, thus negating any interaction with or exposure to the *Cannabis* plant.

Since our acquisition of Biogen Sciences Inc., a privately held British Columbia pharmaceutical company focused on drug discovery and development of cannabinoids in 2014, our operations have focused on conducting research and development for our Product Candidates and for our integrated, biosynthesis-based manufacturing technology, establishing our intellectual property, organizing and staffing our Company, business planning and capital raising. On October 13, 2021, we acquired BayMedica, Inc., now named BayMedica, LLC. Upon closing of the transaction, BayMedica became a wholly-owned subsidiary of InMed. To date, we have funded our operations primarily through the issuance of common shares.

We have incurred significant operating losses since our inception and since the acquisition of Biogen Science Inc. and we expect to continue to incur significant operating losses for the foreseeable future. Our ability to generate product revenue that is sufficient to achieve profitability will depend heavily on the revenues generated from our products in the Health and Wellness sector, on the successful development and eventual commercialization of one or more of our Product Candidates and/or the success of our manufacturing technologies. Our net loss was $8.0 million and $18.6 million for the year ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had an accumulated deficit of $101.4 million, which includes all losses since our inception in 1981. We expect our expenses will remain steady as we:

- seek partnerships to advance the INM-755 program, our lead drug candidate for the treatment of EB;
- continue to further advance research into the role of cannabinoids in treating ocular diseases;
- continue to advance research in the INM-900 series program, using cannabinoid analogs in treating neurodegenerative diseases such as Alzheimer's, Huntington's and Parkinson's;
- investigate our Product Candidates for additional uses beyond their initial target indications;
- pursue the discovery of drug targets based on proprietary cannabinoid analogs for other diseases with high unmet medical needs and the subsequent development of any resulting new Product Candidates;
- seek regulatory approvals for any Product Candidates that successfully complete clinical trials;
- scale-up our manufacturing processes and capabilities, or arrange for a third party to do so on our behalf;
- continue to support our commercial operations and revenue-generating Products at BayMedica;
- execute on business development activities, including but not limited to company mergers/acquisitions and acquisition or in-licensing of externally developed products and/or technologies;
- maintain, expand, enforce, defend and protect our intellectual property;
- continue to further advance the research and development of various manufacturing technologies;
- build internal infrastructure, including personnel, to meet our milestones; and
- add operational, financial and management information systems and personnel, including personnel to support product development and potential future commercialization efforts and our operations as a public company.

As a result of these activities as well as our working capital requirements, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. We expect to finance our operations through product sales, the sale of equity, debt financings or other capital sources, including collaborations with other companies or other strategic transactions. We may be unable to raise additional funds or enter into such other agreements or arrangements when needed on favorable terms, or at all. If we fail to raise capital or enter into such agreements as and when needed, we may have to significantly delay, scale back or discontinue the development and commercialization of one or more of our Products and Product Candidates or grant rights to external entities to develop and market our Product Candidates, even if we would otherwise prefer to develop and market such Products and Product Candidates ourselves.

Because of the numerous risks and uncertainties associated with drug development and commercial growth, we are unable to predict the timing or amount of increased expenses and working capital requirements or the timing of when or if we will be able to achieve or maintain profitability. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

Recent Developments

We completed our Phase 2 trial on INM-755 in April of 2023, and we have released preliminary results in June 2023. We anticipate publishing the full data from the study in the second quarter of fiscal 2024.

Components of Results of Operations

Revenue

Our revenue consists of manufacturing and distribution sales of bulk rare cannabinoid Products, which are generally recognized at a point in time. The Company recognizes revenue when control over the products have been transferred to the customer and the Company has a present right to payment.

Cost of Sales

Cost of sales consist primarily of the purchase price of goods and cost of services rendered, freight costs, warehousing costs, and purchasing costs. Cost of sales also includes production and labor costs for our manufacturing business.

Operating Expenses

Research and Development and Patent Expenses

Research and development and patent expenses represent costs incurred by us for the discovery, development, and manufacture of our Products and Product Candidates and include:

- external research and development expenses incurred under agreements with contract research organizations, or “CROs”, contract development and manufacturing organization, or “CDMOs”, and consultants;
- salaries, payroll taxes, employee benefits expenses for individuals involved in research and development efforts;
- research supplies; and
- legal and patent office fees related to patent and intellectual property matters.

We expense research and development costs as incurred. We recognize expenses for certain development activities, such as preclinical studies and manufacturing, based on an evaluation of the progress to completion of specific tasks using data or other information provided to us by our vendors. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of expenses incurred. Non-refundable advance payments for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. These amounts are recognized as an expense as the goods are delivered or the related services are performed, or until it is no longer expected that the goods will be delivered, or the services rendered.

External costs represent a significant portion of our research and development expenses, which we track on a program-by-program basis following the nomination of a development candidate. Our internal research and development expenses consist primarily of personnel-related expenses, including salaries, benefits and stock-based compensation expense. We do not track our internal research and development expenses on a program-by-program basis as the resources are deployed across multiple projects.

The successful development of our Products and Product Candidates is highly uncertain. At this time, we cannot reasonably estimate or know the nature, timing, and estimated costs of the efforts that will be necessary to complete the remainder of the development of our Product Candidates or to develop and commercialize additional Products. We are also unable to predict when, if ever, material net cash inflows will commence from our Product Candidates, if approved. This is due to the numerous risks and uncertainties associated with development, including the uncertainty related to:

- the timing and progress of preclinical and clinical development activities;
- the number and scope of preclinical and clinical programs we decide to pursue;
- our ability to raise additional funds necessary to complete preclinical and clinical development and commercialization of our Product Candidates, to further advance the development of our manufacturing technologies, and to develop and commercialize additional Products, if any;
- our ability to maintain our current research and development programs and to establish new ones;
- our ability to establish sales, licensing or collaboration arrangements;
- the progress of the development efforts of parties with whom we may enter into collaboration arrangements;
- the successful initiation and completion of clinical trials with safety, tolerability and efficacy profiles that are satisfactory to the FDA or any comparable foreign regulatory authority;
- the receipt and related terms of regulatory approvals from applicable regulatory authorities;
- the availability of materials for use in production of our Products and Product Candidates;
- our ability to secure manufacturing supply through relationships with third parties or establish and operate a manufacturing facility;
- our ability to consistently manufacture our Product Candidates in quantities sufficient for use in clinical trials;
- our ability to obtain and maintain intellectual property protection and regulatory exclusivity, both in the United States and internationally;

- our ability to maintain, enforce, defend and protect our rights in our intellectual property portfolio;
- the commercialization of our Product Candidates, if and when approved, and of new Products;
- our ability to obtain and maintain third-party payor coverage and adequate reimbursement for our Product Candidates, if approved;
- the acceptance of our Product Candidates, if approved, by patients, the medical community and third-party payors;
- competition with other products; and
- a continued acceptable safety profile of our Product Candidates following receipt of any regulatory approvals.

A change in the outcome of any of these variables with respect to the development of any of our Products or Product Candidates would significantly change the costs and timing associated with the development of those Products or Product Candidates.

Research and development activities account for a significant portion of our operating expenses. Research and development expenses decreased in fiscal 2023 as compared to fiscal 2022, largely due to high start-up costs associated with the multicenter Phase 2 clinical trial in our INM-755 program during fiscal 2022. However, we expect our research and development expenses to increase significantly in future periods as we continue to implement our business strategy, which includes advancing our drug candidates and our manufacturing technologies into and through clinical development, expanding our research and development efforts, including hiring additional personnel to support our research and development efforts, ultimately seeking regulatory approvals for our drug candidates that successfully complete clinical trials, and further developing selected R&D and commercial BayMedica activities. In addition, drug candidates in later stages of clinical development generally incur higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. Accordingly, although we expect our research and development expenses to increase as our drug candidates advance into later stages of clinical development, we do not believe that it is possible, at this time, to accurately project total program-specific expenses through to commercialization. There are numerous factors associated with the successful commercialization of any of our Product Candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development.

General and Administrative Expenses

General and administrative expenses consist of personnel-related costs, including salaries, benefits and stock-based compensation expense, for our personnel in executive, finance and accounting, human resources, business operations and other administrative functions, investor relations activities, legal fees related to corporate matters, fees paid for accounting and tax services, consulting fees and facility-related costs.

Amortization and Depreciation

Intangible assets are comprised of intellectual property that we acquired in 2014 and 2015 and trade secrets, product formulation knowledge, patents that we acquired in October 2021. The acquired intellectual property and patents are amortized on a straight-line basis based on their estimated useful lives. Equipment and leasehold improvements are depreciated using the straight-line method based on their estimated useful lives.

Impairment of Long-Lived Assets

We assess the recoverability of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset or assets. If carrying value exceeds the sum of undiscounted cash flows, we then determine the fair value of the underlying asset. Any impairment to be recognized is measured as the amount by which the carrying amount of the asset group exceeds the estimated fair value of the asset group. Assets classified as held for sale are reported at the lower of the carrying amount or fair value, less costs to sell.

Share-based Payments

Share-based payments is the stock-based compensation expense related to our granting of stock options to employees and others. The fair value, at the grant date, of equity-settled share awards is charged to our loss over the period for which the benefits of employees and others providing similar services are expected to be received. The vesting components of graded vesting employee awards are measured separately and expensed over the related tranche's vesting period. 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 exercise price, current market price of the underlying shares, expected life of the award, risk-free interest rate, expected volatility and the dividend yield.

Other Income

Other income consists primarily of interest income earned on our cash, cash equivalents and short-term investments.

Results of Operations

As of the closing of the BayMedica acquisition, the Company aligned into two operating and reportable segments, InMed Pharmaceuticals (the "InMed" segment) and BayMedica (the "BayMedica" segment).

Comparison of the year ended June 30, 2023 and 2022 for InMed Segment

	Year Ended June 30,			
	2023	2022	Change	% Change
	(in thousands)			
Operating expenses:				
Research and development and patents	2,864	5,986	(3,122)	(52)%
General and administrative	4,022	5,906	(1,884)	(32)%
Amortization and depreciation	105	107	(2)	(2)%
Total operating expenses	6,991	11,999	(5,008)	(42)%
Interest and other income	303	20	283	1,415%
Warrant modification expense	-	(1,314)	1,314	(100)%
Foreign exchange (loss) gain	(48)	(118)	70	(59)%
Net loss	$ (6,736)	$ (13,411)	$ 6,675	(50)%

Research and Development and Patents Expenses

Research and development and patents expenses decreased by $3.1 million in our InMed segment, or 52%, for the year ended June 30, 2023 compared to the year ended June 30, 2022. The decrease in research and development and patents expenses was due to a combination of lower personnel expenses, legal fees and decreased expenses related

to the INM-755 program as a result of high start-up costs associated with the multicenter Phase 2 clinical trial during fiscal 2022.

General and administrative expenses

General and administrative expenses decreased by $1.9 million in our InMed segment, or 32%, for the year ended June 30, 2023 compared to the year ended June 30, 2022. The decrease results primarily from a combination of changes including lower office and admin fees, investor relation expenses, stock-based compensation expenses, personnel expenses, accounting, and legal fees.

Foreign exchange loss

The Company's functional currency is US dollar and our foreign exchange loss is predominantly due to transactions with foreign currency. Foreign exchange loss increased by less than $0.1 million in our InMed segment, or 59%, for the year ended June 30, 2023, compared to the year ended June 30, 2022, as a consequence of holding non-US denominated assets and liabilities combined with fluctuations in foreign exchange rates.

Comparison of the year ended June 30, 2023 and 2022 for BayMedica Segment

	Year Ended June 30,			
	2023	**2022**	**Change**	**% Change**
	(in thousands)			
Sales	$ 4,136	$ 1,089	$ 3,047	280%
Cost of sales	2,424	546	1,878	344%
Loss on decline in NRV	309	-	309	100%
Gross profit	1,403	544	860	158%
Operating expenses:				
Research and development and patents	868	1,296	(429)	(33)%
General and administrative	1,825	961	864	90%
Amortization and depreciation	98	79	19	24%
Impairment of intangible assets and goodwill	-	3,473	(3,473)	(100)%
Total operating expenses	2,791	5,809	(3,018)	(52)%
Interest and other income	189	76	111	142%
Tax expense	(13)	-	(13)	nm
Net loss	$ (1,212)	$ (5,189)	$ 3,977	(77)%

Sales

Sales increased by $3.0 million in our BayMedica segment, or 280%, for the year ended June 30, 2023 compared to the year ended June 30, 2022. BayMedica has now realized three consecutive quarters of revenue growth, with increases of 46%, 100%, and 123% in Q2, Q3, and Q4 of fiscal year 2023, respectively. While we expect revenue fluctuations based on distributor order patterns, there are no assurances that this growth will continue in future quarters. However, the recent trend of increased sales is encouraging. The increase in distribution sales results from expanded marketing efforts and increased demand in certain cannabinoid products. BayMedica will continue to evaluate opportunities for potential structured supply arrangements and collaborations for the commercial business. Sales and marketing efforts will remain focused on products that contribute highest margins, where BayMedica continues to hold a strong competitive position.

Cost of Sales

Cost of goods sold increased by $1.9 million in our BayMedica segment, or 344%, for the year ended June 30, 2023 compared to the year ended June 30, 2022. The increase in cost of goods sold is a result from the increase in sales mentioned above Our cost of sales percentage fluctuates based on the Products mix sold.

Inventory Write-Down

The write-down of inventories to net realizable value was $0.3 million in our BayMedica segment for the year ended June 30, 2023, with no comparable expenses in 2022. Contributing factors to the decrease in net realizable value included lower demand and downward pricing pressure in the first quarter of fiscal 2023. BayMedica continues to evaluate new manufacturing approaches for certain products to increase competitive position in the marketplace.

Research and Development and Patents Expenses

Research and development and patents expenses decreased by $0.4 million in our BayMedica segment, or 33%, for the year ended June 30, 2023 compared to the year ended June 30, 2022. The decrease in research and development and patents expenses was primarily due to lower personnel expenses and external consultants. This was offset by an increase in research supplies.

General and administrative expenses

General and administrative expenses increased by $0.9 million in our BayMedica segment, or 90%, for the year ended June 30, 2023 compared to the year ended June 30, 2022. The increase results primarily from a combination of changes including higher personnel expenses, accounting fees, legal fees and sales and marketing expenses.

Liquidity and Capital Resources

Since our inception, we have only generated limited revenue from product sales, no sales from any other sources and have incurred significant operating losses and negative cash flows from our operations. We have only commenced commercial sales with the acquisition of BayMedica and not yet commercialized any of our Product Candidates and we do not expect to generate revenue from sales of any Product Candidates for several years, if at all. We have funded our operations to date primarily with proceeds from the sale of common shares.

As of June 30, 2023, we had cash, cash equivalents and short-term investments of $9.0 million.

The following table summarizes our cash flows for each of the periods presented:

(in thousands)	**Year Ended June 30, 2023**	**Year Ended June 30, 2022**
Net cash (used in) operating activities	$ (7,283)	$ (15,584)
Net cash (used in) investing activities	(662)	(673)
Net cash provided by financing activities	10,680	15,071
Net increase (decrease) in cash and cash equivalents	$ 2,735	$ (1,186)

Operating Activities

During the year ended June 30, 2023, we used cash in operating activities of $7.3 million, primarily resulting from our net loss of $7.9 million combined with $0.6 million used in changes in our non-cash working capital, partially offset by non-cash share-based compensation expenses and inventory write-down.

During the year ended June 30, 2022, we used cash in operating activities of $15.9 million, primarily resulting from our net loss of $18.6 million combined with $2.7 million used in changes in our non-cash working capital, partially offset by non-cash share-based compensation expenses, impairment of intangible assets and goodwill and warrant modification expense related to the change in fair value of warrants that were re-priced during the year.

Investing Activities

During the year ended June 30, 2023, cash used in investing activities of $0.7 million resulted from escrow payments made to BayMedica's historical equity and convertible debt holders and purchase of property and equipment.

During the year ended June 30, 2022, cash used in investing activities of $0.7 million resulted from escrow payments made to BayMedica's historical equity and convertible debt holders, settlement of loan receivable from BayMedica and purchases of property and equipment, partially offset by cash acquired from the acquisition of BayMedica.

Financing Activities

During the year ended June 30, 2023, cash provided by financing activities of $10.7 million consisted of $12.0 million of gross proceeds from private placements of our common shares, offset by total transaction costs of $1.3 million.

During the year ended June 30, 2022, cash provided by financing activities of $15.1 million consisted of $12.0 million of gross proceeds from a private placement of our common shares and $5.0 million of gross proceeds from a registered direct offering and concurrent private placement of our common shares, offset by total transaction costs of $1.8 million and $0.3 million for the repayment of debt assumed in the BayMedica acquisition.

Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing research and development activities, particularly as we continue the research and development of and the clinical trials for our Product Candidates. In addition, we expect to incur additional costs associated with operating as a US-listed public company and associated with any required investment into BayMedica's R&D efforts targeting cannabinoid analogs. As a result, we expect to incur substantial operating losses and negative operating cash flows for the foreseeable future.

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40), we have evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Through June 30, 2023, we have funded our operations primarily with proceeds from the sale of common stock. We have incurred recurring losses and negative cash flows from operations since its inception, including net losses of $7.9 million and $18.6 million for the year ended June 30, 2023 and 2022, respectively. In addition, we have an accumulated deficit of $101.4 million as of June 30, 2023.

As of the issuance date of the consolidated interim financial statements, we expect our cash and cash, cash equivalents and short-term investments of $9.0 million as of June 30, 2023 will be sufficient to fund our operating

expenses and capital expenditure requirements into the first quarter of calendar year 2024. depending on the level and timing of realizing BayMedica revenues from the sale of Products in the Health& Wellness sector as well as the level and timing of the Company operating expenses. Our future viability is dependent on our ability to raise additional capital to finance our operations. In addition, there are a number of uncertainties in estimating our operating expenses and capital expenditure requirements including the impact of potential acquisitions.

As a result, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

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

Our funding requirements and timing and amount of our operating expenditures will depend largely on:

- the scope, progress, results and costs of discovery research, preclinical development, laboratory testing and clinical trials for our Product Candidates;
- the scope, progress, results and costs of development of our manufacturing technologies;
- the number of and development requirements for other Products and Product Candidates that we pursue;
- the costs, timing and outcome of regulatory review of our Product Candidates;
- our ability to enter into contract manufacturing arrangements for supply of materials and manufacture of our Products and Product Candidates and the terms of such arrangements;
- the impact of any acquired, or in-licensed, externally developed product(s) and/or technologies;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements, including sales arrangements, and the financial terms of such arrangements;
- the sales, costs and timing of future commercialization activities, including product manufacturing, sales, marketing and distribution, for any of our Products and for Product Candidates for which we may receive marketing approval;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property and proprietary rights and defending any intellectual property- related claims;
- expansion costs of our operational, financial and management systems and increases to our personnel, including personnel to support our clinical development, manufacturing and commercialization efforts and our operations as a dual listed company;
- the costs to obtain, maintain, expand and protect our intellectual property portfolio; and
- the level and timing of realizing revenues from the BayMedica commercial operations.

A change in the outcome of any of these, or other variables with respect to the development of any of our Products and Product Candidates, could significantly change the costs and timing associated with their development. We will need to continue to rely on additional financing to achieve our business objectives.

In addition to the variables described above, if and when any of our Product Candidates successfully complete development, we will incur substantial additional costs associated with regulatory filings, marketing approval, post-marketing requirements, maintaining our intellectual property rights, and regulatory protection, in addition to other commercial costs. We cannot reasonably estimate these costs at this time.

Until such time, if ever, as we can generate substantial revenues from either our Products or Product Candidates, we expect to finance our cash needs through a combination of equity or debt financings and collaboration arrangements. We currently have no credit facility or committed sources of capital. To the extent that we raise additional capital through the future sale of equity securities, the ownership interests of our shareholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common shareholders. If we raise additional funds through the issuance of debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts, and additional capital may not be available on reasonable terms, or at all. If we raise additional funds through collaboration arrangements or other strategic transactions in the future, we may have to relinquish valuable rights to our technologies, future revenue streams, Products or Product Candidates, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate development or future commercialization efforts or grant rights to develop and market Products or Product Candidates that we would otherwise prefer to develop and market ourselves.

Off-Balance Sheet Arrangements

During the periods presented we did not have, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Critical Accounting Policies and Significant Judgments and Estimates

We periodically review our financial reporting and disclosure practices and accounting policies to ensure that they provide accurate and transparent information relative to the current economic and business environment. As part of this process, we have reviewed our selection, application and communication of critical accounting policies and financial disclosures. Management has discussed the development and selection of the critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosure relating to critical accounting policies in this Management's Discussion and Analysis.

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements included as part of this report, which have been prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the revenue and expenses incurred during the reported periods. We base estimates on our historical experience, known trends and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The full details of our accounting policies are presented in Note 2 of our audited consolidated financial statements for the year ended June 30, 2023. These policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of our consolidated financial statements and the uncertainties that could have a bearing on its financial results. The significant accounting policies that we believe to be most critical in fully understanding and evaluating our financial results are research and development costs and share based payments.

***Research & Development and Patents costs*:**

Research and development and patents costs is a critical accounting estimate due to the magnitude and nature of 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 CROs that conduct preclinical and clinical 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.

***Share-based payments**:*

The fair value, at the grant date, of equity 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, generally the vesting period. 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
- Current market price of the underlying shares
- Expected life of the award
- Risk-free interest rate
- Expected volatility
- Dividend yield

Management determines costs for share-based payments 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 corporate performance. For employee awards, we use the "simplified method" to determine the expected term of options. Under this method, the expected term represents the average of the vesting period and the contractual term. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. If we had made different judgments and assumptions than those described previously, the amount of our share-based payments expense, net loss and net loss per common shares amounts could have been materially different.

Impairment of Intangible Assets:

We assess the recoverability of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset or assets. If carrying value exceeds the sum of undiscounted cash flows, we then determine the fair value of the underlying asset. Any impairment to be recognized is measured as the amount by which the carrying amount of the asset group exceeds the estimated fair value of the asset group.

Due to the impairment indicators discussed in Note 5 of our consolidated financial statements, as of June 30, 2022, the Company determined that intangibles assets of BayMedica that were associated with manufacturing and

commercialization of our health and wellness products were impaired during the year ended June 30, 2022. Refer to Note 5 of our consolidated financial statements.

Business Combination

Business combinations are accounted for using the acquisition method. The fair value of total purchase consideration is allocated to the fair values of identifiable tangible and intangible assets acquired and liabilities assumed, with the remaining amount being classified as goodwill. All assets and liabilities acquired or assumed in a business combination are recorded at their fair values at the date of acquisition. If the Company's interest in the fair value of the acquiree's net identifiable assets exceeds the cost of the acquisition, the excess is recognized in earnings or loss immediately. Transaction costs that are incurred in connection with a business combination, other than costs associated with the issuance of debt or equity securities, are expensed as incurred.

As part of our acquisition of BayMedica Inc, on October 13, 2021, goodwill, trade secrets, product formulation knowledge, patents, trademarks, Technology and In-Process Research and Development Intangible ("IPR&D") intangible assets were recognized. The fair value of the aggregate intangible assets was determined to be $2.7 million and goodwill was $2.0 million at the acquisition date. IPR&D was classified as indefinite-lived and was not amortized. The multi-period excess earnings method was used to determine the fair value of these assets as at the date of acquisition. All research and development costs incurred subsequent to the acquisition of IPR&D are expensed as incurred. Patents are expected to have a finite life and are being amortized on a straight-line basis over their estimated useful lives. Amortization begins when intangible assets with finite lives are put into use.

Going Concern

Through June 30, 2023, we have funded our operations primarily with proceeds from the sale of common shares. We have incurred recurring losses and negative cash flows from operations since our inception, including net losses of $7.9 million and $18.6 million for the years ended June 30, 2023 and 2022, respectively. In addition, we have an accumulated deficit of $101.4 million as of June 30, 2023.

As of the issuance date of the consolidated financial statements, we expect our cash and cash equivalents and short-term investments of $9.0 million as of June 30, 2023 will be sufficient to fund our operating expenses and capital expenditure requirements into the first quarter of calendar 2024, and possibly into the second quarter of calendar year 2024, depending on the level and timing of realizing revenues from the BayMedica commercial operations as well as the level and timing of the Company operating expense. Our future viability is dependent on our ability to raise additional capital to finance our operations. In addition, there are a number of uncertainties in estimating our operating expenses and capital expenditure requirements including the impact of potential acquisitions.

As a result, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

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