



InMed Pharmaceuticals Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

Three Months Ended

September 30, 2018

InMed Pharmaceuticals Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Three months ended September 30, 2018

The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in the financial condition and results of operations of InMed Pharmaceuticals Inc. ("InMed" or the "Company") as at September 30, 2018 and for the three months then ended in comparison to the three months ended September 30, 2017. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements for the three months ended September 30, 2018 and September 30, 2017 and related notes.

All financial results presented in this MD&A are expressed in Canadian dollars unless otherwise indicated. The effective date of this MD&A is November 9, 2018.

Throughout the report we refer to InMed as the "Company", "we", "us", "our" or "its". All these terms are used in respect of InMed Pharmaceuticals Inc. Additional information on the Company can be found on the Company's website www.inmedpharma.com and SEDAR at <http://www.sedar.com>.

Cautionary Statement on Forward-Looking Information

This discussion may contain forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and forward looking information within the meaning of Canadian securities laws (collectively, "forward-looking statements"). When used in this MD&A, the words "*plan*," "*expect*," "*believe*," "*intend*," and similar expressions generally identify forward-looking statements. These statements reflect the Company's current expectations and estimates about the markets in which the Company operates and management's beliefs and assumptions regarding these markets. Investors are cautioned that all forward-looking statements involve risks and uncertainties. Forward-looking statements in this report include, without limitation, the potential impact of INM-750 on the symptoms of Epidermolysis Bullosa ("EB") and the underlying disease; optimizing the final formulation for INM-750; conducting key pre-clinical toxicology (safety) studies; discussing our clinical development plans with regulatory bodies in the first half of calendar year 2019; the expectation of filing our Investigational New Drug application for INM-750 in the second half of calendar year 2019; the Company's ability to successfully scale up its biosynthesis manufacturing process for cannabinoids; the potential for INM-085 to assist in reducing the high rate of non-adherence with current glaucoma therapies; filing patents and publishing our data in fiscal 2019; the potential for the Company's novel, proprietary delivery system for ophthalmic drugs to play an important role in enabling other companies' proprietary ophthalmic drug candidates or re-invigorating the commercial potential of off-patent products that would benefit from a once-a-day dosing regimen and InMed plans to initiate discussion with potential partners to this end; the potential of peripheral application of certain cannabinoid compounds, alone or in combination, such as INM-405 to be effective in the treatment of craniofacial pain disorders; and securing the ongoing necessary funding required to develop therapies, patent applications, and pre-clinical studies.

The material factors and assumptions used to develop the forward-looking statements contained in this MD&A are based on numerous assumptions regarding, among other things: the continued results of the Company's research and development; favourable regulatory reviews; establishing demand for the Company's products; the ability to find suitable financing and strategic partners; and management's ability to maintain the Company as a going concern to further develop prescription drug therapies through research and development into the pharmacology of cannabinoids. While we consider these assumptions to be reasonable, these assumptions are inherently subject to significant business, economic, competitive, market and social uncertainties and contingencies.

Our actual results could differ materially from those discussed in the forward-looking statements as a result of a number of important factors. In light of the many risks and uncertainties as described in this report, readers should understand that InMed cannot offer assurance that the forward-looking statements contained in this analysis will be realized. Additional information on these and other potential risk factors that could affect the Company's financial results are included in this MD&A, including under the heading "Risks and Uncertainties", and in documents filed from time to time with the provincial securities commissions in Canada, including in our Annual Information Form under the heading "Risk Factors", copies of which are available on SEDAR at <http://www.sedar.com>.

All forward-looking statements herein are qualified in their entirety by this cautionary statement, and we explicitly disclaim any obligation to revise or update any such forward-looking statements or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, except as required by law.

Overall Performance and Operations

The Company was incorporated in the Province of British Columbia on May 19, 1981, under the *Business Corporations Act* of British Columbia under the name Kadrey Energy Corporation. The Company has undergone a number of corporate name changes since its incorporation. In May 2014, the Company, then named Cannabis Technologies Inc. and since October 6, 2014 named InMed, began to specialize in cannabinoid pharmaceutical product development.

The Company's shares are listed on the Toronto Stock Exchange ("TSX" or "Exchange") 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 suite 340 – 200 Granville Street, Vancouver, B.C. V6C 1S4.

Research and Development

InMed is a pre-clinical stage biopharmaceutical company that specializes in developing novel therapies through the research and development into the extensive pharmacology of cannabinoids coupled with innovative drug delivery systems. InMed's proprietary bioinformatics database drug/disease targeting tool, cannabinoid biosynthesis technology and drug development pipeline are the fundamental value drivers of the Company. InMed continues to work on the development of several new cannabinoid-based treatments for multiple diseases including Dermatology, Ocular, Pain, Inflammation, and Cancer disease areas, among others.

Highlights during the quarter ended September 30, 2018, and as the date hereof include:

Progress continued during the quarter for the Company's lead product, INM-750, which is being developed as a treatment for the rare disease Epidermolysis Bullosa (EB), a serious and severe genetic skin disorder. EB causes the skin to be very fragile and to blister easily. One form of EB, EB Simplex, is a result of a defect in anchoring between the epidermis and the dermis, resulting in severe skin fragility that can range from mild to lethal. There is no cure or approved treatments for EB. Wound care, pain and itch management, antimicrobial interventions and preventative bandaging are currently the only treatment options available.

INM-750 is a proprietary, topical cannabinoid product candidate targeted as a therapy in EB and other potential dermatological and wound-healing applications. It has been specifically designed with the intent to: (i) potentially modify the underlying cause of the disease in certain patients with Epidermolysis Bullosa Simplex (EBS, the most common form of EB), and (ii) to treat the major symptoms of the disease in all patients with EB.

Pre-clinical data generated previously demonstrates that INM-750 may have a significant impact on the symptoms of EB (which include improvement of wound area to promote healing, reduction in pain, itch and inflammation, and providing antimicrobial activity). These disease hallmarks are key therapeutic targets for the effective treatment of EB as well as several other dermatological conditions. Additionally, our data indicate that INM-750 may potentially have an impact on the underlying disease by increasing certain keratin production in the skin.

During the quarter ending September 30, 2018, the Company continued to work with external contractors in Israel and Canada to (i) develop a final formulation for INM-750; and (ii) carry out work on pharmacology

and toxicology studies that are required before INM-750 could be used in clinical studies. Specifically, among many other pre-clinical studies, drug permeation studies were conducted on several formulation variations. In these studies, with InMed's selected formulation, both good drug penetration and adequate drug concentrations were demonstrated in the epidermis, which is the target tissue for INM-750. In addition, and very importantly, the Company demonstrated that the cannabinoid components in the INM-750 formulation each play important, and independent, functions for various target effects, including anti-inflammation and keratin upregulation. Further pharmacology studies are ongoing in parallel with standard toxicology studies. Concerning InMed's ongoing work in toxicology and pharmacology, two types of genotoxicity studies were completed, which demonstrated no mutagenicity with the cannabinoid components of INM-750. In addition, the Company completed two 7-day dose range finding and pharmacokinetic studies for assessment of systemic toxicity. The lack of any negative results from these studies support continued development of INM-750. As previously reported, it is anticipated that InMed will be discussing its clinical development plans with regulatory bodies in the first half of calendar year 2019. We expect to file our regulatory application in the second half of calendar year 2019 to initiate clinical studies.

Manufacturing of pharmaceutical grade cannabinoids remains a challenge, especially those that are found in only trace amounts in the cannabis plant (but nevertheless may hold very important physiological benefits in humans). InMed recognized that having a reliable source of pure, pharmaceutical-grade starting materials for its products would be a critical success factor for its drug development strategy. Since May 21, 2015, the Company has been developing a biosynthesis process for the manufacturing of cannabinoids through a research collaboration with Dr. Vikramaditya G. Yadav from the Department of Biological and Chemical Engineering at the University of British Columbia ("UBC"). InMed continues to collaborate with Dr. Yadav to develop this biosynthesis process for potential manufacturing of all 90+ naturally-occurring cannabinoids. We believe this process is unique in that the end product is bio-identical to plant-sourced cannabinoids, but benefits from the convenience, control and quality of a laboratory-based manufacturing process without the risk and high-resource requirements of agriculture growing operations. The Company believes that the approach InMed is developing is robust and may result in high-yields of cannabinoids. Pursuant to the terms of a May 31, 2017 Technology Assignment Agreement between the Company and UBC, UBC has assigned to InMed all technology from the research collaboration and any future improvements in return for the Company committing 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.

The Company, in conjunction with its collaborators at the University of British Columbia, continues to advance the production platform for the bio-fermentation of cannabinoids. Optimization of the vector will continue in parallel with the identification of optimal fermentation conditions and downstream purification processes with 3rd party suppliers. On October 3, 2018, the Company announced entering into a research agreement with the National Research Council of Canada ("NRC") in Montreal, Canada, for biofermentation development and scale-up processes for cannabinoid biosynthesis in *E.coli*. InMed's Vice President, Pre-Clinical Research & Development, Eric Hsu, Ph.D., commented, "The NRC has significant biofermentation expertise and extensive facilities to support InMed's scale-up activities. The NRC will help us define specific process parameters to improve fermentation scale and product yield needed for InMed to maximize the commercial potential of our proprietary *E.coli* based cannabinoid biosynthesis system. This work is the natural progression of several years' history in designing cannabinoid-specific vectors at the University of British Columbia and the next step in reaching our goal of establishing a leadership position in the field of cannabinoid biosynthesis. Since then, InMed has initiated its technology transfer from its partners at UBC to the NRC. Also, during the quarter, InMed signed a master services agreement with an unnamed contract development and manufacturing organization that will be working on the downstream processing and purification processes for the Company's biosynthesis production platform.

Related to this biosynthesis technology, on September 10, 2018, InMed announced that it has filed a Patent Cooperation Treaty ("PCT") application pertaining to the Company's proprietary biosynthesis program for the manufacture of cannabinoids that are identical to those found in nature. This application will provide protection of the biosynthesis technology in over 150 different countries including the United

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States and claims a priority date from September 5, 2017 (PCT/CA2018/051074). The PCT filing, which is a conversion from the provisional patent filed in September 2017, is an important step in providing intellectual and commercial protection for InMed's biosynthesis platform technology. With the conversion of this patent application, InMed is continuing the process of pursuing commercial protection for its biosynthesis platform technology. As the Company undertakes scale-up activities towards commercialization, this patent announcement is an important step forward. This application protects InMed's efforts to modulate *E. coli*'s own internal machinery to increase the metabolites needed for the biosynthesis of the cannabinoid. Beyond this patent, InMed is actively pursuing additional patent applications to further protect its know-how in cannabinoid manufacturing through biosynthesis. These patent applications collectively represent the culmination of three years of dedicated time and resource investment by an extended scientific team.

On September 11, 2018, InMed announced that its research partner, UBC, has been approved to receive a grant from the Natural Sciences and Engineering Research Council of Canada ("NSERC") for their collaborative efforts with InMed in the biosynthesis of cannabinoids. Under the terms of the grant, NSERC has committed funding of \$136,000 to UBC towards the collaboration over the course of three years. The collaboration, entitled 'Microbial metabolic engineering for cannabinoid biosynthesis', which originally commenced in May 2015, targets development of a microbial-based cannabinoid expression system for the manufacture of individual cannabinoid drugs for treating diseases with high unmet medical needs.

Additional assets such as our glaucoma and pain drug development programs and other new potential drug/disease targets continue to advance in accordance with our plans. Together with several external collaborators, we are exploring every avenue to expedite the advancement of these key assets. We expect as patents are filed for these product candidates, we can begin to publish our data and further validate to the scientific community and investor public the importance of our technologies.

On September 25, 2018, InMed announced that it has filed a PCT application pertaining to the Company's INM-405 program and other unique compositions as cannabinoid-based topical therapies for the treatment of pain, which is an important step in protecting the Company's intellectual and commercial property. The patent application, entitled "Methods and Composition for the Treatment of Pain with Cannabinoids" is designed to provide protection of the Company's INM-405 program in over 150 different countries including the United States and claims a priority date from September 22, 2017 (PCT/CA202018/051194).

In this announcement, Dr. Eric Hsu, Ph.D., InMed's Vice President of Preclinical Research and Development commented, "While there are numerous pharmaceutical products to treat both acute and chronic pain, the increase in the number of prescriptions for the opioid class of products (oxycodone, hydrocodone, morphine, methadone, fentanyl, etc.) has led to concerns as these products can be highly addictive and have damaging side effects, including death." According to the United States Centers for Disease Control and Prevention, since 1999, the number of overdose deaths involving opioids (including prescription opioids and heroin) quadrupled, as have the number of prescriptions for opioids, yet there has been no increase in the amount of pain reported in the general population. Thus, there is a need to find alternative treatments for chronic and severe pain that are non-addictive and have limited side effects. InMed is researching the potential of non-THC (THC is a psychoactive ingredient in cannabis) cannabinoids to treat pain using a proprietary topical formulation.

InMed's study results were previously published in the European Journal of Pain in July 2017 and highlighted the topical application of THC to successfully treat peripheral pain. The foundation of this patent is the unreported data on non-THC cannabinoids and their ability to modulate pain. The patent cites a range of cannabinoids, alone or in combination, applied topically to treat various types of pain – muscle, nerve, arthritis-induced joint pain, etc.

Corporate

As part of its continuing investor relations activities, InMed recently presented at the following investor conferences:

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- Canaccord Genuity 38th Annual Growth Conference on August 8, 2018 in Boston;
- H.C. Wainwright 20th Annual Global Investment Conference on September 6, 2018 in New York City; and
- BIO Investor Forum on October 17, 2018 in San Francisco.

Outlook

The Company continues to focus its efforts on research and development in the biotech sector, with its primary attention to further advance its current drug therapies from the current pre-clinical stage into clinical studies as well as the successful completion of its patent applications as described hereinabove. Additionally, the Company will continue its efforts to secure the ongoing necessary funding required to develop its drug therapies and its biosynthesis process for the manufacturing of cannabinoids and related patent applications.

Results of Operations

Financial Results for the three months ended September 30, 2018 and September 30, 2017:

During the three month period ended September 30, 2018, the Company reported a comprehensive loss of \$2,841,224 and loss per share of \$0.02 compared to a comprehensive loss of \$1,820,154 and loss per share of \$0.01 reported in the comparative period ended September 30, 2017. The largest components of the loss for the current period were attributed to non-cash, share-based payments in connection with the grant of stock options of \$1,423,790 (September 30, 2017 - \$570,548), general and administration expenses of \$813,036 (September 30, 2017 - \$841,340), and research and development expenses of \$627,094 (September 30, 2017 - \$377,116).

The increase in comprehensive loss for the quarter ended September 30, 2018 from the comparative period was primarily the result of an increase in non-cash, share-based payments in connection with the grant of stock options and, as described below, an increase in research and development costs.

The summary of changes in the research and development expenditures for the quarters ending September 30th were as follows:

	2018	2017	Variance	
	\$	\$	\$	%
Research & Development Expenses				
R&D personnel compensation	239,964	157,081	82,883	53%
External contractors	275,732	128,083	147,649	115%
Patents	71,231	48,934	22,296	46%
Research supplies	37,671	39,955	(2,285)	-6%
Other	2,496	3,063	(567)	-19%
Total Research & Development	627,094	377,116	249,978	66%

R&D personnel compensation – The increase in expenditures was primarily the result of increase in the number of R&D personnel as well as higher compensation levels for previously existing staff.

External contractors – The Company carries out R&D activities through the use of external contractors, acting under the direction of internal R&D personnel. The costs associated with external R&D contractors increased in the three months ending September 30, 2018 as a result of work associated with preclinical studies and formulation work for INM-750 together with increased spending on the Company's biosynthesis program.

Patents – Patent expenses increased as compared to the comparable quarter in the prior fiscal year due to the higher level of patent filing activity, as evidenced by two PCT filings, in the current quarter.

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The summary of changes in the general and administrative expenditures for the quarters ending September 30th were as follows:

General & Administration Expenses	2018	2017	Change	
	\$	\$	\$	%
Accounting and legal	120,393	60,615	59,778	99%
Consulting	13,035	-	13,035	n/a
Corporate development	-	51,319	(51,319)	-100%
Investor relations, website development and marketing	155,443	512,169	(356,726)	-70%
Office and administration fees	40,284	50,573	(10,289)	-20%
Regulatory fees	39,144	13,876	25,268	182%
Rent	49,626	16,543	33,083	200%
Shareholder communications	7,117	3,474	3,643	105%
Transfer agent fees	4,173	1,940	2,233	115%
Travel	19,217	14,421	4,796	33%
Salaries and employee benefits	364,604	116,410	248,194	213%
Total General & Administration	813,036	841,340	(28,304)	-3%

Significant increases/decreases in expenditures to note for general and administration include:

Accounting and Legal – There was an increase in legal costs as certain legal activities pertaining to annual filings and the Company's annual general meeting occurred in the first quarter ending September 30, 2018 while in the prior fiscal year they occurred in the second quarter ending December 31, 2017.

Consulting fees – Increase in consulting fees was primarily due to engaging a consultant to assist with the Company's ongoing hiring effort for R&D personnel.

Corporate Development – Activities provided by consultants in the comparable quarter ending September 30, 2017 are now being provided by an employee. As a consequence of this, the decline for corporate development costs is related to a corresponding increase in salaries and benefits discussed below.

Investor relations, website development & marketing – Decrease in expenditures was the result of a shift in how the Company is carrying out its investor relations activities and the related reduction in the cost of various corporate communication campaigns.

Office and administration fees – Decrease in office and administration was the result of slightly lower costs in several areas including insurance, IT support, and office administration.

Regulatory fees – Increase in regulatory fees was the result of filing fees associated with the Company's annual financial statements and its Annual Information Form which were both filed in the first quarter ending September 30, 2018 while in the prior fiscal year they were filed in the second quarter ending December 31, 2017.

Rent – Increase in rent was the result of a move to the Company's current office premises in September 2017.

Salaries and employee benefits – Increase is due to a variety of factors including: (i) the hiring of a Chief Business Officer in April, 2018 where comparable costs in prior year were included under Corporate Development above; (ii) non-management directors are now being compensated partly in cash (previously, only via the grant of stock options); (iii) higher salary levels for certain G&A personnel; and (iv) increased time commitment of certain G&A employees.

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Summary of Quarterly Results

The following table summarizes certain selected financial information reported by the Company for the each of the last eight quarters reported. The following quarterly results are prepared in accordance with IFRS.

Three months ended:	Q1-19 Sept. 30 2018 \$	Q4-18 June 30 2018 \$	Q3-18 Mar. 31 2018 \$	Q2-18 Dec. 31 2017 \$	Q1-18 Sept. 30 2017 \$	Q4-17 June 30 2017 \$	Q3-17 Mar. 31 2017 \$	Q2-17 Dec. 31 2016 \$
Revenue	—	—	—	—	—	—	—	—
Loss before other items	(2,841,224)	(3,029,200)	(2,127,957)	(1,543,609)	(1,820,154)	(1,875,654)	(1,240,948)	(939,231)
Comprehensive Loss	(2,841,224)	(3,029,200)	(2,127,957)	(1,543,609)	(1,820,154)	(1,875,654)	(1,240,948)	(939,231)
Loss per share – basic and diluted	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

Liquidity and Capital Resources

As at September 30, 2018, the Company had a working capital surplus of \$24,417,991 (June 30, 2018 – \$25,795,983), which consisted of: cash \$17,392,246 (June 30, 2018 - \$24,134,277), short-term investments \$7,384,854 (June 30, 2018 – \$2,342,615), taxes receivable of \$20,321 (June 30, 2018 - \$53,373) and prepaids and advances of \$210,994 (June 30, 2018 – \$203,477) offset by trade payables of \$590,424 (June 30, 2018 - \$937,759).

As at September 30, 2018, shareholders' equity was \$25,719,201 which was a decrease of \$1,406,184 as compared to June 30, 2018. The decrease in shareholders' equity primarily arose from the loss for the quarter ended September 30, 2018 of \$2,841,224 net of the non-cash, share-based payment expense for the quarter of \$1,423,790 which increased contributed surplus.

Financial position:	Sept 30 2018	June 30 2018
Cash and cash equivalents and short-term investments	\$24,777,100	\$26,476,892
Working capital	\$24,417,991	\$25,795,983
Property, plant and equipment	\$50,450	\$55,732
Intangible assets	\$1,250,760	\$1,273,670
Total Assets	\$26,309,625	\$28,063,144
Shareholders' equity	\$25,719,201	\$27,125,385

As at September 30, 2018, the Company had no material ongoing contractual or other commitments other than in the normal course of business. The following table summarizes the Company's contractual obligations as at September 30, 2018 related to its Vancouver office premises and agreements with various contract research organizations:

	Payments Due by Period			
	Total	Less than 1 year	1-3 years	After 3 years
Operating Leases ¹	\$164,088	\$164,088	\$Nil	\$Nil
Purchase Obligations	\$358,992	\$285,492	\$73,500	\$Nil
Total Contractual Obligations	\$523,080	\$449,580	\$73,500	\$Nil

¹ Includes estimated operating costs of \$101,514 on an annual basis through to August 31, 2019.

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The development of pharmaceutical products is a process that requires significant investment. As such, InMed expects to continue to incur losses for the foreseeable future. The Company anticipates a continued increase in research and development costs including for clinical trials of its drug candidates, general and administrative cost related to additions of personnel, and/or infrastructure that may be required.

Based on the funds available as at September 30, 2018, the Company estimates that it has cash resources for approximately the next 24 months which will fund a significant increase in R&D spend to continue development of its drug product candidates, including the preclinical and early clinical program for INM-750, the compilation of sufficient data for INM-085 to initiate the search for a development/commercialization partner, and further scale-up of the biosynthesis program, among other R&D activities.

The Company's continuing operations will be dependent upon obtaining necessary financing in order to further develop its current business plan. The Company expects that it will continue to fund its operations primarily by the issuance of equity or debt securities. The Company's ability to continue its operations on a going concern basis is dependent upon its ability to raise these additional funds. The certainty and outcome of these matters cannot be predicted at this time. See "Risks and Uncertainties" below.

Off-Balance Sheet Arrangements

As at September 30, 2018, the Company had no off-balance sheet arrangements.

Transactions with Related Parties

Expense for the three months ending:

	September 30 2018	September 30 2017
Key management personnel compensation comprised:		
Share based payments	\$1,241,436	\$237,562
Salaries and consulting fees:	\$501,823	\$205,000
	<u>\$1,743,259</u>	<u>\$442,562</u>

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of our unaudited condensed 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 InMed's accounting policies are presented in Note 3 of the audited financial statements for the year ended June 30, 2018. These policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's 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 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.

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, 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
- Expected life of the award
- Expected volatility
- Current market price of the underlying shares
- Risk-free interest rate
- 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, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. 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.

Changes in Accounting Policies including Initial Adoption

New Standards Applicable in the Reporting Period

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

Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements have been issued by the IASB that are mandatory for future accounting years. The Company has not completed its assessment of the impact from adopting these standards.

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

IFRS 16 Leases

Issued by IASB - January, 2016

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

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

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

The main features of the new standard are as follows:

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

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

Financial Instruments and Risk Management

The company is exposed through its operations to the following financial risks:

- Market Risk
- Foreign currency risk
- Interest Rate Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This section of the MD&A describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this section of the MD&A.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets are reviewed periodically by the Board of Directors if and when there are any changes or updates required.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

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 three types of risk: foreign currency risk, commodity price risk and equity price risk. The Company does not currently have significant commodity risk or equity price risk.

Foreign Currency Risk:

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

As at September 30, 2018, the Company had a net excess of US dollar denominated cash and cash equivalents in excess of US dollar denominated accounts payable and accrued liabilities of US\$1,990,801, which is equivalent to CDN\$2,577,092 at the September 30, 2018 exchange rate. The US dollar financial assets generally result from holding US dollar cash to settle anticipated near-term accounts payable and accrued liabilities denominated in US dollars. The US dollar financial liabilities generally result from purchases of supplies and services from suppliers from outside of Canada.

Each change of 1% in the US dollar in relation to the Canadian dollar results in a gain or loss, with a corresponding effect on cash flows, of \$25,771 based on the September 30, 2018 net US dollar assets (liabilities) position. During the quarter ended September 30, 2018, the Company recorded foreign exchange losses of \$56,836 (September 30, 2017 – \$4,524).

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 September 30, 2018, holdings of cash and cash equivalent of \$10,078,220 are subject to floating interest rates. In addition, the Company held fixed rate guaranteed investment certificates, cashable within ninety days of purchase, with book value of \$7,114,836. The balance of the Company's cash holdings of \$199,190 are non-interest bearing.

As at September 30, 2018, the Company held short-term investments in the form of a fixed rate guaranteed investment certificate, with terms of 6 to 12 months, with a face value of \$7,300,000 and variable rate guaranteed investment certificates, with one year terms, with face value of \$57,500.

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

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The Company, as at September 30, 2018, does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents and short-term investments held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Credit Risk:

Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents and short-term investments. Cash and cash equivalents and short-term investments are maintained with financial institutions of reputable credit and may be redeemed upon demand.

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

Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. As at September 30, 2018, the Company has cash and cash equivalents and short-term investments of \$24,777,100 (June 30, 2018 - \$26,476,892), current liabilities of \$590,424 (June 30, 2018 - \$937,759) and a working capital surplus of \$24,417,991 (June 30, 2018 - \$25,795,983).

Financial Instruments

The Company's cash and cash equivalents of \$17,392,246 (June 30, 2018 - \$24,134,277) are measured at amortized costs. The Company's short-term investments of \$7,384,854 (June 30, 2018 - \$2,342,615) are measured at amortized cost.

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 and production of the business.

The Company is not exposed to any externally imposed capital requirements.

Outstanding Share Data

InMed's authorized capital is unlimited common shares without par value. As at the date of this report, the Company had the following securities issued and outstanding:

Securities ⁽¹⁾	
Common shares	170,883,633
Stock options	16,990,000
Share purchase warrants	31,877,704
Agents' warrants	1,539,953

⁽¹⁾ See the Company's unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2018 for a detailed description of these securities.

Commitments

Pursuant to the terms of agreements with various contract research organizations, the Company is committed for contract research services at a cost of approximately \$358,992. A total of \$285,492 of these expenditures are expected to occur in fiscal 2019 and the balance of \$73,500 in fiscal 2020.

Pursuant to the terms of a May 31, 2017 Technology Assignment Agreement between the Company and UBC, the Company is committed to pay royalties to UBC on certain licensing and royalty revenues received by the Company for biosynthesis of certain drug products that are covered by the agreement.

On June 22, 2017, the Company finalized an agreement to sublet office space with a sub-landlord. Under this agreement, the Company is leasing 3,868 square feet at an annual cost of approximately \$77,500 plus annual operating costs estimated at \$101,500. The term of the sublease is from September 1, 2017 to August 31, 2019.

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

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

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

For the three months ended September 30, 2018, there was no changes to our disclosure controls or to our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, such controls.

Risks and Uncertainties

An investment in the Company involves significant risks and must be considered speculative due to the nature of the Company's business. Investors should carefully consider the risks and uncertainties described below. This list of risks and uncertainties below is not exhaustive. Furthermore, additional risks and uncertainties not presently known to InMed or that InMed believes to be immaterial may also adversely affect InMed's business. In addition to the risks identified elsewhere in this MD&A, investors should carefully consider all of the risk factors associated with the Company and its business, identified in the disclosure under the heading "Risk Factors" in the Company's Annual Information Form dated September 13, 2018 for the year ended June 30, 2018, a copy of which is available on SEDAR at <http://www.sedar.com>.

Risks Related to the Company's Business

The Company has a history of operating losses and may never achieve profitability in the future.

The Company is involved in research and development to identify and validate new therapies and drug targets that could become marketable. This process takes several years and requires significant financial resources without income. The Company expects these expenses to result in continuing operating losses in the foreseeable future.

The Company's ability to generate future revenue or achieve profitable operations is largely dependent on its ability to attract the experienced management and know-how to develop new drug candidates and to partner with larger, more established companies in the industry to successfully commercialize its drug candidates. Successfully developing pre-clinical or clinical drug candidates into marketable drugs takes several years and significant financial resources and the Company cannot assure that it can achieve these objectives.

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The Company will primarily be in a developing industry and will be subject to all associated regulatory risks.

The Company's business must be evaluated in light of the problems, delays, uncertainties and complications encountered in connection with establishing a cannabinoid-based pharmaceutical business.

There is a possibility that none of the Company's drug candidates under development in the future will be found to be safe and effective, that it will be unable to receive necessary regulatory approvals in order to commercialize them, or that it will obtain regulatory approvals that are too narrow to be commercially viable.

Any failure to successfully develop and obtain regulatory approval for products would have a material adverse effect on the Company's business, financial condition and results of operations.

Clinical trials for potential drug candidates will be expensive and time consuming, and their outcomes uncertain.

Before the Company can obtain regulatory approval for the commercial sale of any drug candidate or attract major pharmaceutical companies with which collaborate, it will be required to complete extensive clinical trials to demonstrate safety and efficacy. Clinical trials are expensive and are difficult to design and implement. The clinical trial process is also time-consuming and can often be subject to unexpected delays.

The timing and completion of clinical trials may be subject to significant delays relating to various causes, including but not limited to: inability to manufacture or obtain sufficient quantities of materials for use in clinical trials; import/export restrictions for cannabinoid-based pharmaceuticals; delays arising from collaborative partnerships; delays in obtaining regulatory approvals to commence a study, or government intervention to suspend or terminate a study; delays, suspensions or termination of clinical trials by the applicable institutional review board or independent ethics board responsible for overseeing the study to protect research subjects; delays in identifying and reaching agreement on acceptable terms with prospective clinical trial sites; slow rates of patient recruitment and enrollment; uncertain dosing issues; inability or unwillingness of medical investigators to follow clinical protocols; variability in the number and types of subjects available for each study and resulting difficulties in identifying and enrolling subjects who meet trial eligibility criteria; scheduling conflicts; difficulty in maintaining contact with subjects after treatment, resulting in incomplete data; unforeseen safety issues or side effects; lack of efficacy during clinical trials; reliance on clinical research organizations to conduct clinical trials, which may not conduct such trials with good laboratory practices; or other regulatory delays.

The results of pre-clinical studies or initial clinical trials are not necessarily predictive of future favorable results.

Pre-clinical tests and initial clinical trials are primarily designed to test safety and to understand the side effects of drug candidates and to explore efficacy at various doses and schedules. Success in pre-clinical or animal studies and early clinical trials does not ensure that later large-scale efficacy trials will be successful nor does it predict final results. Favorable results in early trials may not be repeated in later ones.

Protection of proprietary technology can be unpredictable and costly.

The Company's success will depend in part on its ability to obtain patents, defend patents, maintain trade secret protection and operate without infringing on the proprietary rights of others. Interpretation and evaluation of pharmaceutical patent claims present complex and often novel legal and factual questions. Accordingly, there is some question as to the extent to which biopharmaceutical discoveries and related products and processes can be effectively protected by patents. As a result, there can be no assurance that:

- patent applications will result in the issuance of patents;
- additional proprietary products developed will be patentable;
- patents issued will provide adequate protection or any competitive advantages;
- patents issued will not be successfully challenged by third parties;
- the patents issued do not infringe the patents or intellectual property of others; or
- that the Company will be able to obtain any extensions of the patent term.

A number of pharmaceutical, biotechnology, medical device companies and research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to the business of the Company. Some of these technologies, applications or patents may conflict with or adversely affect the technologies or intellectual property rights of the Company. Any conflicts with the intellectual property of others could limit the scope of the patents, if any, that the Company may be able to obtain or result in the denial of patent applications altogether. Further, there may be uncertainty as to whether the Company may be able to successfully defend any challenge to its patent portfolio.

In addition, any breach of confidentiality by a third party by premature disclosure may preclude the obtainment of appropriate patent protection, thereby affecting the development and commercial value of the Company's technology and products. The Company may also decide to acquire or in-license certain pending or issued patents but cannot guarantee their approval and/or commercial viability.

Competition

The planned business to be carried out by the Company will be highly competitive and involve a high degree of risk. There can be no assurance that the licensing or other arrangements respecting the patent-pending cannabinoid-based drug discovery platform and several cannabinoid-based drugs in different disease areas, or applications thereof, sought to be obtained can be secured on favorable terms or otherwise, nor are there any assurances that sales or license revenues, if obtained, will be in sufficient quantities to make the business profitable. In its efforts to achieve its objectives, the Company will compete with other companies that may have greater resources, many of which will not only develop technology but also manufacture and sell similar products on a worldwide basis.

Uninsured or Uninsurable Risk

The Company may become subject to risks against which it cannot insure or against which it may elect not to insure. Settling related liabilities would reduce funds available for core business activities. Settlement of uninsured liabilities could have a material adverse effect on our financial position.

Conflicts of Interest

The Company's directors and officers may currently be involved, or become involved, in other business ventures that compete with our platform and services. Business opportunities for the Company may create circumstances in which outside interests of our directors and officers conflict with the interests of the Company. Directors and officers are required to act in good faith and in a manner that benefits the Company.

It is possible, however, that our directors and officers may owe similar consideration to another organization(s). It is possible that these and other conflicts of interest are resolved in a way that has a material adverse impact on the Company.

Dependence on Key Personnel

The Company depends on support from existing directors and officers and its ability to attract, and retain, new directors, officers and other personnel with appropriate skill sets. Inability to retain key team

members or find new professionals to serve in important roles could have a material adverse effect on the Company's business. There can be no assurance that we will be able to attract or retain the quality of personnel required in the future.

Financial Liquidity

The Company is not currently generating any revenue and expects to operate at a loss as it conducts research and development on its drug candidates. We will require additional financing in order to execute our business plan. Our ability to secure required financing will depend in part upon investor perception of our ability to create a successful business. Capital market conditions and other factors beyond our control may also play important roles in our ability to raise capital. The Company can offer no assurance that it will be able to successfully obtain additional financing, or that future financing occurs on terms satisfactory to our management and/or shareholders. If funds are unavailable in the future, or unavailable in the amounts that we feel the business requires, or unavailable on acceptable terms, we may be required to cease operating or modify our business plans in a manner that undermines our ability to achieve our business objectives.

Financial Statements Prepared on Going Concern Basis

The Company's financial statements have been prepared on a 'going concern' basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the successful completion of financing and the continued advancement of its drug candidates. The Company cannot guarantee that it will be successful in obtaining financing in the future or in achieving business objective set forth internally or externally. Our consolidated financial statements may not contain the adjustments relating to carrying values and classification of assets and/or liabilities that would be necessary should the Company be unable to continue as a going concern.

Costs of Maintaining a Public Listing

As a result of being a publicly listed company, the Company will incur greater legal, accounting and other expenses related to regulatory compliance than it would have had it remained a private entity. The Company may also elect to devote greater resources than it otherwise would have on communication and other investor relations activities typically considered important by publicly traded companies.

Share Price Volatility and Speculative Nature of Share Ownership

The Company is listed for trading on the TSX, resulting in many legacy shareholders being able to freely trade their shares. Factors both internal and external to the Company may significantly influence the price at which our shares trade, and the volatility of our share price. Quarterly operating results and material developments reported by the Company can, and likely will, influence the price of our shares.

Sentiment toward biotechnology stocks, as well as toward the stock market in general, is among the many external factors that may have a significant impact on the price of our shares. The Company's business is at an early stage of development and is not generating any revenue and the Company does not possess large cash reserves. As such, it should be considered a speculative investment. There is no guarantee that a liquid market will be developed for the Company's shares.

Additional Information

Additional disclosure of the Company's material change reports, news release and other information can be obtained on SEDAR at <http://www.sedar.com>.