INMUNE BIO, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	$ 650,861	$ 1,370,711
Research and development tax credit receivable	324,500	106,866
VAT receivable	27,449	111,618
Joint development cost receivable	2,246	109,124
Prepaid expenses and other current assets	159,349	42,647
Prepaid expenses – related party	-	158,504
TOTAL CURRENT ASSETS	1,164,405	1,899,470
Acquired in-process research and development intangible assets	16,514,000	16,514,000
TOTAL ASSETS	$ 17,678,405	$ 18,413,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 202,221	$ 126,257
Accounts payable and accrued liabilities – related party	9,210	183,460
TOTAL LIABILITIES	211,431	309,717
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 210,000,000 shares authorized 8,719,441 and 8,319,441 shares issued and outstanding, respectively	8,719	8,319
Additional paid-in capital	24,491,379	19,171,237
Common stock issuable	4,676,000	50,000
Accumulated other comprehensive income	8,809	32,042
Accumulated deficit	(11,717,933)	(1,157,845)
TOTAL STOCKHOLDERS' EQUITY	17,466,974	18,103,753
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,678,405	$ 18,413,470

See accompanying notes to these consolidated financial statements.

INMUNE BIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
REVENUE	$ -	$ -	$ -	$ -
OPERATING EXPENSES				
General and administrative	(1,341,065)	(261,207)	(9,969,985)	(386,245)
Research and development	(198,776)	(46,320)	(590,103)	(167,006)
Total operating expenses	(1,539,841)	(307,527)	(10,560,088)	(553,251)
LOSS FROM OPERATIONS				
OTHER INCOME				
Gain on settlement of lawsuit	-	-	-	150,000
Total other income	-	-	-	150,000
NET LOSS	$ (1,539,841)	$ (307,527)	$ (10,560,088)	$ (403,251)
Net loss per common share – basic and diluted	$ (0.18)	$ (0.05)	$ (1.22)	$ (0.07)
Weighted average number of common shares outstanding – basic and diluted	8,719,441	6,625,883	8,662,298	5,813,698
COMPREHENSIVEINCOME(LOSS)				
Net loss	$ (1,539,841)	$ (307,527)	$ (10,560,088)	$ (403,251)
Other comprehensive income (loss) – gain (loss) on foreign currency translation	(7,623)	15,496	(23,233)	32,314
Total comprehensive loss	$ (1,547,464)	$ (292,031)	$ (10,583,321)	$ (370,937)

See accompanying notes to these consolidated financial statements.

INMUNE BIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (10,560,088)	$ (403,251)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	9,046,542	36,922
Gain on settlement of lawsuit	-	(150,000)
Changes in operating assets and liabilities:		
Research and development tax credit receivable	(217,634)	28,379
VAT receivable	84,169	(96,582)
Joint development cost receivable	106,878	71,648
Prepaid expenses and other current assets	(116,702)	(10,779)
Prepaid expenses – related party	158,504	46,462
Accounts payable and accrued liabilities	75,964	43,186
Accounts payable and accrued liabilities – related party	(174,250)	47,541
Net cash used in operating activities	(1,596,617)	(386,474)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	900,000	2,056,000
Net cash provided by financing activities	900,000	2,056,000
Impact on cash from foreign currency translation	(23,233)	32,314
NET (DECREASE) INCREASE IN CASH	(719,850)	1,701,840
CASH AT BEGINNING OF PERIOD	1,370,711	141,659
CASH AT END OF PERIOD	$ 650,861	$ 1,843,499
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest expense	$ -	$ -
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for conversion of short-term debt – related party	$ -	$ 350,000

See accompanying notes to these consolidated financial statements.

INMUNE BIO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

INmune Bio, Inc. (the "Company" and/or "INmune") was originally organized in the State of Nevada on September 25, 2015 and is an early stage specialty pharmaceutical company focused on developing pioneering strategies for oncology that focus on engineering and harnessing the innate immune system to treat the patient's cancer. INmune's proprietary is to focus on the innate immune system that include natural killer cells ("NK cells"), myeloid derived suppressor cells ("MDSC cells") and dendritic cells ("DC cells"), which are believed to offer unique therapeutic opportunities. INmune plans to develop their two existing drug platforms: INKmune ("INKmune") which primes NK cells and INB03 ("INB03") which down regulates MDSC cells. Together or individually, the Company expects that these therapies will harness the innate immune system to provide a unique set of therapies for patients with cancer.

INmune Bio International Ltd (England) ("INmune UK") is a wholly owned subsidiary of INmune that was formed on April 6, 2016 in the United Kingdom ("UK"). INmune UK was duly organized under the laws of England and has 1,000 shares owned by INmune. The Company will perform its drug manufacturing and currently performs its drug research and development in the UK and will continue to perform research and development activities in this region. The UK has a research and development ("R&D") rebate program that allows the Company to recover some of its R&D expenses (see further discussion in Note 4).

On March 28, 2018, the Company acquired 100% of INmune Bio Australia Pty Ltd (Australia) ("INMune Australia"). INmune Australia had no assets or liabilities on the acquisition date and was acquired for approximately $2,000.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in the United States of America and the rules of the Securities and Exchange Commission ("SEC").

The consolidated financial statements herein have been prepared in accordance with GAAP and include the accounts of the Company and those of its wholly-owned subsidiaries, INmune UK and INmune Australia. All significant intercompany accounts and transactions have been eliminated.

Interim Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim information under Regulation S-K. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments consisting of a normal and recurring nature considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2018 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2018. These unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2017 and 2016, and notes thereto contained in this prospectus.

NOTE 2 – GOING CONCERN

As of September 30, 2018, the Company had an accumulated deficit of $11,717,933. Losses have principally occurred as a result of the substantial resources required for research and development of the Company's products which included the general and administrative expenses associated with its organization and product development as well as the lack of sources of revenues until such time as the Company's products are commercialized. These factors raise substantial doubt about the Company's ability to continue as a going concern for the twelve months from the issuance date of these financial statements. These financial statements do not include any adjustments to reflect the possible future effect on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties. Management plans to obtain additional funding and implement its strategic plan to allow the opportunity for the Company to continue as a going concern, though there is no guarantee that management will be successful in obtaining this additional funding.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results and outcomes may differ from management's estimates and assumptions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

The Company may carry cash balances at financial institutions in excess of the federally insured limit of $250,000. At September 30, 2018, the Company's cash in excess of the federally insured limit was $400,861.

Receivables, Net

Receivables currently consist of an R&D tax credit receivable, valued added tax ("VAT") receivable and joint development cost receivable. The R&D tax credit receivable is recorded when R&D is incurred. At that time, the Company records a receivable for the amount of the credit it expects to receive based on the expenses incurred. The VAT receivable is recorded when the Company receives an invoice with VAT related to it. The receivable is recorded for the amount expected to be returned when the VAT tax return is filed. The joint development cost receivable is recorded when the Company incurs R&D expenses based on the amount it expects to receive as a reimbursement per the Novamune agreement (see Note 4 for detailed explanation of the agreement). The collectability of these receivables are evaluated periodically based on the actual R&D credit returns submitted, the VAT returns submitted and the amounts received from Novamune. As of September 30, 2018 and December 31, 2017, there were no trade receivables.

Intangible Assets

The Company capitalizes costs incurred in connection with in-process research and development purchased from others if the asset has alternative uses and such uses are not restricted under applicable license agreements. Amortization is initiated for acquired in-process research and development intangible assets when their useful lives have been determined. Acquired in-process research and development intangible assets which are determined to have had a drop in their fair value are adjusted downward and an expense recognized in research and development in the consolidated statements of operations. These acquired in-process research and development intangible assets are tested at least annually or when a triggering event occurs that could indicate a potential impairment.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of outstanding common shares during the period. Diluted earnings (loss) per share gives effect to all dilutive potential common shares outstanding during the period. Dilutive earnings (loss) per share excludes all potential common shares if their effect is anti-dilutive. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding.

For the three and nine months ended September 30, 2018, the following potentially dilutive securities were excluded from the computation of diluted net loss per share, as the inclusion of such shares would be anti-dilutive:

	Three and Nine Months Ended September 30, 2018
Stock options	1,632,000
Common stock warrants	903,611
Total	2,535,611

For the three and nine months ended September 30, 2017, the following potentially dilutive securities were excluded from the computation of diluted net loss per share, as the inclusion of such shares would be anti-dilutive:

	Three and Nine Months Ended September 30, 2017
Common stock warrants	31,667

Stock-Based Compensation

The Company utilizes the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

The Company accounts for equity instruments issued to non-employees using a fair value approach under ASC Subtopic 505-50, *Equity-Based Payments to Non-Employees*. The Company values equity instruments and stock options granted to non-employees at fair value using the Black-Scholes option-pricing model. The value of non-employee stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the term of the related financing or the period over which services are received.

The Company recognizes compensation expense, on a straight-line basis over the requisite service period, which is equal to the applicable vesting period.

Research and Development

Research and development costs are expensed as incurred. Research and development credits are recorded by the Company as a reduction of research and development costs. Major components of research and development costs include cash compensation, stock-based compensation, depreciation and amortization expense on research and development property and equipment, costs of preclinical studies, clinical trials and related clinical manufacturing, costs of drug development, costs of materials and supplies, facilities cost, overhead costs, regulatory and compliance costs, and fees paid to consultants and other entities that conduct certain research and development activities on the Company's behalf.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Foreign Currency Translation

The Company's financial statements are presented in the U.S. dollar ("$"), which is the Company's reporting currency, while its functional currencies are the U.S. Dollar for its U.S. based operations and British Pound ("GBP") for its United Kingdom-based operations and Australian Dollars ("AUD") for its Australian-based operations. All assets and liabilities are translated at the exchange rate on the balance sheet date, stockholders' equity is translated at historical rates and statement of operations items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income. Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statement of operations and comprehensive income (loss).

New and Recently Issued Accounting Pronouncements

The Company does not expect the adoption of any recently issued accounting pronouncements to have a significant impact on its financial position, results of operations, or cash flows.

Subsequent Events

The Company has evaluated all transactions from September 30, 2018 through November 20, 2018, the financial statement issuance date for subsequent disclosure consideration.

NOTE 4 – RESEARCH AND DEVELOPMENT ACTIVITY

According to UK tax law, the Company is allowed an R&D tax credit that reduces a company's tax bill in the UK for expenses incurred in R&D. According to the UK Government, R&D takes place when a project seeks to achieve an advance in overall knowledge or capability in a field of science or technology. A company has to have staff headcount of less than 500 and either revenue of less than €100m or balance sheet assets of less than €86m. INmune UK submitted R&D tax credit requests annually for research and development expenses incurred, and recorded a related receivable in the amount of $324,500 and $106,866 as of September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 2018 and 2017, the Company received $0 and $106,096 of R&D tax credit reimbursements, respectively.

The Company is also eligible to recover all VAT for all R&D expenses paid. INmune UK recorded a VAT receivable of $27,449 and $111,618 as of September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 2018 and 2017, the Company received $169,144 and $36,890 of VAT reimbursements, respectively.

Xencor, Inc. License Agreement

On October 3, 2017, the Company entered into a license agreement ("Xencor License Agreement") with Xencor, Inc. ("Xencor"), which has discovered and developed a proprietary biological molecule that inhibits soluble tumor necrosis factor. Pursuant to the license agreement, Xencor granted the Company an exclusive worldwide, royalty-bearing license in licensed patent rights, licensed know-how and licensed materials (as defined in the license agreement) to make, develop, use, sell and import any pharmaceutical product that comprises, contains, or incorporates Xencor's proprietary protein known as "XPRO1595" that inhibits soluble tumor necrosis factor (or all modifications, formulations and variants of the licensed protein that specifically bind soluble tumor necrosis factor) alone or in combination with one or more active ingredients, in any dosage or formulation ("Licensed Products"). The Company believes the protein has numerous medical applications. Such additional alternative applications of the technology are available under the license agreement. In connection with the license agreement, the Company paid Xencor a one-time non-creditable and non-refundable fee of $100,000 and agreed to issue Xencor shares of the Company's common stock equal to 19% of our fully diluted company shares the value of which are discussed below. The Company also issued warrants to Xencor which is discussed below.

The Company also agreed to pay Xencor a royalty on Net Sales of all Licensed Products in a given calendar year, which are payable on a country-by- country and licensed product by licensed product basis until the date that is the later of (a) the expiration of the last to expire valid claim covering such Licensed Product in such country or (b) ten years following the first sale to a third party of the licensed product in such country.

Under the Xencor License Agreement, the Company also agreed to pay Xencor a percentage of any sublicensing revenue that it receives.

In connection with the Xencor License Agreement, the Company entered into a stock issuance agreement with Xencor pursuant to which it issued Xencor 1,585,000 shares of its common stock with a fair value of $12,221,000 based on the discounted cash flow method of the income approach as set forth in an independent valuation report dated November 17, 2017, and fully vested warrants to purchase an additional number of shares of common stock equal to 10% of the fully diluted company shares immediately following such purchase with a fair value of $4,193,000 based on the Black-Scholes Option Pricing Model.

The warrants have an exercise price based on a valuation of the Company at $100,000,000 and expire on October 3, 2023. The aggregate purchase price for the full exercise of the option is $10,000,000 which purchase price shall be pro-rated for any partial exercise of the Option. In August 2018, we entered into a First Amendment to Stock Issuance Agreement. Pursuant to the amendment, the purchase price for the additional shares may only be paid by cash. In connection with the stock issuance agreement, the Company, Xencor and more than 90% of shareholders as of September 30, 2017 ("Key Holders") entered into a voting agreement. Pursuant to the voting agreement, Xencor and the Key Holders agreed to vote their respective shares to vote one individual designated by the holder of a majority of Xencor's shares of the Company's common stock to the Company's board of directors. The voting agreement shall continue in full force and effect from the date hereof through the earliest of the following dates, on which date it shall terminate in its entirety: (a) the date of a qualified offering, as defined in the issuance agreement; (b) ten (10) years from the date of this Agreement; (c) the date of the closing of a qualified sale, as defined in the issuance agreement; or (d) the date as of which the parties hereto terminate this agreement by written consent of the holders of a majority of the Investor Shares.

The Company recorded $16,514,000 for the acquisition of intangible assets for the in-process research and development in 2017 as the fair value of the cash, stock and warrants on the date of the License Agreement acquisition in accordance with Accounting Standards Codification 730 – *Research and Development.* The Company has the license rights to pursue alternative applications of the technology as part of its future development plans.

Novamune Joint Development Agreement

On September 3, 2016, the Company entered into a joint development agreement with Novamune, Inc. ("Novamune") (the "Development Agreement"). Novamune is owned by a significant shareholder of the Company. Novamune had previously developed and licensed technology relating to ex-vivo activation of NK cells for the treatment of cancer and other diseases. The parties agreed to exclusively collaborate on the further development of technologies related to NK cells for therapeutic applications. The Company and Novamune agreed to share equally in the costs related to such joint development projects and agreed to jointly own any intellectual property developed by the joint projects, provided that Novamune shall have an exclusive royalty free license to use any such intellectual property relating to ex-vivo applications and the Company shall have an exclusive royalty free license to use any such intellectual property relating to in-vivo applications. The Development Agreement is subject to Novamune investing a total of $1,250,000 in the Company, of which $350,000 was advanced through a convertible note payable in 2016 (see further discussion in Note 5) and $900,000 was received during the nine months ended September 30, 2018 in exchange for the issuance of 400,000 shares of the Company's common stock. As of September 30, 2018 and December 31, 2017, the Company had a joint development receivable outstanding related to Novamune's portion of R&D costs incurred of $2,246 and $109,124, respectively.

INKmune License Agreement

On October 29, 2015, the Company entered into an exclusive license agreement with Immune Ventures LLC ("Immune Ventures"), owner of all of the rights related to our principal patent (the "INKmune License Agreement"). Pursuant to the INKmune License Agreement, the Company was granted exclusive worldwide rights to the patents, including rights to incorporate any improvements or additions to the patents that may be developed in the future. In consideration for the patent rights, the Company agreed to the following milestone payments:

Each Phase I initiation	$	25,000
Each Phase II initiation	$	250,000
Each Phase III initiation	$	350,000
Each NDA/EMA filing	$	1,000,000
Each NDA/EMA awarded	$	9,000,000

In addition, the Company agreed to pay the licensor a royalty of 1% of net sales during the life of each patent granted to the Company. The License is owned by RJ Tesi, our President and a member of our Board of Directors, David Moss, our Chief Financial Officer and Treasurer and Mark Lowdell, our Chief Scientific Officer. As of September 30, 2018 and December 31, 2017, no sales had occurred under this license.

The term of the agreement began on October 29, 2015 and, if not terminated sooner pursuant to the agreement, ends on a country by country basis on the date of the expiration of the last to expire patent rights where patent rights exists. Upon the termination of the agreement we shall have a fully paid up, perpetual, royalty-free license without further obligation to Immune Ventures. The agreement can be terminated by Immune Ventures if, after 60 days from our receipt of notice that we have not made a payment under the agreement we still do not make this payment. Under the agreement and an amendment to the agreement dated July 20, 2018 we are required achieve the following events:

Filing of IND or equivalent, by October 29, 2019
Initiation of Phase 1 clinical or equivalent trials by October 29, 2020
Initiation of Phase II clinical trials or equivalent by October 29, 2022
Initiation of Phase III clinical trials or equivalent by October 29, 2024
Filing of NDA or equivalent by October 29, 2025 or equivalent

If we don't achieve the above events, we are required to negotiate in good faith with Immune Ventures to determine how we can either remedy the failure or achieve an alternate development. If we fail to make any required efforts or if the efforts do not remedy the situation within 60 days of written notice by Immune Ventures then Immune Ventures may provide notice to terminate the license or convert it to a non-exclusive license.

NOTE 5 – RELATED PARTY TRANSACTIONS

A significant shareholder of the Company is also the owner of various companies that conduct business with the Company, principally research and development activities, including Luminus Holdings, Inc. ("Luminus"), Novamune, and Advent Bioservices, Inc. ("Advent Bioservices").

Short-term debt – related party

On May 9, 2016, the Company received cash proceeds of $350,000 from the issuance of a convertible note to Novamune that matured on August 1, 2016, with a conversion rate of $1.50 per share, and an annual interest rate of 8%. On September 3, 2016, the maturity date was extended to March 3, 2017. During the nine months ended September 30, 2017, the convertible note was converted into 233,345 shares of common stock of the Company. Novamune is owned by a significant shareholder of the Company.

Prepaid expense – related party

At September 30, 2018 and December 31, 2017, the Company had prepaid expense of $0 and $158,504, respectively, paid to UCL Consultants Limited, a wholly owned subsidiary of the University of London, in connection with medical research performed on behalf of the Company. The Company's Chief Scientific and Manufacturing Officer is a professor at the University of London.

Accounts payable and accrued liabilities – related parties

At September 30, 2018 and December 31, 2017, the Company owed Advent Bioservices $0 and $173,314, respectively, for medical research provided on behalf of the Company. Advent Bioservices is owned by a significant shareholder of the Company. At September 30, 2018 and December 31, 2017, the Company owed UCL Consultants Limited $9,210 and $0, respectively, in connection with medical research performed on behalf of the Company.

NOTE 6 – STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 210,000,000 shares of common stock at par value $0.001 per share.

During the nine months ended September 30, 2018, to complete a series of funding provided for in the Company's joint development agreement dated September 3, 2016, the Company received $900,000 in cash from Luminus in exchange for 400,000 shares of the Company's common stock. Luminus is owned by a significant shareholder of the Company.

During the nine months ended September 30, 2017, the Company issued 1,393,335 shares of the Company's common stock for cash proceeds of $2,056,000.

During the nine months ended September 30, 2017, the Company issued 233,345 shares of its common stock for the conversion of the full value of the Company's outstanding convertible debt of $350,000 valued at approximately $1.50 per share.

As of September 30, 2018 and December 31, 2017, the Company recorded common stock issuable of $50,000 for 33,335 common shares related to a legal settlement valued at approximately $1.50 per share (see Note 7).

On May 16, 2018, the Company entered into a consulting agreement with Pacific Seaboard Investments Ltd. for corporate governance, compliance services regarding the filing of a listing application and assist with activities related to its initial public offering. The term of the consulting agreement is from April 24, 2018 to May 1, 2021. In consideration of the consultant's services, the Company agreed to issue 600,000 shares of its restricted common stock, of which 200,000 shares were to be issued on May 16, 2018, 200,000 shares shall be locked up for six months after the effective date of the Company's registration statement and 200,000 shares shall be locked up for 10 months after the date of the Company's offering. Pursuant to this agreement, the Company recorded $4,626,000 of stock-based compensation expense during the nine months ended September 30, 2018 for the 600,000 shares of common stock to be issued.

Stock options

During the nine months ended September 30, 2018, the CEO and CFO were each granted an option to purchase 400,000 shares of the Company's common stock with a $7.80 exercise price. One third of the options vested on January 1, 2018 and the remainder shall vest on a monthly basis over a 24-month term. The grant date fair value of these stock options was $5,136,894 based on the Black-Scholes Option Pricing model.

During the nine months ended September 30, 2018, a board member was granted 400,000 shares of the Company's common stock with a $7.80 exercise price. These options vest over a 24-month term. The grant date fair value of these stock options was $2,568,447 based on the Black-Scholes Option Pricing model.

During April 2018, the Company granted options to purchase 108,000 shares of the Company's common stock to each of four Board members, of which 3,000 options shall vest monthly per grant. The options have a 10-year term and a $7.80 per share exercise price and vest over 36-months. The grant date fair value of these stock options was $2,765,108 based on the Black-Scholes Option Pricing model.

A summary of stock option activity is presented in the table below:

	Number of Shares	average Exercise Price	Weighted-average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	-	-	-	-
Granted	1,632,000	7.80	10.0	-
Exercised	-	-	-	-
Expired/Forfeited	-	-	-	-
Outstanding at September 30, 2018	1,632,000	$ 7.80	9.32	$ -
Exercisable at September 30, 2018	688,667	$ 7.80	9.28	$ -

During the nine months ended September 30, 2018, the 1,632,000 options that were granted had a weighted average grant-date fair value of $6.42 per share. During the nine months ended September 30, 2018, the Company recognized stock-based compensation expense of $4,420,542 related to stock options. As of September 30, 2018, there was approximately $6,049,909 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of approximately 1.73 years.

The fair values of the options granted during the nine months ended September 30, 2018 were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Market value of common stock on grant date	$ 7.71
Risk free interest rate (1)	2.40% - 2.56%
Dividend yield	None
Volatility factor	110%
Weighted average expected life in years (2)	6.0
Expected forfeiture rate	0%

(1) The risk-free interest rate was determined by management using the U.S. Treasury zero-coupon yield over the contractual term of the option on date of grant.

(2) Due to a lack of stock option exercise history, the Company uses the simplified method under SAB 107 to estimate expected term.

Warrants

On June 30, 2017, the Company issued fully vested warrants to purchase 31,667 shares of the Company's common stock to a third party in conjunction with the common stock sold for cash, with an exercise price of $1.50, maturity date of June 30, 2022. At September 30, 2018, the remaining contractual term for these warrants is 3.75 years.

In connection with the Xencor License Agreement, the Company issued fully vested warrants to purchase an additional number of shares of common stock equal to 10% of the fully diluted Company shares immediately following such purchase. The fair value of these warrants was valued at $4,193,000 based on the Black-Scholes Option Pricing Model. The assumptions use for these warrants consist of an exercise price of $10,000,000, expected dividends of 0%, expected volatility of 84.9%, a risk free rate of 2.04% an expected life of 6 years. At September 30, 2018, the remaining contractual term of these warrants is 5.0 years and the intrinsic value is $5,000,000.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Litigation settlement

In November 2016, an individual filed an action in Cook County, Illinois, against the Company; David J. Moss, its Chief Financial Officer, Treasurer and Secretary and Raymond J. Tesi, its president and Chief Executive Officer (the Company, Mr. Moss and Mr. Tesi are referred to collectively as the "Company Parties"). The action alleged claims against the Company Parties concerning payment of monies and/or securities allegedly owed. In April 2017, the Company Parties and the Claimant entered into a Settlement Agreement and Mutual General Release agreement with that individual (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Company agreed to issue 33,335 shares of the Company's common stock valued at $50,000, based on the value of the stock of the last round of financing of $1.50 per share. These shares have not been issued and are subject to a restriction on transfer for a period of two years from the date the Company completes an initial public offering or otherwise becomes a public company after which the Company will deliver the shares to the Claimant. The agreement to issue the shares following the two-year restriction period was a full and complete settlement of all claims that the Claimant may have had against the Company Parties and the Cook County action was dismissed with prejudice. The obligation was recorded as common stock issuable of $50,000 as of September 30, 2018 and December 31, 2017, respectively, pending delivery of the shares to the Claimant after the restriction period expires.

Trademark settlement

During the nine months ended September 30, 2017, the Company received notice that another company had filed a trademark application with the United States Patent and Trademark Office to register a certain trademark. The Company filed an opposition in the United States Trademark Trial and Appeal Board. Subsequently, INmune and the other company entered into a settlement agreement pursuant to which the Company agreed not to oppose the other company's trademark and the other company paid INmune cash proceeds of $150,000 in full consideration for the settlement agreement, which the Company recorded as other income in the consolidated statement of operations for the nine months ended September 30, 2017.

Employment agreements

On January 1, 2018, the Company entered into 3-year employment agreements with its CEO and CFO. Pursuant to the employment agreements, the annual salary of each of the CEO and CFO shall be $120,000 per annum, respectively. In the event the Company raises $5,000,000 from an offering then the CEO's and CFO's salaries shall increase to $250,000 per annum, respectively, and if the Company raises $12,000,000 from an offering then the CEO's and CFO's salaries shall increase to $350,000 per annum, respectively.