Filed Pursuant to Rule 424(b)(3)
Registration No. 333-223895

PROSPECTUS SUPPLEMENT NO. 3
(To Prospectus Dated April 17, 2018)

NEMUS BIOSCIENCE, INC.

Up to 140,694,163 Shares of Common Stock

This prospectus supplement no. 3 supplements the prospectus dated April 17, 2018, relating to the resale by the selling shareholders identified in the prospectus of up to 140,694,163 shares of our common stock, $0.001 par value, including (i) 32,500,000 shares of common stock and 44,200,000 shares of common stock issuable upon exercise of warrants, which we sold to investors in a private placement on January 19, 2018 and February 16, 2018, (ii) 9,000,000 shares of common stock issued upon conversion of a secured promissory note for a convertible loan on January 19, 2018, (iii) 20,000,000 shares of common stock, which equals the number of shares of common stock issued upon the conversion of shares of our Series F Convertible Preferred Stock, par value $0.001 per share ("Series F Preferred Stock"), (iv) 2,000,000 shares of common stock, which equals the number of shares of common stock issued upon the conversion of shares of our Series D Convertible Preferred Stock, par value $0.001 per share ("Series D Preferred Stock"), (v) 28,335,000 shares of common stock issued upon the conversion of shares of our Series B Convertible Preferred Stock, par value $0.001 per share ("Series B Preferred Stock"), 1,781,250 shares of common stock issued upon the exercise of the warrants which we sold to investors in a private placement on August 20, 2015 and 1,843,750 shares of common stock issuable upon exercise of the warrants which we sold to investors in a private placement on August 20, 2015, (vi) 241,663 shares of common stock which we sold to investors in a private placement on January 7, 2015 and (vii) 792,500 shares of common stock issuable upon exercise of warrants issued to our placement agents.

This prospectus supplement incorporates into our prospectus the information contained in our attached Quarterly Report on Form 10-Q, which was filed with the Securities and Exchange Commission on November 13, 2018.

You should read this prospectus supplement in conjunction with the prospectus, including any supplements and amendments thereto. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in the prospectus supplement supersedes the information contained in the prospectus.

This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus, including any supplements and amendments thereto.

You should carefully consider matters discussed under the caption "Risk Factors" beginning on page 8 of the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 13, 2018.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **September 30, 2018**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission File Number: **000-55136**

Nemus Bioscience, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**45-0692882**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130 North Marina Drive, Long Beach, CA 90803
(Address of principal executive offices) (Zip Code)

(949) 396-0330
(Registrant’s telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
(Do not check if a smaller reporting company)		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of November 13, 2018, there were 133,870,080 shares of the issuer’s $0.001 par value common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q that are not descriptions of historical facts are forward-looking statements that are based on management's current expectations and assumptions and are subject to risks and uncertainties. If such risks or uncertainties materialize or such assumptions prove incorrect, our business, operating results, financial condition and stock price could be materially negatively affected. In some cases, you can identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," "will," "would" or the negative of these terms or other comparable terminology. Factors that could cause actual results to differ materially from those currently anticipated include those set forth in the section titled "Risk Factors" including, without limitation, risks relating to:

- our need for substantial additional funds in order to continue our operations, and the uncertainty of whether we will be able to obtain the funding we need;
- the results of our research and development activities, including uncertainties relating to the discovery of potential product candidates and the preclinical and clinical testing of our product candidates;
- the early stage of our product candidates presently under development;
- our ability to obtain and, if obtained, maintain regulatory approval of our current product candidates, and any of our other future product candidates, and any related restrictions, limitations, and/or warnings in the label of any approved product candidate;
- our ability to retain or hire key scientific or management personnel;
- our ability to protect our intellectual property rights that are valuable to our business, including patent and other intellectual property rights;
- our dependence on the University of Mississippi, third-party manufacturers, suppliers, research organizations, testing laboratories and other potential collaborators;
- our ability to develop successful sales and marketing capabilities in the future as needed;
- the size and growth of the potential markets for any of our approved product candidates, and the rate and degree of market acceptance of any of our approved product candidates;
- competition in our industry; and
- regulatory developments in the United States and foreign countries.

We operate in a rapidly-changing environment and new risks emerge from time to time. As a result, it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. The forward-looking statements included in this report speak only as of the date hereof, and except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,058,438	$ 259,955
Restricted cash	4,502	4,428
Prepaid expenses	96,522	291,428
Other current assets	2,609	-
Total current assets	1,162,071	555,811
Property and equipment, net	3,810	1,407
Total assets	$ 1,165,881	$ 557,218
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCKAND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 45,503	$ 100,921
Accounts payable - related party	15,000	-
Accrued payroll and related expenses	48,438	54,512
Accrued expenses	101,493	143,826

Warrant liabilities, short-term	11,110,567	-
Provision for conversion of Series B preferred stock	-	6,715
Convertible debt	-	235,000
Provision for conversion of convertible debt	-	265,000
Total current liabilities	11,321,001	805,974
Noncurrent liabilities		
Series B warrant liability, long-term	-	551,322
Total liabilities	11,321,001	1,357,296
Commitments and contingencies		
(Note 7)		
Preferred stock, $0.001 par value; 20,000,000 shares authorized Redeemable Convertible Series B Preferred Stock net of $347,091 issuance costs (0 and 2,833.55 issued and outstanding as of September 30, 2018 and December 31, 2017)	-	822,201
Convertible Series D Preferred Stock, net of $30,557 issuance costs (0 and 200 issued and outstanding as of September 30, 2018 and December 31, 2017)	-	169,446
Convertible Series F Preferred Stock, net of $118,855 issuance costs (0 and 2,000 issued and outstanding as of September 30, 2018 and December 31, 2017)	-	1,777,781
Stockholders' deficit		
Common stock, $0.001 par value; 236 million shares authorized; 133,445,080 issued and outstanding as of September 30, 2018 and 33,622,829 issued and outstanding as of December 31, 2017	133,445	33,623
Additional paid-in-capital	15,731,537	9,444,831
Warrants	982,911	982,911
Accumulated deficit	(27,003,013)	(14,030,871)
Total stockholders' deficit	(10,155,120)	(3,569,506)
Total liabilities and stockholders' deficit	$ 1,165,881	$ 557,218

See accompanying notes to the unaudited condensed consolidated financial statements.

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NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Operating expenses				
Research and development	$ 67,291	$ 88,550	$ 92,291	$ 241,302
General and administrative	978,329	673,080	3,284,880	2,631,408
Total operating expenses	1,045,620	761,630	3,377,171	2,872,710
Operating loss	(1,045,620)	(761,630)	(3,377,171)	(2,872,710)
Other expense (income)				
Change in fair value of warrant liabilities	1,050,729	(281,497)	1,468,477	(320,495)
Fair value of warrant liability in excess of proceeds	-	-	7,174,634	-
Change in fair value of conversion rights of Series B preferred stock	-	-	-	(88,532)
Change in fair value of conversion rights of convertible debt	-	-	185,000	-
Financing transaction costs	-	-	137,192	-
Loss on extinguishment of convertible debt	-	-	590,392	-
Amortization of convertible debt discount	-	-	34,608	-
Interest expense	-	-	3,100	-
Interest income	-	-	(74)	-
Loss before income taxes	(2,096,349)	(480,133)	(12,970,500)	(2,463,683)
Provision for income taxes	-	-	1,642	2,431
Net loss and comprehensive loss	$ (2,096,349)	$ (480,133)	$ (12,972,142)	$ (2,466,114)

Less: Preferred deemed dividend	-	-	-	711,000
Net loss applicable to common shareholders	$ (2,096,349)	$ (480,133)	$ (12,972,142)	$ (3,177,114)
Basic earnings per common share	$ (0.02)	$ (0.02)	$ (0.11)	$ (0.12)
Diluted earnings per common share	$ (0.02)	$ (0.02)	$ (0.11)	$ (0.12)
Weighted average shares of common stock outstanding				
Basic	131,445,057	30,191,744	117,434,563	27,068,308
Diluted	131,445,057	30,191,744	117,434,563	27,068,308

See accompanying notes to the unaudited condensed consolidated financial statements.

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NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$ (12,972,142)	$ (2,466,114)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,178	6,801

Loss on disposal of assets	804	138
Stock-based compensation expense	484,720	456,507
Amortization of warrants and stock issued for services (1)	-	20,000
Change in fair value of conversion rights of Series B preferred stock	-	(88,532)
Change in fair value of conversion rights of convertible debt	185,000	-
Change in fair value of warrant liabilities	1,468,477	(320,495)
Fair value of warrant liability in excess of proceeds	7,174,634	-
Loss on extinguishment of convertible debt	590,392	-
Amortization of convertible debt discount	34,608	-
Common stock issued for services	-	187,550
Changes in assets and liabilities:		
Prepaid expenses (1)	194,906	(73,326)
Other current assets	(2,609)	831
Accounts payable	(55,418)	715,473
Accounts payable to related party	15,000	-
Accrued payroll and related expenses	(6,074)	278,161
Accrued license and patent reimbursement fees	-	80,893
Accrued expenses and other liabilities	(42,333)	14,342
Net cash used in operating activities	(2,928,857)	(1,187,771)
Cash flows from investing activities:		
Purchases of property and equipment	(4,385)	-
Net cash used in investing activities	(4,385)	-
Cash flows from financing activities:		
Proceeds from Series D preferred stock issuance, net of $183,343 issuance costs (2)	-	1,131,857
Proceeds from common stock issuance, net of $16,901 issuance costs	3,233,099	-
Proceeds from warrant exercises	98,700	-
Proceeds from convertible debt issuance	400,000	-
Net cash provided by financing activities	3,731,799	1,131,857
Net increase (decrease) in cash, cash equivalents and restricted cash	798,557	(55,914)
Cash, cash equivalents and restricted cash, beginning of period	264,383	102,320
Cash, cash equivalents and restricted cash, end of period	$ 1,062,940	$ 46,406
Supplemental disclosures of cash-flow information:		
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	1,058,438	41,978
Restricted cash	4,502	4,428
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 1,062,940	$ 46,406
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ 1,642	$ 1,631
Supplemental disclosures of non-cash financing activities:		
Conversion of outstanding preferred stock into common stock	$ 1,947,227	$ -
Conversion of outstanding preferred stock subject to redemption into common stock	828,916	-
Fair value of common stock issued in extinguishment of convertible debt	1,710,000	-
Fair value of warrants issued in connection with Emerald financing	10,424,634	-
Reclassification of warrant liabilities due to exercise of warrants	1,333,866	-

Supplemental disclosures of non-cash financing and investing activities:

(1) During the nine months ended September 30, 2017, warrants issued to service providers for consulting services were valued at $22,245 and were recorded as a Prepaid expense and amortized over the service period.

During the nine months ended September 30, 2017, warrants issued to service providers for consulting services were valued at $30,000 and are being amortized over the service period.

(2) During the nine months ended September 30, 2017 preferred deemed dividends of $536,000 were recognized on Series D Preferred Stock and $175,000 on Series C Preferred Stock.

See accompanying notes to the unaudited condensed consolidated financial statements.

NEMUS BIOSCIENCE, INC. AND SUBSIDIARY
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Nature of Operations and Business Activities

Nature of Operations

Nemus Bioscience, Inc. is a biopharmaceutical company that plans to research, develop and commercialize therapeutics derived from cannabinoids through a number of license agreements with the University of Mississippi (“UM”). UM is the only entity federally permitted and licensed to cultivate cannabis for research purposes in the United States. Unless otherwise specified, references in these Notes to the Unaudited Condensed Consolidated Financial Statements to the “Company,” “we” or “our” refer to Nemus Bioscience, Inc., a Nevada corporation formerly known as Load Guard Logistics, Inc. (“LGL”), together with its wholly-owned subsidiary, Nemus, a California corporation (“Nemus”). Nemus became the wholly owned subsidiary of Nemus Bioscience, Inc. through the Merger (as defined below).

Nemus Bioscience, Inc. (formerly LGL) was incorporated in Nevada on March 16, 2011. The wholly-owned subsidiary of Nemus Bioscience, Inc., Nemus, was incorporated in California on July 17, 2012. Our headquarters are located in Long Beach, California.

In January 2018, the Company entered into a securities purchase agreement with Emerald Health Sciences, Inc. (“Emerald”) discussed in Note 4 below, pursuant to which Emerald purchased a majority of the equity interest in Nemus resulting in a change in control. As part of the transaction, the Company’s Board members, with the exception of Dr. Brian Murphy, the Company’s CEO/CMO, tendered their resignation and Emerald appointed two nominees to the new Board. Later, in October 2018 the Board appointed Dr. Avtar Dhillon, the Chairman, Chief Executive Officer and President of Emerald, as the Executive Chairman of the Company’s Board of Directors (Note 8).

As of September 30, 2018, the Company has devoted substantially all of its efforts to securing product licenses, carrying out research and development, building infrastructure and raising capital. The Company has not yet realized revenue from its planned principal operations and is a number of years from potentially being able to do so.

Liquidity and Going Concern

The Company has incurred operating losses and negative cash flows from operations since inception and as of September 30, 2018, had an accumulated deficit of $27,003,013, a stockholders’ deficit of $10,155,120 and a working capital deficit of $10,158,930. The Company anticipates that it will continue to incur net losses into the foreseeable future in order to advance and develop a number of potential drug candidates into preclinical and clinical development activities and support its corporate infrastructure which includes the costs associated with being a public company. As of September 30, 2018, the Company had cash and cash equivalents of $1,058,438, as compared to $259,955 of cash and cash equivalents as of December 31, 2017. This increase is primarily attributable to the proceeds of $3,250,000 from the Emerald Financing (defined below) along with $400,000 of the $900,000 convertible bridge loan from Emerald. However, without additional funding management believes that the Company will not have sufficient funds to meet its obligations within one year from the date the Condensed Consolidated Financial Statements are issued. These conditions give rise to substantial doubt as to the Company’s ability to continue as a going concern. The accompanying Condensed Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company’s continued existence is dependent on its ability to raise additional sufficient funding to cover operating expenses and to invest in operations and development activities. On October 5, 2018, the Company entered into a Multi-Draw Credit Agreement (the “Credit Agreement”) with Emerald (Note 9). Under the Credit Agreement the Company is able to draw down up to $20 million from time to time in principal amounts of at least $250,000. The drawdowns are subject to approval by the Company’s Board of Directors, which is controlled by the directors and principal executive officer of Emerald.

The Company plans to continue to pursue funding through public or private equity or debt financings, licensing arrangements, asset sales, government grants or other arrangements. However, the Company cannot provide any assurances that such additional funds will be available on reasonable terms, or at all. If the Company raises additional funds by issuing equity securities, substantial dilution to existing stockholders would result. If the Company is unable to secure adequate additional funding, the Company may be forced to reduce spending, extend payment terms with suppliers, liquidate assets where possible, suspend or curtail planned programs or cease operations.

2. Summary of Significant Accounting Policies

Basis of Presentation

In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements have been prepared on a consistent basis with the Company's Audited Consolidated Financial Statements for the fiscal year ended December 31, 2017, and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth herein. The Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and therefore, omit certain information and footnote disclosure necessary to present the financial statements in accordance with generally accepted accounting principles in the United States ("GAAP").

The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ended December 31, 2018 or any future periods. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 19, 2018, which includes a broader discussion of the Company's business and the risks inherent therein.

Use of Estimates

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. Such estimates and judgments are utilized for stock-based compensation expense and equity securities or debt with embedded features.

Risks and Uncertainties

The Company's operations are subject to a number of risks and uncertainties, including but not limited to, changes in the general economy, the size and growth of the potential markets for any of the Company's product candidates, results of research and development activities, uncertainties surrounding regulatory developments in the Unites States and the Company's ability to attract new funding. (see Note 7)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of those investments approximates their fair market value due to their short maturity and liquidity. Cash and cash equivalents include cash on hand and amounts on deposit with financial institutions, which amounts may at times exceed federally insured limits. The Company has not experienced any losses on such accounts and does not believe it is exposed to any significant credit risk.

Restricted Cash

A deposit of $4,502 and $4,428 as of September 30, 2018 and December 31, 2017, respectively, was restricted from withdrawal and held by a bank in the form of a certificate of deposit. This certificate serves as collateral for payment of the Company's credit cards.

Fair Value Measurements

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (the "exit price") in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, is used to measure fair value:

Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources such as quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of our financial instruments, with the exception of the warrant liabilities, including, cash and cash equivalents, prepaid expenses, accounts payable, and accrued expenses approximate their fair value due to the short maturities of these financial instruments. The derivative liabilities related to the warrants and Series B preferred conversion liability were valued utilizing Level 3 inputs.

Property and Equipment, Net

Property and equipment, net, consists primarily of computers and equipment. Expenditures for additions, renewals and improvements are capitalized at cost. Depreciation is computed on a straight-line method based on the estimated useful life of the related asset currently ranging from two to three years. Maintenance and repairs that do not extend the life of assets are charged to expense when incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reported in the period the transaction takes place.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future undiscounted cash flows, an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the asset.

Income Taxes

The Company accounts for deferred income tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities, and net operating loss carry forwards (the "NOLs") and other tax credit carry forwards. These items are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date. Any interest or penalties would be recorded in the Company's statement of operations in the period incurred.

The Company records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. In making such determinations, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. Due to the substantial doubt related to the Company's ability to utilize its deferred tax assets, a valuation allowance for the full amount of the deferred tax assets has been established at September 30, 2018. As a result of this valuation allowance there are no income tax benefits reflected in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss to offset pre-tax losses.

The Company recognizes a tax benefit from uncertain tax positions when it is more likely than not (50%) that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The Company has no material uncertain tax positions as of September 30, 2018.

Convertible Instruments

The Company accounts for hybrid contracts with embedded conversion features in accordance with GAAP. ASC 815,*Derivatives and Hedging Activities* ("ASC 815") requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria includes circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

When determining short-term vs. long-term classification of derivative liabilities, the Company first evaluates the instruments' exercise provisions. Generally, if a derivative is a liability and exercisable within one year, it will be classified as short-term. However, because of the unique provisions and circumstances that may impact the accounting for derivative instruments, the Company carefully evaluates all factors that could potentially restrict the instrument from being exercised or create a situation where exercise would be considered remote. The Company re-evaluates its derivative liabilities at each reporting period end and makes updates for any changes in facts and circumstances that may impact classification.

The Company accounts for convertible instruments with embedded conversion features in accordance with ASC 470-20,*Debt with Conversion and Other Options* ("ASC 470-20") if it's determined that the conversion feature should not be bifurcated from their host instruments. Under ASC 470-20, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the difference between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. The Company accounts for convertible instruments in accordance with ASC 815, when it has determined that the embedded conversion option should be bifurcated from its host instrument. Under ASC 815, a portion of the proceeds received upon the issuance of the hybrid contract is allocated to the fair value of the derivative. The derivative is subsequently marked to market at each reporting date based on current fair value, with the changes in fair value reported in results of operations.

The Company also follows ASC 480-10, *Distinguishing Liabilities from Equity* ("ASC 480-10") when evaluating the accounting for its hybrid instrument. A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares shall be classified as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the following: (a) a fixed monetary amount known at inception (for example, a payable settled with a variable number of the issuer's equity shares); (b) variations in something other than the fair value of the issuer's equity shares (for example, a financial instrument indexed to the Standard and Poor's S&P 500 Index and settled with a variable number of the issuer's equity shares); or (c) variations inversely related to changes in the fair value of the issuer's equity shares (for example, a written put option that could be net share settled). Hybrid instruments meeting these criteria are not further evaluated for any embedded derivatives and are carried as a liability at fair value at each balance sheet date with a re-measurement reported other (income) expense in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss.

Warrants Issued in Connection with Financings

The Company generally accounts for warrants issued in connection with debt and equity financings as a component of equity, unless the warrants include a conditional obligation to issue a variable number of shares or there is a deemed possibility that the Company may need to settle the warrants in cash. For warrants issued with a conditional obligation to issue a variable number of shares or the deemed possibility of a cash settlement, the Company records the fair value of the warrants as a liability at each balance sheet date and records changes in fair value in other (income) expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Revenue Recognition

The Company has not begun planned principal operations and has not generated any revenue since inception.

Research and Development Expenses and Licensed Technology

Research and development ("R&D") costs are expensed when incurred. These costs may consist of external research and development expenses incurred under agreements with third-party contract research organizations and investigative sites, third-party manufacturing organizations and consultants; license fees; employee-related expenses, which include salaries, benefits and stock-based compensation for the personnel involved in our preclinical and clinical drug development activities; and facilities expense, depreciation and other allocated expenses; and equipment and laboratory supplies.

Costs incurred for the rights to use licensed technologies in the research and development process, including licensing fees and milestone payments, are charged to research and development expense as incurred in situations where the Company has not identified an alternative future use for the acquired rights, and are capitalized in situations where there is an identified alternative future use. No cost associated with the use of licensed technologies has been capitalized to date.

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the vesting period with forfeitures accounted for as they occur. The Company uses the Black-Scholes Merton option pricing model for estimating the grant date fair value of stock options using the following assumptions:

- Volatility - Stock price volatility is estimated based on industry peers who are also in the early development stage given the limited historical trading information in the public marketplace for the Company's own stock.

- Expected term - The expected term is based on a simplified method which defines the life as the weighted average of the contractual term of the options and the vesting period for each award.

- Risk-free rate - The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. treasury securities in effect during the period in which the awards were granted.

- Dividends - The dividend yield assumption is based on our history and expectation of paying no dividends in the foreseeable future.

Stock-Based Compensation for Non-Employees

Upon the adoption of ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,* during the quarter ended June 30, 2018, the Company also accounts for stock-based compensation awards issued to non-employees under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 718-10, *Compensation – Stock Compensation – Overall,* and uses the Black-Scholes Merton option-pricing model to determine the fair value of such awards. The Company values awards issued to non-employees on the grant date and has elected to estimate forfeitures as they occur and uses the simplified method to estimate the term of such awards. The Company recognizes stock-based compensation expense related to non-employee awards on a straight-line basis over the service period.

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Segment Information

FASB ASC No. 280, *Segment Reporting*, establishes standards for reporting information about reportable segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group ("CODM"), in deciding how to allocate resources and in assessing performance. The CODM evaluates revenues and gross profits based on product lines and routes to market. Based on the early development stage of our operation, we operate in a single reportable segment.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. ASC 220 requires that an entity records all components of comprehensive income (loss), net of their related tax effects, in its financial statements in the period in which they are recognized. For the three and nine months ended September 30, 2018 and 2017, the comprehensive income (loss) was equal to the net loss.

Earnings Per Share

The Company applies FASB ASC No. 260, *Earnings per Share*. Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding. Diluted earnings or loss per share would include the dilutive effect of outstanding warrants and awards granted to employees under stock-based compensation plans. Potentially dilutive shares of the Company's common stock are excluded from the calculation of diluted loss per common share because their effect would be anti-dilutive for the periods presented. The following common stock equivalents were excluded from the computation of diluted net loss per share of common stock for the periods presented because including them would have been anti-dilutive:

	Three Months Ended September 30, (Unaudited)		**Nine Months Ended September 30, (Unaudited)**	
	2018	**2017**	**2018**	**2017**
Stock options	1,850,073	1,130,000	1,850,073	1,130,000
Unvested restricted stock	1,918,501	1,050,000	1,918,501	1,050,000
Common shares underlying convertible preferred stock	-	13,965,500	-	13,965,500
Warrants	51,055,750	11,649,500	51,055,750	11,649,500

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 *Leases* (Topic 842) intended to improve financial reporting around leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets - referred to as "lessees"- to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. For public companies, the standard is effective for fiscal years beginning after December 15, 2018 and interim periods therein. Earlier adoption is permitted for any annual or interim period for which consolidated financial statements have not yet been issued. The Company has not currently entered into any leases for term of longer than one year and therefore does not expect the adoption of this standard to have a material effect on its Condensed Consolidated Financial Statements. The Company will adopt this ASU beginning on January 1, 2019 and will utilize the modified retrospective transition approach, as prescribed within this ASU.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*, (ASU 2017-11). Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The outstanding Warrants issued to Emerald contain a down-round provision. However, in the absence of the down-round these warrants would require liability accounting and be considered derivatives due to the presence of a put option (see Note 3). As such, the adoption of ASU 2017-11 is not expected to have a material impact on its financial statements and related disclosures.

In November 2018, the FASB issued ASU No. 2018-08 *Collaborative Arrangements* (Topic 808) intended to improve financial reporting around collaborative arrangements and align the current guidance under ASC 808 with ASC 606 *Revenue from Contracts with Customers.* The ASU affects all companies that enter into collaborative arrangements. The ASU clarifies when certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 and changes certain presentation requirements for transactions with a collaborative arrangement participants that are not directly related to sales to third parties. For public companies, the standard is effective for fiscal years beginning after December 15, 2019 and interim periods therein. Earlier adoption is permitted for any annual or interim period for which consolidated financial statements have not yet been issued. The Company has not entered into any collaborative arrangements and therefore does not currently expect the adoption of this standard to have a material effect on its Condensed Consolidated Financial Statements. The Company plans to adopt this ASU either on the effective date of January 1, 2020 or possibly in an earlier period if a collaborative arrangement is entered. Upon adoption, the Company will utilize the retrospective transition approach, as prescribed within this ASU.

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU No. 2018-13 *Fair Value Measurement* (Topic 820) intended to improve the effectiveness of disclosures around fair value measurements in the notes to financial statements. The ASU affects all entities that are required to make disclosures about recurring or nonrecurring fair value measurements. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. For all entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods therein. Early adoption is permitted upon the issuance of the Update and entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Company has early adopted part of this ASU upon issuance and revised its disclosures as of the September 30, 2018 reporting period to omit the disclosures removed by this ASU on a retrospective basis. Those disclosures include; 1. the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2. the policy for timing of transfers between levels, and 3. the valuation processes for Level 3 fair value measurements. The Company has elected to delay adoption of the additional disclosures required by the ASU, which include the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty until their effective date. Once this ASU is effective, the additional disclosures will be made on a prospective basis in the notes to the financial statements. The adoption of this guidance does not have a material impact to the Company's disclosures in the notes to its financial statements and has no impact on the Company's Condensed Consolidated Financial Statements.

3. Warrants and Derivative Liabilities

Warrants

There are significant judgments and estimates inherent in the determination of the fair value of the Company's warrants. These judgments and estimates included the assumptions regarding its future operating performance, the time to completing a liquidity event and the determination of the appropriate valuation methods. If the Company had made different assumptions, the fair value of the warrants could have been significantly different. (See Note 2)

Warrants vested and outstanding as of September 30, 2018 are summarized as follows:

Source		Exercise Price	Term (Years)	Amount Issued and Outstanding
Pre 2015 Common Stock Warrants	$	1.00	6-10	4,000,000
2015 Common Stock Warrants	$	1.15-$5.00	5-10	442,000
2015 Series B Financing				
Common Stock Warrants to Series B Stockholders	$	0.00	5	1,456,250
Placement Agent Warrants	$	0.00	5	187,500
2016 Common Stock Warrants to Service Providers	$	1.15	10	40,000
2016 Series C Placement Agent Warrants	$	0.40	5	125,000
2017 Series D Placement Agent Warrants	$	0.25	5	480,000
2017 Common Stock Warrants to Service Provider	$	0.41	5	125,000
2018 Emerald Financing Warrants	$	0.10	5	44,200,000
Total warrants vested and outstanding as of September 30, 2018				**51,055,750**

2018 Emerald Financing Warrants
In January and February 2018, the Company issued an aggregate of 40,800,000 and 3,400,000 fully vested common stock warrants to Emerald and an accredited investor, respectively, in conjunction with the Emerald Financing discussed below (See Note 4). The Company reviewed the warrants for liability or equity classification under the guidance of ASC 480-10, *Distinguishing Liabilities from Equity*, and concluded that these warrants should be classified as liabilities. See additional discussion below, *Derivative Liabilities- Emerald Warrant Liability.*

2017 Series D Placement Agent Warrants
In January 2017, the Company issued 480,000 warrants to purchase common stock to its investment banker in exchange for services rendered in conjunction with the Series D Preferred Stock financing. The warrants vested immediately and had an estimated fair value of $115,200 utilizing the Black-Scholes option pricing model, this amount was recorded to issuance costs for the nine months ended September 30, 2017.

2017 Common Stock Warrants to Service Provider
In February 2017, the Company entered into an agreement with one of its investors to provide advisory services on all matters including financing in exchange for 125,000 common stock warrants. The warrants vested immediately and had an estimated fair value of $30,000 utilizing the Black-Scholes option pricing model, this amount was recorded to general and administrative expense during the nine months ended September 30, 2017.

Derivative Liabilities

The following tables summarize the activity of derivative liabilities for the periods indicated:

	Nine Months Ended September 30, 2018				
	December 31, 2017 Fair Value of Derivative Liabilities	Fair Value of Derivative Liabilities Issued	Change in Fair value of Derivative Liabilities	Reclassification of Derivatives to Equity	September 30, 2018 Fair Value of Derivative Liabilities
Emerald Financing - Warrant Liability	$ -	$ 10,424,634	$ 192,808	$ -	$ 10,617,442
Series B Warrant Liability	551,322	-	1,275,669	(1,333,866)	493,125
Series B Preferred Stock Conversion Liability	6,715	-	-	(6,715)	-
Total	**$ 558,037**	**$ 10,424,634**	**$ 1,468,477**	**$ (1,340,581)**	**$ 11,110,567**

	Nine Months Ended September 30, 2017				
	December 31, 2016 Fair Value of Derivative Liabilities	Fair Value of Derivative Liabilities Issued	Change in Fair value of Derivative Liabilities	Reclassification of Derivatives to Equity	September 30, 2017 Fair Value of Derivative Liabilities
Series B Warrant Liability	$ 1,112,308	$ -	$ (320,495)	$ -	$ 791,813
Series B Preferred Stock Conversion Liability	118,821	-	(88,532)	(5,861)	24,428
Total	**$ 1,231,129**	**$ -**	**$ (409,027)**	**$ (5,861)**	**$ 816,241**

Emerald Financing Warrant Liability

In January and February 2018, the Company issued 44,200,000 warrants to purchase common stock in conjunction with the Emerald Financing discussed above. The warrants vest immediately and have an exercise price of $0.10 per share with a term of five years and are exercisable in cash or through a cashless exercise provision. The warrants contain an anti-dilution protection feature provided to the investors if the Company subsequently issues or sells any shares of common stock, stock options, or convertible securities at a price less than the exercise price of $0.10. The exercise price is automatically adjusted down to the price of the instrument being issued. In addition, the warrants contain a contingent put option in the event that the Company undergoes a subsequent financing that results in a change in control. The warrant holders also have the right to participate in subsequent financing transactions on an as-if converted basis.

The Company reviewed the warrants for liability or equity classification under the guidance of ASC 480-10, *Distinguishing Liabilities from Equity*, and concluded that the warrants should be classified as a liability and re-measured to fair market value at the end of each reporting period. The Company also reviewed the warrants under ASC 815 *Derivatives and Hedging/Contracts in Entity's Own Equity* and determined that the Warrants also meet the definition of a derivative. With the assistance of a third-party valuation specialist, the Company valued the warrant liabilities utilizing the Monte Carlo valuation method pursuant to the accounting guidance of ASC 820-10, *Fair Value Measurement*s. On the closing dates, the Company estimated that the fair value of the warrants issued on January 19, 2018 and February 16, 2018 was $4.7 million and $5.7 million, respectively.

The warrant liabilities have been valued using Monte Carlo simulations conducted at the closing dates of January 19, 2018 and February 16, 2018 and at September 30, 2018 using the following assumptions:

	September 30, 2018	At issuance
Dividend yield	0.00%	0.00%
Volatility factor	70.00%	70.00%
Risk-free interest rate	2.92%	2.45-2.6 %
Expected term (years)	4.30-4.38	5.0
Closing price per share of common stock	$ 0.30	$ 0.29-0.30

Because fair value assigned to the warrants exceeded the proceeds received in the Emerald Financing, none of the consideration was allocated to common stock and the Company recorded an adjustment for the difference between the fair value of the warrant liabilities and the total proceeds received to other expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the nine months ended September 30, 2018 as follows:

	Closing		
	January 2018	February 2018	Total
Initial Fair Value of Emerald Financing Warrant Liability	$ 4,717,211	$ 5,707,423	$ 10,424,634
Less: Proceeds from Emerald Financing	1,500,000	1,750,000	3,250,000
Excess over proceeds adjustment	**$ 3,217,211**	**$ 3,957,423**	**$ 7,174,634**

In addition, because the aggregate proceeds were allocated to the fair value of the Emerald Financing Warrant Liability, issuance costs totaling $137,191 were charged to other expense for the nine months ended September 30, 2018.

For the three months ended September 30, 2018, the Company recorded other expense of $1,006,879 related to the change in fair value of the Emerald Financing Warrant Liability included in the Condensed Consolidated Statement of Operations and Other Comprehensive Loss. Approximately $126,000, of the increase to the Emerald Warrant Liability related to a change in estimate in the probability of the put option being exercised.

Series B Warrant Liability
In conjunction with the Series B Preferred Stock financing, the Company issued 6,437,500 common stock warrants exercisable at a price of $1.15 per share, the warrants expire five years from the issuance date. The warrants were initially valued at $2,935,800 utilizing the Black-Scholes pricing model. The warrants are exercisable in cash or through a cashless exercise provision and contain certain cash redemption rights. The Series B warrants also had a "down-round" protection feature if the Company subsequently issued or sold any shares of common stock, stock options, or convertible securities at a price less than the current exercise price. The down round provision was triggered and automatically adjusted down to $0.10 on December 28, 2017, after the Company entered into the Secured Promissory Note for a convertible bridge loan (See Note 8) and again to $0.00 on January 19, 2018, as a result of the Emerald Financing. The strike price for these warrants is now permanently reset. However, because the remaining warrant holders still have certain cash redemption rights upon the occurrence of certain fundamental transactions, as defined in the Series B warrant agreements, the warrants continue to require liability classification.

The Company reviewed the classification of the warrants as liabilities or equity under the guidance of ASC 480-10, *Distinguishing Liabilities from Equity*, and concluded that the Series B warrants should be classified as a liability. The Company then applied the fair value allocation methodology for allocating the proceeds of $5.0 million received from the Series B financing between the conversion liability and the warrants with the residual amount being allocated to the preferred stock.

The Company utilized the Black Scholes Merton Option Pricing Model to compute the fair value of the warrants, the assumptions are outlined as follows:

	As of September 30, 2018	**As of December 31, 2017**
Dividend yield	0.00%	0.00%
Volatility factor	70.00%	70.00%
Risk-free interest rate	2.786-2.789%	1.947-1.949%
Expected term (years)	1.89-1.90	2.64-2.65
Weighted-average fair value of warrants	$ 0.300	$ 0.086

In January 2018, 987,000 Series B warrants were exercised at a price of $0.10 resulting in cash proceeds to the Company of $98,700. Prior to exercise, these Series B Warrants were adjusted to fair market value using a Black Scholes Merton Option Pricing Model which considered the closing trading price on the exercise dates. From January 19, 2018 through September 30, 2018, 3,806,750 Series B warrants were exercised at a price of $0.00 for no consideration. Prior to exercise, these Series B Warrants were adjusted to fair market value using a Black Scholes Merton Option Pricing Model which considered the closing trading price on the exercise dates. Because the exercise price of these options had been reset to $0.00, the fair value derived from the valuation model approximated the market value of the Company's common stock on the exercise dates. (See Note 4)

For the three months ended September 30, 2018 and 2017, the Company recorded other expense of $43,850 and $281,497, respectively, related to the change in fair value of the Series B Warrant Liability included in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Series B Preferred Stock Conversion Liability
On August 20, 2015, in connection with the Series B Preferred Stock financing, the Company bifurcated a conversion liability related to a down-round protection provided to the Series B investors. The value of this embedded derivative was determined utilizing a "with and without" method by valuing the preferred stock with and without the down round protection. During the first fiscal quarter of 2018, all of the remaining Series B Preferred Stock was converted to common stock (See Note 4) and as a result, the Series B conversion liability was reduced to zero. The reduction of this liability totaling $6,715 was recorded to equity for the nine months ended September 30, 2018.

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4. Stockholders’ Deficit and Capitalization

Common Stock

On January 19, 2018, the Company entered into a Securities Purchase Agreement in which the Company sold to Emerald 15,000,000 shares of common stock and a warrant to purchase 20,400,000 shares of common stock at an exercise price of $0.10 for aggregate gross proceeds of $1,500,000 (“the Emerald Financing”). This transaction also resulted in the conversion of the $900,000 Secured Promissory Note (discussed in Note 8 below) at $0.10 per share to 9,000,000 shares of common stock and represented the first of two closings under the Agreement. As a result of this transaction, the Company had a change in control and all Board members, with the exception of Dr. Brian Murphy, the Company’s CEO/CMO, tendered their resignation. Emerald has appointed its nominees to the new Board. The Securities Purchase Agreement also provides that in the case of a subsequent financing in which the purchase price is less than $0.10 per share, Emerald shall be issued additional shares in order to protect against anti-dilution.

The second closing under the Emerald Financing occurred on February 16, 2018, pursuant to which Nemus issued and sold to Emerald 15,000,000 shares of Nemus’ common stock, and a warrant to purchase 20,400,000 shares of Common Stock at an exercise price of $0.10 per share for a term of five years. In addition, an accredited investor purchased 2,500,000 shares of common stock and a warrant to purchase 3,400,000 shares of common stock at an exercise price of $0.10 per share for a term of five years. The Company received aggregate gross proceeds of $1,750,000 from the second closing. In connection with the private placement, the Company was liable to reimburse Emerald for legal fees up to $25,000; total billings received as of September 30, 2018 are insignificant to the Condensed Consolidated Financial Statements.

During the nine months ended September 30, 2018, all remaining Series B, D, and F stockholders converted their shares of preferred stock to common stock. This resulted in 2,833.5 shares of Series B Preferred Stock being converted into 28,335,000 shares of common stock at an effective price of $0.10 per share and 0.05 shares of Series B Preferred Stock being converted into 50,000 shares of common stock at an effective price of $0.001 per share, 200 shares of Series D Preferred Stock being converted into 2,000,000 shares of common stock at an effective price of $0.10 per share, and 2,000 shares of Series F Preferred Stock being converted into 20,000,000 shares of common stock at an effective price of $0.10 per share.

During the nine months ended September 30, 2018, the Series B warrant holders exercised warrants with an intrinsic value of $1,308,175 which resulted in the issuance of 4,793,750 shares of common stock.

Preferred Stock

The Company has authorized 20,000,000 shares of preferred stock with a par value of $0.001 per share.

As of September 30, 2018, all of the redeemable Convertible Series B and Convertible Series C, D and F Preferred Stock was fully converted, as disclosed above under “Common Stock” and is no longer outstanding. For a description of the provisions of each preferred series previously issued and outstanding at December 31, 2017, refer to annual report on Form 10-K for the year ended December 31, 2017.

5. Stock-Based Compensation

Stock Incentive Plan

On October 31, 2014, after the closing of the Merger, our Board of Directors approved the 2014 Omnibus Incentive Plan (the “2014 Plan”). The 2014 Plan initially reserved 3,200,000 shares for future grants. As of September 30, 2018, the Company had 701,499 shares available for future grant under the 2014 Plan. In October 2018, the Company increased the share reserve under the 2014 Plan; refer to Note 9 for more information. The 2014 Plan authorizes the issuance of awards including stock options, stock appreciation rights, restricted stock, stock units and performance units to employees, directors, and consultants of the Company.

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The following is a summary of option activity under the Company's 2014 Plan for the nine months ended September 30, 2018:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding, December 31, 2017	1,130,000	$	0.60	6.89
Granted	-		-	-
Exercised	-		-	-
Cancelled	(48,000)		2.57	-
Forfeited	(427,000)		0.66	-
Outstanding, September 30, 2018	655,000	$	0.42	6.11
Exercisable, September 30, 2018	393,000	$	0.42	6.11

During the nine months ended September 30, 2018, no stock options were exercised. The aggregate intrinsic value is the sum of the amounts by which the quoted market price of the Company's stock exceeded the exercise price of the stock options at September 30, 2018 for those stock options for which the quoted market price was in excess of the exercise price ("in-the-money options"). The aggregate intrinsic value of options exercisable, and vested and expected to vest as of September 30, 2018, was $-0- and $-0-, respectively.

No options were granted to non-employees during the three and nine months ended September 30, 2018 and 2017.

The following is a summary of RSA activity under the Company's 2014 Plan for the nine months ended September 30, 2018:

	Number of Shares		Weighted Average Grant Date Fair Value
Outstanding, December 31, 2017	1,050,000	$	0.75
Granted	643,501		0.26
Released	(675,000)		0.75
Outstanding, September 30, 2018	1,018,501	$	0.44
Expected to vest, September 30, 2018	1,018,501	$	0.44

On February 28, 2018, in conjunction with the signing of the K2C separation agreement discussed in Note 8 below, Mr. Lykos' RSA's amounting to 325,000 shares vested immediately resulting in a Type III award modification and a credit to stock compensation of $98,042 for the nine months ended September 30, 2018 due to a lower fair market value of those shares as of the modification date.

On May 25, 2018, in conjunction with the signing of her separation agreement, the former Nemus CFO, Ms. Elizabeth Berecz's RSA's amounting to 350,000 shares vested immediately resulting in a Type III award modification and a credit to stock compensation of $97,183 for the nine months ended September 30, 2018 due to a lower fair market value of those shares as of the modification date as compared to the fair value immediately prior to acceleration.

Awards Granted Outside the 2014 Plan

Options
On May 25, 2018, the Company entered into Stock Option Agreement with Douglas Cesario, CFO, granting 1,195,073, stock options with an exercise price equal to $0.245 and a grant date fair market value of $200,172. The options vest 25% on July 23, 2018, and the remaining 75% will vest 1/33 on each of the next 33 months thereafter. Options will fully vest upon a Triggering Event, including a Sale of the Company or a Merger that results in a change of control. The aggregate intrinsic value of the awards exercisable and vested and expected to vest as of September 30, 2018, is $19,420 and $65,729, respectively.

Restricted Stock Awards
On January 18, 2018, the Company entered into Restricted Stock Agreements with each of Dr. Murphy, Elizabeth Berecz, CFO, and Cosmas N. Lykos, the Company's Founder granting 900,000, 700,000, and 900,000 shares of restricted common stock, respectively, with a fair market value of $475,000. These agreements were issued outside of the 2014 Omnibus Incentive Plan. The restricted stock vests in equal 50% installments on the first and second anniversaries of the grant date, subject to continued employment with Nemus through the applicable vesting date. Each Restricted Stock Agreement provides that if an executive's employment or service is terminated by the Company without cause, or is terminated by the grantee for good reason, then the executive shall be entitled to receive a cash severance payment equal to six months of their base compensation, payable in substantially equal installments during the six-month period following the separation along with accelerated vesting of all outstanding stock awards.

On February 28, 2018, in conjunction with the signing of the K2C separation agreement discussed in Note 8 below, Mr. Lykos' Restricted stock awards amounting to 900,000 shares became immediately vested resulting in a Type III award modification and stock compensation expense of $216,000 for the nine months ended September 30, 2018, due to an increase in the fair value of the award immediately before and after the modification date.

On May 25, 2018, in conjunction with the signing of her separation agreement discussed above, the former Nemus CFO, Ms. Elizabeth Berecz's Restricted stock awards amounting to 700,000 shares became immediately vested resulting in the recording of compensation expense of $184,800 for the nine months ended September 30, 2018, due to an increase in the fair value of the award immediately before and after the modification date.

Stock-Based Compensation Expense

The Company recognizes stock-based compensation expense based on the fair value of that portion of stock options that are ultimately expected to vest during the period. Stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations and Comprehensive Loss includes compensation expense for stock-based awards based on the estimated grant date fair value over the requisite service period. For the three months ended September 30, 2018 and 2017, the Company recognized stock-based compensation expense of $154,508 and $152,172, respectively (including compensation expense for RSAs discussed above), which was recorded as a general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss. For the nine months ended September 30, 2018 and 2017, the Company recognized stock-based compensation expense of $484,720 and $456,507, respectively (including compensation expense for RSAs discussed above), which was recorded as a general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss. The total amount of unrecognized compensation cost was $547,447 as of September 30, 2018. This amount will be recognized over a weighted average period of 2.06 years.

6. Significant Contracts

University of Mississippi Agreements

In July 2013, the Company entered into a Memorandum of Understanding (MOU) with UM to engage in joint research of extracting, manipulating, and studying cannabinoids in certain forms to develop intellectual property (IP) with the intention to create and commercialize therapeutic medicines. This MOU resulted in Nemus entering into several licenses and research agreements with UM, related to a prodrug of tetrahydrocannabinol (THC) and an analog of cannabidiol (CBD). The term of the MOU agreement expired in 2018 and was not renewed since the Company and the University had entered into a number of licenses for the aforementioned compounds.

UM 5050 pro-drug agreements:

On September 29, 2014, the Company executed three license agreements with UM pursuant to which UM granted the Company exclusive, perpetual, worldwide licenses, including the right to sublicense, to intellectual property related to UM 5050, a pro-drug formulation of tetrahydrocannabinol, or THC for products administered through each of ocular, oral or rectal delivery. Nemus has decided to initially focus UM 5050 product development on developing ocular medicines for the treatment of ophthalmic-related diseases of the eye. In July 2018, the Company notified UM that it will renew the license for UM5050 related to ocular delivery of the prodrug of THC. The license agreement for ocular delivery contains certain milestone payments, royalty and sublicensing fees, as defined therein. There is an annual fee of $25,000, payable on the anniversary of the effective date and this amount was paid in September 2018. The aggregate milestone payments under the license agreement, if the milestones are achieved, is $0.7 million. The license agreement also requires the Company to reimburse UM for patent costs incurred related to these products under license. The license agreement will terminate upon expiration of the patents, breach or default of the license agreement, or upon 60 days' written notice by the Company to UM.

On October 15, 2014, the Company signed a renewable option agreement for the rights to explore other routes of delivery of UM 5050 not yet agreed upon and/or in combination with other cannabinoids or other compatible compounds. The Company is working with UM to establish new licenses derived from this option agreement and has let the other routes of administration option expire.

UM 8930 analogue agreements:

On December 14, 2015, the Company executed two license agreements with UM pursuant to which UM granted the Company exclusive, perpetual, worldwide licenses, including the right to sublicense, to intellectual property related to UM 8930, an analogue formulation of cannabidiol ("CBD") for products administered through each of ocular or rectal delivery. In July 2018, the Company renewed the ocular delivery license. The license agreement for ocular delivery contains certain milestone payments, royalty and sublicensing fees, as defined therein. There is an annual fee of $25,000, payable on the anniversary of the effective date. The aggregate milestone payments under the license agreement, if the milestones are achieved, is $0.7 million. The license agreement also requires the Company to reimburse UM for patent costs incurred related to these products under license. The license agreement will terminate upon expiration of the patents, breach or default of the license agreement, or upon 60 days' written notice by the Company to UM.

On December 14, 2015, the Company signed a renewable option agreement for the rights to explore other routes of delivery of UM8930 not yet agreed upon and/or in combination with other cannabinoids or other compatible compounds. The Company is working with UM to establish new licenses derived from this option agreement and has let the other routes of administration option expire.

UM 5070 license agreement:

On January 10, 2017, the Company entered into a license agreement with UM pursuant to which UM granted the Company an exclusive, perpetual license, including the right to sublicense, under intellectual property related to UM 5070, a platform of cannabinoid-based molecules to research, develop and commercialize products for the treatment of infectious diseases. The license agreement culminates roughly one year of screening and target molecule identification studies especially focused on therapy-resistant infectious organisms like methicillin-resistant Staphylococcus aureus (MRSA). The license agreement contains certain milestone payments, royalty and sublicensing fees, as defined therein. There is an annual fee of $25,000, payable on the anniversary of the effective date and this amount was paid in January 2018. The aggregate milestone payment under the license agreement, if the milestones are achieved, is $0.7 million. This license agreement also requires the Company to reimburse UM for patent costs incurred related to these products under the license. This license agreement will terminate upon expiration of the patents, breach or default of the license agreement, or upon 60 days' written notice by the Company to UM.

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AMRI Agreement

On July 31, 2018, the Company entered into a letter agreement with Albany Molecular Research Inc., or AMRI, pursuant to which AMRI is to provide services to the Company for process development and analytical method development and qualification for the Company's prodrug of tetrahydrocannabinol, or THC, as well as for sample production and a stability study.

Pursuant to the terms of the agreement, the Company will pay an estimated $64,200 in fees and expenses for the initial evaluation and development of a process for the production of the Company's pro-drug of THC to ensure reproducibility, quality and safety. After the initial evaluation, the Company has agreed to pay additional fees and expenses for manufacturing, sample production of the Company's pro-drug of THC and a stability study, as well as possible extensions to or modifications of the aforementioned projects.

The Company may at any time cancel or delay any project under the agreement prior to the scheduled start date. The Company must reimburse AMRI for costs incurred prior to and including the date of cancellation plus any reasonable and foreseeable costs associated with stopping work on any project, including AMRI's loss of revenue incurred as the result of reserving production facilities for the Company's exclusive use.

The Company may terminate the agreement in whole or in part at any time upon 30 days' written notice. Either party may terminate the agreement in writing in the event of default by the other party that is not cured within 30 days of receipt of notice of default for the following events of default: (i) insolvency of such party, (ii) any assignment for the benefit of creditors of such party, (iii) voluntary or involuntary filing of a petition order or other decree in bankruptcy by or against such party, (iv) commencement of any proceeding for liquidation of, reorganization of, or the composition, extension, arrangement or readjustment of the obligations of such party, (v) failure by such party to comply with any provision of the agreement in any material respect, and (vi) proof that any representations by such party were false when made.

7. Commitments and Contingencies

Legal Matters

General Litigation and Disputes

From time to time, in the normal course of our operations, we may be a party to litigation and other dispute matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable outcome to any legal matter, if material, could have a materially adverse effect on our operations or our financial position, liquidity or results of operations. As of September 30, 2018, there were no pending or threatened lawsuits or claims that could reasonably be expected to have a material effect on the Company's financial position or results of operations, but the Company has filed a petition commencing arbitration as described below.

Pending Series E Preferred Stock Financing and Filing for Arbitration

On May 3, 2017, the Company entered into a securities purchase agreement with a purchaser to sell 1,000,000 shares of a new Series E Preferred Stock, par value $0.001 per share, at a purchase price of $20.00 for each preferred share for aggregate gross proceeds of $20,000,000. The securities purchase agreement provides for no conditions precedent to the close and that closing is not to occur later than July 10, 2017. The purchaser did not provide funding to close the transaction on July 10, 2017 as required under the securities purchase agreement and requested an extension of the closing date. In connection with the signing of the securities purchase agreement, an affiliate of the purchaser entered into a financial guarantee to the benefit of the Company that provided for payment of the purchase price in full within 90 days of exercise. The Company exercised this guarantee on July 12, 2017. The guarantor has failed to pay the $20,000,000 within 90 days of notice of the purchaser's default, as required by the terms of the guaranty.

On November 8, 2017, the Company filed a petition commencing arbitration against the purchaser and guarantor as well as other related individuals. In the petition, the Company asserts, among other things, breach of contract against the purchaser for its failure to close its purchase of Series E Preferred Stock as required by the securities purchase agreement. The Company also asserts a breach of contract claim against the guarantor for its failure to honor its guarantee of the transaction. The petition was filed with Judicial Arbitration and Mediation Services, Inc., ENDISPUTE in Orange County, California, as required by the securities purchase agreement. The Company has engaged its legal counsel in the matter on a contingent-fee basis, other than costs, and intends to pursue damages and remedies in connections with these agreements. This legal action remains on-going.

Government Proceedings

Like other companies in the pharmaceutical industry, we are subject to extensive regulation by national, state and local government agencies in the United States. As a result, interaction with government agencies occurs in the normal course of our operations. It is possible that criminal charges and substantial fines and/or civil penalties or damages could result from any government investigation or proceeding. As of September 30, 2018, the Company had no proceedings or inquiries.

Change in Control Severance Plan

In February 2015, we adopted a change in control severance plan, in which our named executive officers participate, that provides for the payment of severance benefits if the executive's service is terminated within twelve months following a change in control, either due to a termination without cause or upon a resignation for good reason (as each term is defined in the plan).

In either such event, and provided the executive timely executes and does not revoke a general release of claims against the Company, he or she will be entitled to receive: (i) a lump sum cash payment equal to at least six months of the executive's monthly compensation, plus an additional month for each full year of service over six years, (ii) Company-paid premiums for continued health insurance for a period equal to length of the cash severance period or, if earlier, when executive becomes covered under a subsequent employer's healthcare plan, and (iii) full vesting of all then-outstanding unvested stock options and restricted stock awards.

8. Related Party Matters

K2C, Inc.

In June 2014, our subsidiary entered into an independent contractor agreement with K2C, Inc. (“K2C”), which is wholly owned by the Company’s then Executive Chairman and Co-Founder, Mr. Cosmas N. Lykos, pursuant to which the Company paid K2C a monthly fee for services performed by Mr. Lykos for the Company. The agreement expired on June 1, 2017 and was automatically renewed for one year pursuant to the terms of the agreement. The monthly fee under the agreement was $10,000 and increased to $20,000 effective April 1, 2017.

In February 2018, the Company entered into a separation and release agreement with K2C, which provided for a lump sum payment of $180,000 and the immediate vesting of 900,000 shares of restricted common stock granted on January 18, 2018, 325,000 shares of restricted common stock granted on October 20, 2015, and 125,000 options granted on November 21, 2014, in exchange for a release of claims and certain other agreements. The Company recognized additional stock-based compensation expense of $112,270 for these restricted stock and option awards.

For the three months ended September 30, 2018, no expense was incurred under this agreement. Total expense incurred under this agreement was $60,000 for the three months ended September 30, 2017. For the nine months ended September 30, 2018 and 2017, total expense incurred under this agreement was $220,000 (including the previously discussed lump sum payment) and $150,000 respectively. Under the separation agreement, Mr. Lykos was allowed to participate in the Company's health, death and disability insurance plans for six months subsequent to K2C's separation.

Emerald Health Sciences

On February 1, 2018, the Company entered into an Independent Contractor Agreement with Emerald, pursuant to which Emerald agreed to provide such services as are mutually agreed between the Company and Emerald, including reimbursement for reasonable expenses incurred in the performance of the Independent Contractor Agreement. These services can include, but are not limited to, corporate advisory services and technical expertise in the areas of business development, marketing, investor relations, information technology and product development. The Independent Contractor Agreement has an initial term of ten years and specifies compensation which is agreed upon between the Company's chief executive officer and Emerald's Chairman, CEO and President on a month-to-month basis. The fee due under this agreement is payable on a monthly basis, however, if the Company is unable to make payments due to insufficient funds, then interest on the outstanding balance will accrued at a rate of 12% per annum, calculated semi-annually. Under this agreement, for the three and nine months ended September 30, 2018, the Company incurred expenses of $150,000 and $400,000, respectively.

On February 6, 2018, the Company entered into a Consulting Agreement with Dr. Avtar Dhillon, the Chairman, Chief Executive Officer and President of Emerald. The services under the Consulting Agreement include, corporate finance and strategic business advisory. The Consulting Agreement has an initial term of one year and renews automatically unless terminated by either party. The agreement specifies an annual fee of $60,000 payable semi-monthly in installments, including reimbursement for reasonable expenses incurred in the performance of the services. The contractor is also entitled to a discretionary annual bonus, payable 120 days after each fiscal year end, to be determined by the Board upon its annual review. Under this agreement, for the three and nine months ended September 30, 2018, the Company incurred $15,000 and $45,000, respectively. At September 30, 2018, $15,000 is accrued and included in accounts payable – related party in the Condensed Consolidated Balance Sheets. The Consulting Agreement was canceled on October 5, 2018 in connection with the Company's entry into the Credit Agreement with Emerald (Note 9), and Dr. Avtar Dhillon was appointed as the Executive Chairman of the Company's Board of Directors.

Convertible Debt – Related Party

On December 28, 2017, the Company entered into a Secured Promissory Note and Security Agreement for a convertible bridge loan with Emerald. The bridge loan provides for aggregate gross proceeds to the Company of up to $900,000 and is secured by all of the Company's assets. The Company received proceeds of $500,000 on December 28, 2017 and on January 19, 2018, the Company received the remaining $400,000 in funding as it had satisfied the conditions of the funding. These conditions required receipt of conversion notices from all the existing Series B shareholders to convert their preferred shares to common stock. Such conversions occurred in January and February of 2018.

In connection with the convertible bridge loan, the Company recorded a liability related to the conversion option of the bridge loan into the Company's common stock due to a down-round protection feature present in the loan agreement. The Company valued the conversion liability pursuant to the accounting guidance of ASC 820-10, *Fair Value Measurement*s, as of the closing date of the financing utilizing the Black Scholes valuation methodology and the assumptions discussed in Note 3 above. This resulted in a conversion liability value of $265,000 as of the financing close date which was one trading day prior to December 31, 2017. The second funding in January 2018 resulted in an additional conversion liability of $360,000.

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On January 19, 2018, in conjunction with the Emerald Financing (discussed in Note 4 above), the bridge loan was converted into common stock at $0.10 per share and 9,000,000 common shares were issued. Upon conversion the debt and associated conversion liability were extinguished resulting in a loss on extinguishment of $590,392 which was recorded as other expense for the nine months ended September 30, 2018. For the nine months ended September 30, 2018, the Company recorded interest expense related to the amortization of the debt discount of $34,608 and marked to market the conversion liability to $810,000 which resulted in a change in fair value of $185,000.

At September 30, 2018, $3,767 in accrued interest related to the convertible debt has been recorded in other current liabilities.

9. Subsequent Events

Common Stock
On October 5, 2018, the Company's Board of Directors and majority stockholder approved an amendment to the Company's articles of incorporation to increase the number of authorized common shares available for issuance to 500,000,000. The amendment to the Company's articles of incorporation will be effective upon the filing of a Certificate of Amendment with the Nevada Secretary of State, which is expected to occur on or about November 14, 2018.

2014 Plan and Stock Option Awards
On October 5, 2018, the Company amended the 2014 Plan to increase the number of shares reserved for issuance to equal 10% of the number of issued and outstanding shares of common stock of the Company. On October 16, 2018, the Company filed a registration statement on Form S-8 to register the additional shares of common stock authorized for issuance under the 2014 Plan, as amended.

On October 5, 2018, the Company granted 350,000 options to purchase shares of common stock with an exercise price of $0.26 under the 2014 Plan to a member of management. The options vest 25% upon the date of grant and 1/36th on each of the next thirty-six months thereafter.

On October 10, 2018, the Company granted a total of 1,400,000 non-qualified stock options to purchase shares of common stock to the Directors of the Company under the 2014 Plan. The options have an exercise price of $0.305 per share and vest in equal monthly installments over a one-year period commencing on the date of grant.

Multi-Draw Credit Agreement and Issuance of Warrants

On October 5, 2018, the Company entered into a Multi-Draw Credit Agreement (the "Credit Agreement") with Emerald, a related party. The Credit Agreement provides for a credit facility to the Company of up to $20,000,000 and is unsecured. Advances under the Credit Agreement bear interest at an annual rate of 7% (payable quarterly in arrears) and mature on October 5, 2022. At Emerald's election, advances and unpaid interest may be converted into Common Stock at a fixed conversion price of $0.40, subject to customary adjustments for stock splits, stock dividends, recapitalizations, etc. The net proceeds of each advance shall be used for general corporate purposes and are subject to approval by the Company's Board of Directors.

The Credit Agreement provides for customary events of default which may result in the acceleration of the maturity of the advances in addition to, but not limited to, cross acceleration to certain other indebtedness of the Company or a change in control. In the case of an event of default arising from specified events of bankruptcy or insolvency or reorganization, all outstanding advance will become due and payable immediately without further action or notice. If any other event of default under the Credit Agreement occurs or is continuing, Emerald may, by written notice, terminate its commitment to make any advances and/or declare all the advances with any other amounts payable due and payable immediately. If any amount under the Credit Agreement is not paid when due, such overdue amount shall bear interest at an annual default interest rate of the applicable rate plus 10%, until such amount is paid in full.

In connection with each advance under the Credit Agreement, the Company has agreed to issue Emerald warrants to purchase shares of common stock in an amount equal to 50% of the number of shares of common stock that each advance may be converted into. The warrants have an exercise price of $0.50 per share, a term of five years and will be immediately exercisable upon issuance. The exercise price is subject to adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events or upon any distributions of assets, including cash, stock or other property to the Company's shareholders.

On November 1, 2018, the Company effected an initial draw under the Credit Agreement in the amount of $2,000,000 and issued Emerald a warrant to purchase 2,500,000 shares of common stock at an exercise price of $0.50 per share, in accordance with the terms of the Credit Agreement.

Board Compensation

On October 5, 2018, the Board appointed Dr. Avtar Dhillon, the Chairman, Chief Executive Officer and President of Emerald, as the Executive Chairman of the Company's Board of Directors.

On October 10, 2018, the Company amended its policy for the compensation of its non-employee directors as follows:

- Each non-employee director will receive a cash retainer of $40,000 on an annual basis, and the executive chair of the Board, if a non-employee director, will receive an additional $40,000 retainer annually.

- Upon election to the Board, non-employee directors will receive a one-time award of 200,000 stock options which will vest in twelve equal monthly installments. In subsequent annual periods, each non-employee director will receive a grant of 100,000 common stock options which will vest in twelve equal monthly installments.

Non-employee directors who serve as members of special committees of the Board will receive additional compensation as follows:

- Audit Committee: $5,000 per year ($20,000 for the chair)

- Compensation Committee: $2,500 per year ($10,000 for the chair)

- Nominating and Corporate Governance Committee: $1,000 per year ($5,000 for the chair)
- Finance and Business Development Special Committee: $40,000 per year

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial *statements for the three and nine months ended September 30, 2018 and 2017 (unaudited) and the year ended December 31, 2017, together with the notes thereto. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited, to those set forth under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.*

Unless otherwise provided in this Quarterly Report, references to "we," "us," "our" and "Nemus" in this discussion and analysis refer to Nemus Bioscience, Inc., a Nevada corporation formerly known as Load Guard Logistics, Inc. ("LGL"), together with its wholly-owned subsidiary, Nemus, a California corporation ("Nemus"). Nemus became the wholly owned subsidiary of Nemus Bioscience, Inc. through the closing of a reverse merger transaction (the "Merger") pursuant to which a wholly owned subsidiary of LGL formed solely for the purpose of the Merger merged with and into Nemus and LGL changed its name to Nemus Bioscience, Inc.

The Merger has been accounted for as a reverse merger and recapitalization, with Nemus as the acquirer and LGL as the acquired company for financial reporting purposes. As a result, the assets and liabilities and the operations that will be reflected in the historical financial statements prior to the Merger will be those of Nemus and will be recorded at the historical cost basis of Nemus, and the consolidated financial statements after completion of the Merger will include the assets and liabilities of LGL and Nemus, the historical operations of Nemus and the operations of the combined enterprise of LGL and Nemus from and after the closing date of the Merger.

Overview

We are a biopharmaceutical company targeting the discovery, development, and the commercialization of cannabinoid-based therapeutics, through a number of agreements with the University of Mississippi, or UM. UM holds the only contract to cultivate cannabis for research purposes on behalf of the Federal Government of the United States since 1968, and it has significant expertise in cannabis cultivation and the extraction, separation, process and manufacture of cannabis extracts as well as the chemistry and physiology of cannabinoid molecules. We strive to serve as UM's partner for the development and commercialization of cannabinoid-based therapeutics and the realization of this partnership will depend on the successful development of these compounds through the regulatory requirements of drug approval agencies, like the FDA in the United States and the EMA in the European Union.

Recent Events and Significant Contracts

Multi Draw Credit Agreement

Subsequent to the quarterly period ended September 30, 2018, on October 5, 2018, we entered into a Multi-Draw Credit Agreement (the "Credit Agreement") with Emerald Health Sciences Inc. ("Emerald"), a related party, which provides for a credit facility of up to $20,000,000. Pursuant to the Credit Agreement, we may request advances from time to time from Emerald, and in connection with each advance, we will issue Emerald warrants to purchase shares of our common stock at an exercise price of $0.50 per share. Emerald has the option to convert all or any portion of the outstanding loan under the Credit Agreement into shares of our common stock at a fixed conversion price of $0.40 per share, subject to customary adjustments. The net proceeds of each advance shall be used for general corporate purposes and are subject to approval by our Board of Directors.

The procurement of the Credit Agreement allows us to continue to focus on ramping up our R&D pipeline which supports our lead programs. To our knowledge, Nemus is the only cannabinoid-based company with a multi-cannabinoid platform to address multi-billion dollar global markets in ocular disease, including but not limited to glaucoma and retinal diseases.

UM Research Agreement

The Company signed a research agreement with UM on August 28, 2018 to conduct an animal study in normotensive and glaucomatous animals to assess the use of NB1111, the prodrug of THC, using solid lipid nanoparticle delivery (SLN) of the company's proprietary molecule when compared to a prostaglandin standard of care. Safety data will also be collected. The term of the Research Agreement is through January 31, 2019 and may be terminated for convenience or cause by either party at any time without penalty. The aggregate amount of payments due by the Company under the contract for the services rendered is up to $155,156. Upon cancellation the Company is responsible to pay any amounts incurred by UM for the services through the termination date.

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Pursuant to the terms of the agreement, we will pay an estimated $64,200 in fees and expenses for the initial evaluation and development of a process for the production of our pro-drug of THC to ensure reproducibility, quality and safety. After the initial evaluation, we have agreed to pay additional fees and expenses for development, sample production of our pro-drug of THC and a stability study, as well as possible extensions to or modifications of the aforementioned projects.

Conversion of Preferred Stock and Warrants

During the nine-month period ended September 30, 2018, we issued 50,385,000 shares of common stock upon the conversion of all remaining shares of Series B, D and F Preferred Stock. In addition, the Series B warrant holders exercised warrants which resulted in the issuance of 4,793,750 shares of common stock during the nine-month period ended September 30, 2018.

Critical Accounting Policies and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be 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 readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. We consider certain accounting policies related to fair value measurements, convertible instruments, warrants issued in connection with financings, stock-based compensation expense, and earnings per share to be critical accounting policies that require the use of significant judgments and estimates relating to matters that are inherently uncertain and may result in materially different results under different assumptions and conditions.

During the quarter ended June 30, 2018, we corrected a classification error for the period ended March 31, 2018 related to the misclassification of our warrant liabilities as long-term. As a result, we updated our policy for convertible instruments to include our policy for assessing short-term vs. long-term classification of our derivative liabilities.

As discussed in Note 2 to the accompanying Condensed Consolidated Financial Statements, during the quarter ended September 30, 2018, we early adopted certain provisions of ASU 2018-13 *Fair Value Measurements* (Topic 820). Under the ASU we made revisions to our Fair Value Measurement policy note to omit certain disclosures no longer required under the standard.

Management assessed the critical accounting policies as disclosed in our 2017 Form 10-K and determined that, other than the updates to our convertible instruments and fair value measurement policy notes, there were no changes to our critical accounting policies and estimates during the nine months ended September 30, 2018.

Recently Issued and Adopted Accounting Pronouncements

See Note 2 to the accompanying Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on recently issued accounting pronouncements and recently adopted accounting pronouncements. While we expect certain recently adopted accounting pronouncements to impact our estimates in future periods, the impact upon adoption was not significant to our current estimates and operations.

Results of Operations

For the three months ended September 30, 2018 and 2017

Revenues. To date, we have not generated any revenues, and do not expect to generate any revenue from the sale of products in the near future.

Operating expenses. For the three months ended September 30, 2018, our total operating expenses were $1,045,620 as compared to $761,630 for the three months ended September 30, 2017. The increase in operating expenses was due to the items noted below:

Research and development. Research and development expenses for the three months ended September 30, 2018, were $67,291 which consisted of the annual license maintenance fee for UM5050 related to ocular delivery, contract research and development fees with UM, and fees related to our contract with AMRI to manufacture our prodrug of THC.

Research and development expenses for the three months ended September 30, 2017, were $88,550 which consisted of annual license maintenance fees for UM5050 related to ocular, oral and rectal delivery, and contract research and development fees with UM.

There was no significant change in research and development expenses for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. During 2018, the Company's focus has been on securing access to capital and re-positioning its strategy. The procurement of the Credit Agreement allows us to continue to focus on ramping up research and development expenses in future periods.

General and administrative. General and administrative expenses for the three months ended September 30, 2018 were $978,329 which primarily consisted of salaries, stock compensation expense, consulting fees and professional fees. By comparison, general and administrative expenses for the three months ended September 30, 2017 were $673,080 which primarily consisted of the same components. The increase of $305,249 is related to increases in salaries due to increased head count, higher legal and accounting fees related to our capital raising and regulatory filings, and additional consulting fees incurred under the Independent Contractor Agreement with Emerald.

Other expense (income). For the three months ended September 30, 2018, the Company had other expense of $1,050,729 related to the change in the fair value of the Series B and Emerald Warrant Liabilities. The fair value of the Emerald Warrant Liabilities was determined by a third party independent valuation conducted as of September 30, 2018. The Series B Warrants have an exercise price of $0 at September 30, 2018, therefore, the Black Scholes fair value of these warrants approximated the closing common stock price at the end of the quarter. The increase in the warrant value is primarily attributable to the increase in the fair value of the Company's common stock. In addition, approximately $126,000 of the increase related to an increase in the value of the put option on the Emerald Warrant Liabilities due to a change in probability estimate.

For the three months ended September 30, 2017, the Company had non-operating income of $281,497 which represented a change in the fair value of the Series B warrant liability; the decrease in the warrant value was primarily attributable to the change in the fair value of our common stock.

Net loss and comprehensive loss. For the three months ended September 30, 2018, we had a net loss of $2,096,349 as compared to a net loss of $480,133 for the three months ended September 30, 2017. The increase in net loss was primarily attributable to the $1,332,226 increase in other expense from the revaluation of the warrant liabilities and increases in general and administrative expenses. We expect to incur net losses for the foreseeable future.

For the nine months ended September 30, 2018 and 2017

Revenues. To date, we have not generated any revenues, and do not expect to generate any revenue from the sale of products in the near future.

Operating expenses. For the nine months ended September 30, 2018, our total operating expenses were $3,377,171 as compared to $2,872,710 for the nine months ended September 30, 2017. The net increase in operating expenses was due to the items noted below:

Research and development. Research and development expenses for the nine months ended September 30, 2018 were $92,291 which consisted of the annual license maintenance fees for UM5050 related to ocular delivery and for UM 5070, contract research and development fees with UM, and fees related to our contract with AMRI to manufacture our prodrug of THC.

Research and development expenses for the nine months ended September 30, 2017 were $241,302 which consisted of a one-time upfront payment for UM 5070, as well as annual license maintenance fees for UM5050 related to ocular, oral and rectal delivery, option agreement renewal fees with UM, and contract research and development fees with UM.

The decline in research and development expense from the prior year was primarily due to the fact the Company has not signed any new license agreements with UM, its option agreements with UM have expired and the Company has yet to renew its licenses for UM5050 related to oral and rectal delivery. The Company is working with UM to establish new license agreements.

General and administrative. General and administrative expenses for the nine months ended September 30, 2018 were $3,284,880 which primarily consisted of salaries, stock compensation expense, consulting fees and professional fees related to the Company's capital raising efforts and regulatory filings. By comparison, general and administrative expenses for the nine months ended September 30, 2017 were $2,631,408 which primarily consisted of the same components. The increase of $653,472 related to increases in salaries due to severance compensation and increased headcount, the K2C consulting termination fee, and additional consulting fees incurred under the Independent Contractor Agreement with Emerald , partially offset by lower investor relations costs and legal fees.

Other expense (income). For the nine months ended September 30, 2018, the Company had non-operating expense of $9,593,329 which consisted of the following components:

- $1,468,477 represented a net increase in fair value of the warrant liabilities for the nine-month period ended September 30, 2018.
- $7,174,634 represented a loss from the excess of the fair value of the warrants on the date of issuance over the proceeds received in the Emerald Financing transaction.
- $185,000 represented the mark to market adjustment to revalue the conversion liability associated with the convertible debt – related party prior to conversion. We used a Black Scholes value to determine the fair value of the conversion liability.
- $137,192 in financing costs related to the Emerald Financing transaction.
- We recognized $590,392 and $34,608 from a loss on extinguishment and amortization of the discount, respectively, related to the Convertible debt – related party.
- $3,026 related to the net amount of interest expense realized on the Convertible debt – related party.

For the nine months ended September 30, 2017, the Company had non-operating income of $409,027 consisting of a $320,495 decrease to the fair value of the Series B warrant liability and a decrease in fair value related to the Series B preferred stock conversion right of $88,532. The change in the warrant liability and Series B preferred stock conversion right was determined by third party independent valuations conducted at the beginning and ending of the nine-month period ended September 30, 2017.

Net Loss and comprehensive loss. For the nine months ended September 30, 2018, we had a net loss of $12,972,142 as compared to a net loss of $2,466,114 for the nine months ended September 30, 2017. The increase in net loss of $10,506,028 was primarily attributable to the $9,593,329 increase in other expense due to the valuation of the warrant liabilities and increases in general and administrative expenses due to increased salaries, consulting and costs associated with the change in control transaction during the first quarter of 2018. We expect to incur net losses for the foreseeable future.

Liquidity and Capital Resources

We have incurred operating losses and negative cash flows from operations since our inception and as of September 30, 2018, had an accumulated deficit of $27,003,013, a stockholders' deficit of $10,155,120 and a working capital deficit of $10,158,930. We anticipate that we will continue to incur net losses into the foreseeable future in order to advance and develop potential drug candidates, in particular, our lead drug candidate NB1111 for glaucoma, into preclinical development activities and support our corporate infrastructure which includes the costs associated with being a public company. We had cash and cash equivalents of $1,058,438 as of September 30, 2018, as compared to $259,955 as of December 31, 2017. This increase is primarily attributable to the proceeds of $3,250,000 from the Emerald financing along with $400,000 of the $900,000 convertible bridge loan from Emerald, as discussed in the notes to our financial statements. For the nine-month period ended September 30, 2018, we issued 4,793,750 shares of our common stock upon exercise of warrants resulting in net proceeds to us of $98,700. Without additional funding, management believes that we will not have sufficient funds to meet our obligations beyond one year after the date the Condensed Consolidated Financial Statements are issued. These conditions give rise to substantial doubt as to our ability to continue as a going concern.

On October 5, 2018, subsequent to the quarterly period ended September 30, 2018, we secured the Credit Agreement with Emerald, providing for a credit facility of up to $20,000,000 to the Company. Under the Credit Agreement, we can draw up to $20,000,000 in advances from Emerald from time to time, each in a principal amount of at least $250,000. The advances are subject to approval by our Board of Directors, which is controlled by the directors and principal executive officer of Emerald.

We intend to continue working toward identifying and obtaining new sources of financing. No assurances can be given that we will be successful in obtaining additional financing in the future. Any future financing that we may obtain may cause significant dilution to existing stockholders. Any debt financing or other financing of securities senior to common stock that we are able to obtain will likely include financial and other covenants that will restrict our flexibility. Any failure to comply with these covenants would have a negative impact on our business, prospects, financial condition, results of operations and cash flows.

If adequate funds are not available, we may be required to delay, scale back or eliminate portions of our operations, cease operations or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain of our assets. Accordingly, the inability to obtain such financing could result in a significant loss of ownership and/or control of our assets and could also adversely affect our ability to fund our continued operations and our expansion efforts.

During the next twelve months, we expect to incur significant research and development expenses with respect to our products. The majority of our research and development activity is focused on development of potential drug candidates and preclinical trials.

We also expect to incur significant legal and accounting costs in connection with being a public company. We expect those fees will be significant and will continue to impact our liquidity. Those fees will be higher as our business volume and activity increases.

We also anticipate that we will need to hire additional employees or independent contractors as the Company prepares to enter clinical studies.

Going Concern

Our independent registered public accounting firm has issued a report on our audited financial statements for the fiscal year ended December 31, 2017 that included an explanatory paragraph referring to our recurring operating losses and expressing substantial doubt in our ability to continue as a going concern. Our Condensed Consolidated Financial Statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they become due. The outcome of these matters cannot be predicted with any certainty at this time and raise substantial doubt that we will be able to continue as a going concern. Our Condensed Consolidated Financial Statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. We maintain controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any control and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We conducted an evaluation, under the supervision and with the participation of our principal executive and financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Based upon their evaluation and subject to the foregoing, the principal executive and financial officers have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective at a reasonable assurance level.

Changes in internal controls. Management determined there were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no other material developments with respect to previously reported legal proceedings discussed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2017 includes a detailed discussion of our risk factors under the heading "Part I, Item 1A-Risk Factors." There are no changes from the risk factors previously disclosed in our Annual Report on Form 10-K. You should carefully consider the risk factors discussed in our Annual Report on Form 10-K as well as the other information in this report before deciding whether to invest in shares of our common stock. The occurrence of any of the risks discussed in the Annual Report on Form 10-K could harm our business, financial condition, results of operations or growth prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended September 30, 2018, certain stockholders who had acquired warrants to purchase shares of our common stock in prior offerings exercised warrants representing 100,000 shares of our common stock at an exercise price of $0, resulting in no proceeds. The securities were sold in transactions exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended and Rule 506(b) of Regulation D.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

3.1	Articles of Incorporation of Nemus Bioscience, Inc., as amended.
3.2	Bylaws of Nemus Bioscience, Inc.(1)
10.1*	Letter Agreement, dated July 31, 2018, by and between Nemus Bioscience, Inc. and Albany Molecular Research Inc.(2)
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934
32.1+	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2+	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.ins	Instance Document

101.sch	XBRL Taxonomy Schema Document
101.cal	XBRL Taxonomy Calculation Linkbase Document
101.def	XBRL Taxonomy Definition Linkbase Document
101.lab	XBRL Taxonomy Label Linkbase Document
101.pre	XBRL Taxonomy Presentation Linkbase Document

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(1) Included as Exhibit 3.2 to our Registration Statement on Form S-1 filed on January 30, 2013.

(2) Included as Exhibit 10.1 to our Current Report on Form 8-K filed on August 1, 2018.

\+ Furnished herewith and not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

* Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Nemus Bioscience, Inc.,
a Nevada corporation

November 13, 2018

By: */s/ Brian Murphy*

Brian Murphy

Its: Chief Executive Officer
(Principal Executive Officer)

November 13, 2018

By: */s/ Doug Cesario*
Doug Cesario
Its: Chief Financial Officer
(Principal Financial and Accounting Officer)