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

FORM 10-K

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

For the fiscal year ended December 31, 2021

☐ **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**

Skye 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.)
11250 El Camino Real, Suite 100, San Diego, CA	**92130**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(858) 410-0266**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
None	**None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $0.001
(Title of Class)

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☐ No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☐ No

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 every Interactive Data File required to be submitted 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 such files). ☐ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, 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	☐
		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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $15,310,946 as of June 30, 2021, based upon the closing price of $0.16 per share of the registrant's common stock on the OTCQB on June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 24, 2022, there were 495,925,112 shares of the registrant's common stock issued and outstanding.

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PART I

As used in this report, unless otherwise indicated, the terms "we," "us," "our," "Company" and "Skye Bioscience" refer to Skye Bioscience, Inc., a Nevada corporation formerly known as Emerald Bioscience, Inc., together with its wholly owned subsidiaries, Nemus, a California corporation, and SKYE Bioscience Pty Ltd ("SKYE Bioscience Australia"), an Australian proprietary limited company formerly known as EMBI Australia Pty Ltd.

Item 1. Business.

About Skye Bioscience, Inc.

We were incorporated in the State of Nevada on March 16, 2011. We are a preclinical pharmaceutical company focused on the discovery, development and commercialization of a novel class of cannabinoid derivatives to modulate the endocannabinoid system, which has been shown to play a vital role in overall human health and, notably, in multiple ocular indications. We are developing novel cannabinoid derivatives through our own directed research efforts and multiple license agreements.
Effective March 25, 2019, we changed our name from Nemus Bioscience, Inc. to Emerald Bioscience, Inc. and effective January 19, 2021, we changed our name to Skye Bioscience, Inc. Our common stock is quoted on the OTCQB, under the symbol "SKYE". Previously, it traded under the symbol "EMBI".
In August 2019, we formed a new subsidiary in Australia, SKYE Bioscience Australia, in order to qualify for the Australian government's research and development tax credit for research and development dollars spent in Australia. The primary purpose of SKYE Bioscience Australia is to conduct clinical trials for our drug product candidates.

Our Product Candidates and Significant Contracts.

UM 5050 and UM 8930 License Agreements

In May 2019, we executed amended and restated license agreements with University of Mississippi ("UM") which expanded our use of UM 5050 and UM 8930 from ocular delivery only to "all fields of use" (collectively, the "License Agreements"). Pursuant to the License Agreements, UM granted us an exclusive perpetual license including, with the prior written consent of UM, the right to sublicense the intellectual property related to UM 5050 and UM 8930 for all fields of use. All fields of use means that we may develop UM 5050 and UM 8930 to treat any disease through any form of delivery under the License Agreements.

The exclusive license for SBI-100, a cannabinoid receptor type 1 ("CBR1") agonist, under UM 5050 is expected to allow us to explore related uses for the active moiety of SBI-100. Independent in vitro and in vivo studies have demonstrated the potential use of SBI-100 in a variety of potential indications based on the ability of CBR1 agonists to act as an anti-inflammatory, anti-fibrotic, and/or inhibitor of neovascularization. The Company has generated data related to these effects using an ex vivo human tissue model of the eye. SBI-100 is designed to enhance the pharmacokinetics and pharmacodynamics of the active part of the molecule once introduced into the body through various routes of administration being considered by the development team.

The exclusive license of SBI-200, a novel cannabinoid receptor ("CBR") modulator, under UM 8930, is expected to allow us to explore uses in ophthalmic disorders as well as expanded research and development into organ systems outside of ophthalmology. Potential therapeutic areas beyond ophthalmic indications for SBI-200 may include the central nervous system, the gastrointestinal tract, the endocrine/metabolic system, reproductive system diseases, or as yet unrecognized opportunities. We have developed strategic collaborations to identify and advance these applications.

SBI-100

Our lead compound, SBI-100, is initially being developed to treat glaucoma and ocular hypertension. SBI-100 has been designed to make the usually lipophilic cannabinoid more hydrophilic to allow for improved transport across the membranes of the eye. In 2013 and 2014, UM conducted studies of the formulation in the rabbit ocular model which showed that SBI-100 was able to penetrate all chambers of the eye. This could potentially broaden the proposed therapeutic indications of interest for SBI-100 to diseases of the eye that affect the retina and the optic nerve, such as macular degeneration or diabetic retinopathy. These studies also revealed that SBI-100 was able to achieve potentially therapeutic concentrations in the anterior compartment, vitreous humor, and posterior compartment of the normal rabbit eye, which is very similar to the human eye in anatomy and physiology.

Glaucoma is an ocular neuropathy associated with the initiation of programmed cell death, known as apoptosis, of the retinal ganglion cells ("RGCs") of the optic nerve, resulting in the progressive and irreversible loss of vision. Intraocular pressure ("IOP") has been identified as an important risk factor in the pathogenesis of this disease. Elevated IOP can lead to damage of RGC axons through vascular ischemia, by compromising blood flow to the cells, and physical crush injury as the elevated ocular pressure compresses these delicate cells. Cannabinoid receptors are highly concentrated in the eye, especially in the anterior compartment that helps regulate IOP, and the posterior compartment in the area of the retina and optic nerve. Stimulation of CBR1 has been previously shown to lower IOP in both animal and human studies.

In 2019, UM completed experiments showing that SBI-100 was statistically superior in lowering IOP compared to the prostaglandin-based therapy latanoprost, the current standard-of-care for treating glaucoma. Statistical significance was reached across multiple time points during a seven-day course of dosing using a validated rabbit normotensive ocular model and SBI-100 exerted pharmacologic activity consistent with once-daily to twice-daily dosing. Additional work was also completed to develop a proprietary nanoemulsion formulation. This intended clinical formulation was developed to optimize the amount of SBI-100 that can be delivered to the eye in a single drop while also improving the duration of activity. Importantly, this formulation can be sterilized by filtration without impacting the attributes of SBI-100. This SBI-100 ophthalmic emulsion formulation significantly reduced IOP compared to other commercially available ophthalmic solutions, and will be the final formulation used in future clinical trials of SBI-100.

Lastly, we evaluated the mechanism of action and IOP-lowering ability of the active moiety of SBI-100 when administered into an ex vivo model of a 3D-human trabecular meshwork using both healthy and glaucomatous-induced tissues. This study validated the mechanism of action of SBI-100 in lowering IOP, a defining disease process of hypertensive glaucoma. Moreover, biomarkers associated with inflammation and fibrosis in both normal tissue and tissues affected by glaucoma were significantly decreased, pointing to anti-inflammatory and anti-fibrotic activities that are often associated with cannabinoids in other disease-states. Data also revealed that biomarkers associated with neovascularization, a disease process of new blood vessel formation that can damage the retina in a variety of ocular diseases, was also inhibited by the active moiety, prompting further study for the utility of this drug in diseases of the retina.

The first-in-human Phase 1 trials are expected to be conducted in healthy volunteers in Australia (the “Clinical Trial”) to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of SBI-100. We are eligible under the AusIndustry research and development tax incentive program to obtain a cash incentive from the Australian Taxation Office. The tax incentive is available to us based on specific criteria with which we must comply and is based on our eligible research and development spend in Australia. The Company may be eligible for either a 43.5% refundable tax offset if it has aggregate turnover of less than $20 million per annum or a 38.5% non-refundable tax offset of eligible research and development expenditure up to $100 million if it has annual turnover of $20 million or more per annum. Prior to August 2020, we executed several agreements and the work underlying those agreements was subsequently delayed to the second quarter of 2022. Since August 2020, we have been focused on clinical enabling activities, notably:

- formulation and manufacturing of drug product to supply our Phase 1 clinical trial;
- initiating and completing good laboratory practice (“GLP”) toxicology studies to support our Phase 1 clinical trial;
- initiating and completing validation of a pharmacokinetic assay for both animal and human samples to support our preclinical and clinical studies; and
- engaging our vendors and contractors to support the finalization of study-related materials for our Phase 1 study, including the finalization of the clinical study protocol and investigator's brochure.

The manufacturing of SBI-100 ophthalmic emulsion is conducted in the United States. Formulation of the eye drop for testing is also performed in the United States but we rely on compendial excipients that can be sourced from countries outside the United States, such as China. Due to the continuing effects of the COVID-19 pandemic, there could possibly be a negative impact on our ability to source materials that are part of the eye drop formulation, as well as negative impacts to our volunteer and/or patient recruitment in Australia for clinical studies.

Subsequent to the initiation of the Phase 1 study, we intend to file an investigational new drug ("IND") application with the United States Food and Drug Administration ("FDA") to study SBI-100 ophthalmic emulsion in a Phase 2 randomized, controlled, double-masked clinical trial in patients with glaucoma or ocular hypertension to obtain additional data to determine whether the topical delivery of SBI-100 ophthalmic emulsion is safe and well-tolerated, and whether the IOP is markedly different between SBI-100 and placebo. Design of the Phase 2 clinical trial will be dependent upon the advice of our clinical advisory board, the FDA and other regulatory bodies.

SBI-200

We have initiated research activities to explore the utility of different formulations of SBI-200. Early studies of SBI-200 demonstrated analgesic, anti-inflammation, anti-fibrotic and anti-seizure properties, including the potential treatment and management of several eye diseases, such as uveitis, dry eye syndrome, macular degeneration and diabetic retinopathy. Data we presented at the American Association of Pharmaceutical Scientists ("AAPS") meeting held in November 2017 revealed that an ocular formulation of SBI-200 was able to penetrate multiple compartments of the eye, including reaching the retina and the optic nerve. Further testing will need to be conducted to further evaluate the possible utility of this compound as a therapeutic agent and we continue to advance our research studies related to SBI-200 to explore different therapeutic applications.

Cannabinoid Pharmaceutical Innovation Program (CPIP)

We are focused on the development of proprietary, synthetic cannabinoid derivatives that have been designed to improve the solubility, bioavailability and pharmacology of cannabinoids, while also providing the Company with strong intellectual property protection. At the end of 2021, we announced that the Company would establish the Cannabinoid Pharmaceutical Innovation Program, or CPIP, that will focus on targeting important signaling pathways in the endocannabinoid system ("ECS") to realize the therapeutic potential of cannabinoids.

The CPIP reflects the Company's continued commitment to expand its leadership in cannabinoid-based science and cutting-edge research that can be commercialized through new and existing technologies. It leverages R&D initiatives with key opinion leaders with specialized research centers in the US and internationally, such as the UM, University of Cordoba and University of Eastern Piedmont. As a first step in building the CPIP in October 2021, we announced the establishment of a new Exclusive Sponsored Research Agreement ("ESRA") with VivaCell Biotechnology España, S.L.U ("VivaCell" formerly known as Emerald Health Biotechnology España, S.L.U), focused on developing and characterizing novel molecules that can affect the ECS for therapeutic benefit. This agreement deepens the commitment of Drs. Munoz and Appendino, who will be the principal investigators and continue to lead our scientific advisory board. Under the terms of the ESRA the Company will approve and fund designated projects and have exclusive rights to all data and products, and any intellectual property resulting from this research collaboration will be owned by the Company. Vivacell will receive a single digit royalty on all licensing revenue or other consideration paid to the Company by a third-party licensee, assignee or purchaser related to any product commercialized as part of designated projects. Through the CPIP the Company intends to expand its relationships with other investigators and institutions who are leaders in the field of cannabinoid research.

Our Competitive Strengths

We are developing novel, proprietary cannabinoid derivatives that have the potential to treat ophthalmic disorders and other disease with unmet needs. Our lead product candidate, SBI-100, is being developed for the treatment of glaucoma and ocular hypertension. Currently, most approved drugs for glaucoma target similar molecular receptors, and have similar mechanisms of action, and as a result there is a significant unmet medical need to develop new drugs that target different receptors using novel mechanisms of action. SBI-100 has the potential to meet these needs. The eye is rich in cannabinoid receptors, including CBR1, which is the main target for SBI-100. Our studies, along with multiple studies from other institutions, have demonstrated that activation of CBR1 can not only result in reduction of IOP in the eye, but also have anti-inflammatory, anti-fibrotic and anti-neovascular effects. As a novel agent for the potential treatment of glaucoma and ocular hypertension, SBI-100 represents a new treatment opportunity for physicians and patients and we are leading the field in this area of research.

With the implementation of the CPIP, we intend to leverage the potential success of SBI-100 to discover and develop additional novel cannabinoid derivatives capable of targeting multiple cannabinoid receptors in the eye for the treatment of ocular diseases. Combined with the experience of our management team, scientific and clinical advisors, this provides significant strategic advantage in the marketplace over our competitors.

Our Business Strategy

Our goal is to become a premier developer of synthetic cannabinoid derivatives for global markets to treat significant unmet medical needs. Our current operating strategy includes:

- selection and licensing of potential clinical targets based on internal and external published data, access to appropriate cannabinoids, and the impact of both developmental and market conditions;
- prioritization of product candidates based on the potential clinical utility and market for associated target indications;
- development and execution of an intellectual property strategy;

- clinical development and advancement of our current product pipeline;
- outsourcing services, such as use of clinical research organizations ("CROs") and contract manufacturers for the active pharmaceutical ingredient, where possible and cost effective;
- obtaining regulatory direction and approval from the FDA, European Medicines Agency ("EMA"), and other regulatory agencies for our product candidates;
- discovery, research and development of additional cannabinoid-based drugs for future product candidates; and
- partnering, out-licensing, or selling our product candidates to pharmaceutical companies to maximize profits and to bring our state-of-the-art therapeutics to patients in need.

Sales and Marketing

We have not established a sales, marketing or product distribution infrastructure because our lead product candidates are still in research, discovery or preclinical development stages. We are evaluating what we believe to be the optimal commercialization path for the Company, the respective product candidates, and patients. Commercialization paths may include licensing, selling, or partnering with other commercial partners. We will continue to proactively evaluate the best path to commercialization on an ongoing basis.

Manufacturing

We do not own or operate, and currently have no plans to establish, any manufacturing facilities for final manufacture. We currently rely, and expect to continue to rely, on third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacture of any products that we may commercialize.

For all of our future product candidates, we aim to identify and qualify manufacturers to provide the active pharmaceutical ingredient ("API") and fill-and-finish services prior to submission of a New Drug Application ("NDA") to the FDA. We expect to continue to develop drug candidates that can be produced cost-effectively at contract manufacturing facilities.

Intellectual Property

The success of most of our product candidates will depend in large part on our ability to:

- obtain and maintain patent and other legal protections for the proprietary technology, inventions and improvements we consider important to our business;
- prosecute our patent applications and defend any issued patents we obtain;
- preserve the confidentiality of our trade secrets; and
- operate without infringing the patents and proprietary rights of third parties.

We intend to continue to seek patent protection for certain of our product candidates, drug delivery systems, molecular modifications, as well as other proprietary technologies and their uses by filing patent applications in the United States and other selected global territories. We intend for these patent applications to cover, where possible, claims for composition of matter, medical uses, processes for isolation and preparation, processes for delivery and formulations.

As of the date of this Annual Report, we have licensed two inventions from UM which include U.S. patents as well as a number of foreign counterparts, including the European Union, Japan, Canada and Australia. The patents that we license cover composition of matter and preparation of SBI-100 and other cannabinoid receptor modulators, and their methods of use. The expiration date of the US patent for SBI-100 is expected to expire in 2029. Additionally, in July 2020 the United States Patent and Trademark Office granted a patent for SBI-200. The expiration date of the US patent for SBI-200 is January 2037. Under our license agreements, UM retains ownership over the licensed patents and control over the maintenance and prosecution of the licensed patents and patent applications.

We also rely upon trade secrets and know-how and continuing technological innovation to develop and maintain our proprietary and intellectual property position. We seek to protect our proprietary information in part using confidentiality agreements with our collaborators, scientific advisors, employees and consultants, and invention assignment agreements with our employees and selected consultants, scientific advisors and collaborators. The confidentiality agreements are designed to protect our proprietary information and, in the case of agreements or clauses requiring invention assignment, to grant us ownership of technologies that are developed through a relationship with a third party.

Competition

Our industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary products. We face potential competition from many different sources, such as pharmaceutical companies, including generic drug companies, biotechnology companies, drug delivery companies, and academic and research institutions. Many of our potential competitors may have substantially greater financial, scientific, technical, intellectual property, regulatory and human resources than we do, and greater experience than we do commercializing products and developing product candidates, including obtaining FDA and other regulatory approvals for product candidates. Consequently, our competitors may develop products for indications we pursue that are more effective, better tolerated, more widely prescribed or accepted, more useful and less costly, and they may also be more successful in manufacturing and marketing their products. We also face competition from third parties in recruiting and retaining qualified personnel, establishing clinical trial sites and enrolling patients for clinical trials, and in identifying and acquiring or in-licensing new products and product candidates.

Government Regulation

Government authorities in the United States, at the federal, state and local level, and in other countries, extensively regulate, among other things, the research, development, testing, manufacture, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, marketing, import and export of pharmaceutical products such as those we are developing. The processes for obtaining regulatory approvals in the United States and in foreign countries, along with subsequent compliance with applicable statutes and regulations, require the expenditure of substantial time and financial resources. A failure to comply with such laws and regulations or prevail in any enforcement action or litigation related to noncompliance could have a material adverse impact on our business, financial condition and results of operations and could cause the market value of our common stock to decline.

Regulation of Controlled Substances

DEA Regulation

Certain cannabinoids are regulated as "controlled substances" as defined in the Controlled Substances Act (the "CSA"), which establishes registration, security, recordkeeping, reporting, storage, distribution and other requirements administered by the DEA. The DEA is concerned with the control of handlers of controlled substances (and with the equipment and raw materials used in their manufacture and packaging) of controlled substances in order to prevent loss and diversion into illicit channels of commerce.

The DEA regulates controlled substances as Schedule I, II, III, IV or V substances. Schedule I substances by definition have no established medicinal use and may not be marketed or sold in the United States. A pharmaceutical product may be listed as Schedule II, III, IV or V, with Schedule II substances considered to present the highest risk of abuse and Schedule V substances the lowest relative risk of abuse among such substances. Certain cannabinoids are listed by the DEA as Schedule I controlled substances under the CSA. Consequently, their manufacture, shipment, storage, sale and use are subject to a high degree of regulation. Annual registration is required for any facility that manufactures, distributes, dispenses, imports or exports any controlled substance. The registration is specific to the particular location, activity and controlled substance schedule. For example, separate registrations are needed for import and manufacturing, and each registration will specify which schedules of controlled substances are authorized.

The DEA typically inspects a facility to review its security measures prior to issuing a registration. Security requirements vary by controlled substance schedule, with the most stringent requirements applying to Schedule I and Schedule II substances. Required security measures include background checks on employees and physical control of inventory through measures such as cages, surveillance cameras and inventory reconciliations. The registered entity must maintain records for the handling of all controlled substances and must make periodic reports to the DEA. These include, for example, distribution reports for Schedule I and II controlled substances, Schedule III substances that are narcotics, and other designated substances. The registered entity must also report thefts or losses of any controlled substance and obtain authorization to destroy any controlled substance. In addition, special authorization and notification requirements apply to imports and exports.

In addition, a DEA quota system controls and limits the availability and production of controlled substances in Schedule I or II. Distributions of any Schedule I or II controlled substance must also be accompanied by special order forms, with copies provided to the DEA. The DEA may adjust aggregate production quotas and individual production and procurement quotas from time to time during the year, although the DEA has substantial discretion in whether or not to make such adjustments. To meet its responsibilities, the DEA conducts periodic inspections of registered establishments that handle controlled substances. In the event of non-compliance, the DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to revoke those registrations. In certain circumstances, violations could lead to criminal prosecution.

The DEA has conducted a scientific review of the chemical structure of SBI-200 and determined that SBI-200 is not a regulated chemical nor controlled substance under the CSA. This decision by the DEA should help the Company expand the network of clinical testing sites, permit a greater cross-section of patients to participate in studies of this drug, as well as speed the initiation of clinical trials for SBI-200. SBI-100 remains a Schedule I controlled substance, pending a request to re-schedule SBI-100 after marketing authorization by the FDA.

U.S. Food and Drug Administration

In the United States, pharmaceutical products are subject to extensive regulation by the FDA. The FDA regulates drugs under the Food, Drug and Cosmetic Act ("FDCA") and its implementing regulations. The process of obtaining regulatory approvals and the subsequent compliance with appropriate federal, state, local and foreign statutes and regulations requires the expenditure of substantial time and financial resources. Failure to comply with the applicable U.S. requirements at any time during the product development process, approval process or after approval, may subject us to a variety of administrative or judicial sanctions, such as the FDA's refusal to approve pending NDAs, withdrawal of an approval, imposition of a clinical hold, issuance of warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement or civil or criminal penalties.

The process required by the FDA before a drug may be marketed in the United States generally involves the following:

- completion of preclinical laboratory tests, animal studies and formulation studies in compliance with GLP regulations;
- submission of an Investigational New Drug application ("IND") to the FDA , which must be authorized as open before human clinical trials may begin;
- approval and oversight of each study by an institutional review board ("IRB") before each clinical site may initiate the trial(s);
- performance of adequate and well-controlled clinical trials in accordance with good clinical practice ("GCP") requirements to establish the safety and efficacy of the proposed drug for each indication;
- submission of an NDA to the FDA;
- satisfactory development and completion of a FDA pre-approval inspection of the manufacturing facility or facilities at which the product is produced to assess compliance with cGMP requirements and to assure that the facilities, methods and controls are adequate to preserve the drug's identity, strength, quality and purity; and
- FDA review and approval of the NDA.

Preclinical Studies

Preclinical studies include laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies to assess potential safety and efficacy. An IND sponsor must submit the results of the preclinical tests, together with manufacturing information, analytical data and any available clinical data or literature, among other things, to the FDA as part of an IND. Some nonclinical testing may continue even after the IND is submitted. An IND generally becomes effective 30 days after receipt by the FDA unless, before that time, the FDA raises concerns or questions related to one or more proposed clinical trials and places the clinical trial on a clinical hold. In such a case, the IND sponsor and the FDA work to resolve any outstanding concerns before the hold can be lifted and the clinical trial can begin. As a result, submission of an IND does not always result in the FDA allowing clinical trials to commence.

Clinical Trials

Clinical trials involve the administration of the investigational new drug candidate to humans under the supervision of qualified investigators in accordance with GCP requirements, which include the requirement that all research subjects/patients provide their informed consent in writing for their participation in any clinical trial. Clinical trials are conducted under protocols detailing, among other things, the objectives of the trial, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. A protocol for each clinical trial and any subsequent protocol amendments must be submitted to the FDA as part of the IND. In addition, an IRB at each institution participating in the clinical trial must review and approve the plan for any clinical trial before it commences at that institution. Information about certain clinical trials must be submitted within specific timeframes to the NIH for public dissemination on their www.clinicaltrials.gov website.

Before marketing authorization, human clinical trials are typically conducted in three sequential phases, which may overlap or be combined:

- Phase 1: The drug is initially introduced into healthy human subjects or patients with the target disease or condition and tested for safety, dosage tolerance, absorption, metabolism, distribution, excretion and, if possible, to gain an early indication of its effectiveness.
- Phase 2: The drug is administered to a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.
- Phase 3: The drug is administered to an expanded patient population, generally at geographically dispersed clinical trial sites, in well-controlled clinical trials to generate enough data to statistically evaluate the efficacy and safety of the product for approval, to establish the overall risk-benefit profile of the product, and to provide adequate information for the labeling of the product.

Reports detailing the results of the clinical trials must be submitted at least annually to the FDA and more frequently if serious adverse events occur. Phase 1, Phase 2 and Phase 3 clinical trials may not be completed successfully within any specified period, or at all. Furthermore, the FDA or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects are being exposed to an unacceptable health risk or due to a business decision. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to patients.

Marketing Approval

Assuming successful completion of the required clinical testing, the results of the nonclinical and clinical studies, together with detailed information relating to the product's chemistry, manufacture, controls and proposed labeling, among other things, are submitted to the FDA as part of an NDA requesting approval to market the product for one or more indications. In most cases, the submission of an NDA is subject to a substantial application user fee. Under the Prescription Drug User Fee Act ("PDUFA") guidelines that are currently in effect, the FDA has a goal of reviewing and responding to a submission within ten months from the date of "filing" of a standard NDA for a new molecular entity. This review typically takes at least twelve months from the date the NDA is submitted to the FDA because the FDA has approximately two months to make a "filing" decision. However, if issues arise during the review, the FDA may request additional information and the review period may be extended to permit the applicant to provide and the FDA to review that information, which may significantly extend this time period.

In addition, under the Pediatric Research Equity Act of 2003 ("PREA"), as amended and reauthorized, certain NDAs or supplements to an NDA must contain data that is adequate to assess the safety and effectiveness of the drug for the claimed indications in all relevant pediatric subpopulations, and to support dosing and administration for each pediatric subpopulation for which the product is safe and effective. The FDA may, on its own initiative or at the request of the applicant, grant deferrals for submission of some or all pediatric data until after approval of the product for use in adults, or full or partial waivers from the pediatric data requirements.

The FDA also may require submission of REMS plan to ensure that the benefits of the drug outweigh its risks. The REMS plan could include medication guides, physician communication plans, assessment plans, and/or elements to assure safe use, such as restricted distribution methods, patient registries, or other risk minimization tools.

The FDA conducts a preliminary review of all NDAs within the first 60 days after submission, before accepting them for filing, to determine whether they are sufficiently complete to permit substantive review. The FDA may request additional information rather than accept an NDA for filing. In this event, the application must be resubmitted with the additional information requested. The resubmitted application is also subject to review before the FDA accepts it for filing. Once the submission is accepted for filing, the FDA begins an in-depth substantive review. The FDA reviews an NDA to determine, among other things, whether the drug is safe and effective and whether the facility in which it is manufactured, processed, packaged or held meets standards designed to assure the product's continued safety, quality and purity.

The FDA may refer an application for a novel drug and/or first-in-class product to an advisory committee. An advisory committee is a panel of independent experts, including clinicians and other scientific experts, that reviews, evaluates and provides a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

Before approving an NDA, the FDA typically will inspect the facility or facilities where the product is manufactured. The FDA will not approve an application unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA may inspect one or more clinical trial sites to assure compliance with GCP requirements.

The testing and approval process for an NDA requires substantial time, effort and financial resources, and each may take several years to complete. Data obtained from nonclinical and clinical testing are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA may not grant approval on a timely basis, or at all.

After evaluating the NDA and all related information, including the advisory committee recommendation, if any, and inspection reports regarding the manufacturing facilities and clinical trial sites, the FDA may issue an approval letter, or, in some cases, a complete response letter. A complete response letter generally contains a statement of specific conditions that must be met to secure final approval of the NDA and may require additional clinical or nonclinical testing in order for the FDA to reconsider the application. Even with submission of this additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval. If and when those conditions have been met to the FDA's satisfaction, the FDA will typically issue an approval letter. An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications. For some products, such as our product candidates, an additional step of DEA review and scheduling is required.

Post-Approval Requirements

Drugs manufactured or distributed pursuant to FDA approvals are subject to pervasive and continuing regulation by the FDA, including, among other things, requirements relating to recordkeeping, periodic reporting, product sampling and distribution, advertising and promotion, and reporting of adverse experiences with the product. After approval, most changes to the approved product, such as adding new indications or other labeling claims are subject to prior FDA review and approval. There also are continuing annual user fee requirements for any marketed products and the establishments at which such products are manufactured, as well as new application fees for supplemental applications with clinical data.

The FDA may impose a number of post-approval requirements as a condition of approval of an NDA. For example, the FDA may require post-marketing testing, including Phase 4 clinical trials, and surveillance to further assess and monitor the product's safety and effectiveness after commercialization.

In addition, drug manufacturers and other entities involved in the manufacture and distribution of approved drugs are required to register their establishments with the FDA and state agencies and are subject to periodic unannounced inspections by the FDA and these state agencies for compliance with cGMP requirements. Changes to the manufacturing process are strictly regulated and often require prior FDA approval before being implemented. FDA regulations also require investigation and correction of any deviations from cGMP requirements and impose reporting and documentation requirements upon the sponsor and any third party manufacturers that the sponsor may decide to use. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain cGMP compliance.

Once an approval is granted, the FDA may withdraw the approval if compliance with regulatory requirements and standards is not maintained or if problems occur after the product reaches the market.

Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with manufacturing processes, or failure to comply with regulatory requirements, may result in mandatory revisions to the approved labeling to add new safety information; imposition of post-market studies or clinical trials to assess new safety risks; or imposition of distribution or other restrictions under a REMS program.

Other potential consequences include, among other things:

- restrictions on the marketing or manufacturing of the product, complete withdrawal of the product from the market or product recalls;
- fines, warning letters or holds on post-approval clinical trials;
- refusal of the FDA to approve pending NDAs or supplements to approved NDAs, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; or
- injunctions or the imposition of civil or criminal penalties.

The FDA strictly regulates marketing, labeling, advertising and promotion of products that are placed on the market. Drugs may be promoted only for the approved indications and in accordance with the provisions of the approved label. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to significant liability.

In addition, the distribution of prescription pharmaceutical products is subject to the Prescription Drug Marketing Act ("PDMA"), which regulates the distribution of drugs and drug samples at the federal level and sets minimum standards for the registration and regulation of drug distributors by the states. Both the PDMA and state laws limit the distribution of prescription pharmaceutical product samples and impose requirements to ensure accountability in distribution.

Exclusivity and Approval of Competing Products

Hatch Waxman Act

Section 505 of the FDCA describes three types of marketing applications that may be submitted to the FDA to request marketing authorization for a new drug. A Section 505(b)(1) NDA is an application that contains full reports of investigations of safety and efficacy. A 505(b)(2) NDA is an application that contains full reports of investigations of safety and efficacy but where at least some of the information required for approval comes from investigations that were not conducted by or for the applicant and for which the applicant has not obtained a right of reference or use from the person by or for whom the investigations were conducted. This regulatory pathway enables the applicant to rely, in part, on the FDA's prior findings of safety and efficacy for an existing product, or published literature, in support of its application. Section 505(j) establishes an abbreviated approval process for a generic version of approved drug products through the submission of an Abbreviated New Drug Application ("ANDA"). An ANDA provides for marketing of a generic drug product that has the same active ingredients, dosage form, strength, route of administration, labeling, performance characteristics and intended use, among other things, to a previously approved product. ANDAs are termed "abbreviated" because they are generally not required to include preclinical (animal) and clinical (human) data to establish safety and efficacy. Instead, generic applicants must scientifically demonstrate that their product is bioequivalent to, or performs in the same manner as, the innovator drug through in vitro, in vivo, or other testing. The generic version must deliver the same amount of active ingredients into a subject's bloodstream in the same amount of time as the innovator drug and can often be substituted by pharmacists under prescriptions written for the reference listed drug.

Hatch Waxman Patent Exclusivity

In seeking approval for a drug through a NDA, applicants are required to list with the FDA each patent with claims that cover the applicant's product or a method of using the product. Upon approval of a drug, each of the patents listed in the application for the drug is then published in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. Drugs listed in the Orange Book can, in turn, be cited by potential competitors in support of approval of an ANDA or 505(b)(2) NDA.

The ANDA or 505(b)(2) NDA applicant is required to certify to the FDA concerning any patents listed for the approved product in the FDA's Orange Book, except for patents covering methods of use for which the ANDA applicant is not seeking approval. Specifically, the applicant must certify with respect to each patent that:

- the required patent information has not been filed;
- the listed patent has expired;
- the listed patent has not expired, but will expire on a particular date and approval is sought after patent expiration; or
- the listed patent is invalid, unenforceable or will not be infringed by the new product.

Generally, the ANDA or 505(b)(2) NDA cannot be approved until all listed patents have expired, except when the ANDA or 505(b)(2) NDA applicant challenges a listed drug. A certification that the proposed product will not infringe the already approved product's listed patents or that such patents are invalid or unenforceable is called a Paragraph IV certification. If the applicant does not challenge the listed patents or indicate that it is not seeking approval of a patented method of use, the ANDA or 505(b)(2) NDA application will not be approved until all the listed patents claiming the referenced product have expired.

If the ANDA or 505(b)(2) NDA applicant has provided a Paragraph IV certification to the FDA, the applicant must also send notice of the Paragraph IV certification to the NDA and patent holders once the application has been accepted for filing by the FDA. The NDA and patent holders may then initiate a patent infringement lawsuit in response to the notice of the Paragraph IV certification. The filing of a patent infringement lawsuit within 45 days after the receipt of notice of the Paragraph IV certification automatically prevents the FDA from approving the ANDA or 505(b)(2) NDA until the earlier of 30 months, expiration of the patent, settlement of the lawsuit or a decision in the infringement case that is favorable to the ANDA applicant.

Hatch Waxman Non-Patent Exclusivity

In addition to patent issues, market and data exclusivity provisions under the FDCA can delay the submission or the approval of certain applications for competing products. The FDCA provides a five-year period of non-patent data exclusivity within the United States to the first applicant to gain approval of a NDA for a new chemical entity. A drug is a new chemical entity if the FDA has not previously approved any other new drug containing the same active moiety, which is the molecule or ion responsible for the activity of the drug substance. During the exclusivity period, the FDA may not accept for review an ANDA or a 505(b)(2) NDA submitted by another company that references the previously approved drug. However, an ANDA or 505(b)(2) NDA may be submitted after four years if it contains a Paragraph IV certification of patent invalidity or non-infringement. The FDCA also provides three years of marketing exclusivity for a NDA, 505(b)(2) NDA, or supplement to an existing NDA or 505(b)(2) NDA if new clinical investigations, other than bioavailability studies, that were conducted or sponsored by the applicant, are deemed by the FDA to be essential to the approval of the application or supplement. Three-year exclusivity may be awarded for changes to a previously approved drug product, such as new indications, dosages, strengths or dosage forms of an existing drug.

This three-year exclusivity covers only the conditions of use associated with the new clinical investigations and, as a general matter, does not prohibit the FDA from approving ANDAs or 505(b)(2) NDAs for other versions of a drug. Five-year and three-year exclusivity will not delay the submission or approval of a full NDA; however, an applicant submitting a full NDA would be required to conduct or obtain a right of reference to all of the preclinical studies and adequate and well-controlled clinical trials necessary to demonstrate safety and effectiveness.

Orphan Drug Designation and Exclusivity

Under the Orphan Drug Act, the FDA may designate a product as an orphan drug if it is a drug intended to treat a disease or condition that affects populations of fewer than 200,000 individuals in the United States or, if it affects more than 200,000 individuals in the United States, there is no reasonable expectation that the cost of developing and making a drug product available in the United States for this type of disease or condition will be recovered from sales of the product. Orphan designation must be requested before submitting a NDA. Orphan designation does not convey any advantage in or shorten the duration of the regulatory review and approval process.

If a product that has orphan designation subsequently receives the first FDA approval for the disease or condition for which it has such designation, the product is entitled to orphan drug exclusivity, which means that the FDA may not approve any other applications to market the same drug for the same indication for seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan exclusivity or inability to manufacture the product in sufficient quantities. The designation of such drug also entitles a party to financial incentives such as opportunities for grant funding towards clinical trial costs, tax advantages and user-fee waivers. Competitors, however, may receive approval of different products for the same indication for which the orphan product has exclusivity or obtain approval for the same product but for a different indication than that for which the orphan product has exclusivity.

Federal and State Fraud and Abuse and Data Privacy and Security Laws and Regulations

In addition to FDA restrictions on marketing of pharmaceutical products, federal and state fraud and abuse laws restrict business practices in the pharmaceutical industry. These laws include anti-kickback and false claims laws and regulations as well as data privacy and security laws and regulations.

The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce or in return for purchasing, leasing, ordering, or arranging for or recommending the purchase, lease, or order of any item or service reimbursable under Medicare, Medicaid or other federal healthcare programs. The term "remuneration" has been broadly interpreted to include anything of value. The Anti-Kickback Statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on one hand and prescribers, purchasers, and formulary managers on the other. Although there are a number of statutory exceptions and regulatory safe harbors protecting some common activities from prosecution, the exemptions and safe harbors are drawn narrowly. Practices that involve remuneration that may be alleged to be intended to induce prescribing, purchases, or recommendations may be subject to scrutiny if they do not meet the requirements of a statutory or regulatory exception or safe harbor. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. In addition, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

The federal False Claims Act prohibits any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, using, or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government. A claim includes "any request or demand" for money or property presented to the U.S. government. A violation of the federal Anti-Kickback Statute also constitutes a false or fraudulent claim for purposes of the civil False Claims Act.

Several pharmaceutical and other healthcare companies have been prosecuted under these laws for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Other companies have been prosecuted for causing false claims to be submitted because of the companies' marketing of products for unapproved, and thus non-covered, uses. In addition, many states have similar fraud and abuse statutes or regulations that apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

The federal HIPAA also created federal criminal statutes that prohibit knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private third party payors and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

Pharmaceutical companies are also subject to the civil monetary penalties statute, which imposes penalties against any person who is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent.

In addition, there has been a recent trend of increased federal and state regulation of payments made to physicians and other health care providers. The Patient Protection and Affordable Care Act, as amended by the ACA, signed into law on March 2010, created new federal requirements for reporting, by applicable manufacturers of covered drugs, payments and other transfers of value to physicians and teaching hospitals. Applicable manufacturers are also required to report annually to the government certain ownership and investment interests held by physicians and their immediate family members. In addition, certain states require implementation of commercial compliance programs and compliance with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, impose restrictions on marketing practices, and/or tracking and reporting of gifts, compensation and other remuneration or items of value provided to physicians and other health care professionals and entities.

We may also be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology and Clinical Health Act ("HITECH") and its implementing regulations, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to "business associates," defined as independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same requirements, thus complicating compliance efforts.

To the extent that any of our product candidates, once approved, are sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-marketing requirements, including safety surveillance, anti-fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or other transfers of value to healthcare professionals.

The shifting commercial compliance environment and the need to build and maintain robust systems to comply with different compliance and/or reporting requirements in multiple jurisdictions increase the possibility that a healthcare company may violate one or more of the requirements. If our operations are found to be in violation of any of such laws or any other governmental regulations that apply to us, we may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, exclusion from participation in federal and state healthcare programs and imprisonment, any of which could adversely affect our ability to operate our business and our financial results.

Coverage and Reimbursement

Significant uncertainty exists as to the coverage and reimbursement status of any drug products for which we obtain regulatory approval. In the United States and markets in other countries, sales of any products for which we receive regulatory approval for commercial sale will depend, in part, on the availability of coverage and reimbursement from third party payors. Third party payors include government authorities, managed care providers, private health insurers and other organizations. The process for determining whether a payor will provide coverage for a drug product may be separate from the process for setting the reimbursement rate that the payor will pay for the drug product. Third party payors may limit coverage to specific drug products on an approved list, or formulary, which might not include all of the FDA-approved drugs for a particular indication. A decision by a third party payor not to cover our products, if approved, could reduce physician utilization of our products once approved and have a material adverse effect on our sales, results of operations and financial condition. Moreover, a payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Adequate third party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development.

In addition, the U.S. government, state legislatures and foreign governments have continued implementing cost-containment programs, including price controls, restrictions on coverage and reimbursement and requirements for substitution of generic products. By way of example, in the United States, the ACA contains provisions that may reduce the profitability of drug products, including, for example, increased rebates for drugs sold to Medicaid programs, extension of Medicaid rebates to Medicaid managed care plans, mandatory discounts for certain Medicare Part D beneficiaries, and annual fees based on pharmaceutical companies' share of sales to federal health care programs. In addition, recently there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed bills designed to, among other things, reform government program reimbursement methodologies. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products once approved or additional pricing pressures.

Foreign Regulation

In order to market any product outside of the United States, we must comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales and distribution of our products. While our management and many of our consultants are familiar with and have been responsible for gaining marketing approval in many countries, we have not reviewed the specific regulations in countries outside of the United States, as it pertains to cannabinoids.

Additional Regulation

We are a reporting company with the Securities and Exchange Commission (the "SEC"), and, therefore, subject to the information and reporting requirements of the Exchange Act of 1934, as amended (the "Exchange Act") and other federal securities laws, and the compliance obligations of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"). In addition, our financial reporting is subject to United States Generally Accepted Accounting Principles ("GAAP"), and GAAP is subject to change over time.

We are also subject to federal, state and local laws and regulations applied to businesses generally. We believe that we are in conformity with all applicable laws in all relevant jurisdictions.

Employees

As of the date of this Annual Report, we have a total of nine full-time employees. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages and we consider our relations with our employees to be good.

We anticipate that we will need to hire additional employees or independent contractors for our continued development efforts. We also intend to utilize independent contractors and outsourced services, such as CROs, and third party manufacturers, where possible and appropriate.

Website

Our Internet website, which is located at http://www.skyebioscience.com, describes our company and our management and provides information about our technology and products. Information contained on our website is not incorporated by reference into, and should not be considered a part of, this Annual Report.

FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K contain forward-looking statements that are based on management's current expectations and assumptions and information currently available to management 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 and 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 below titled "Risk Factors," including, without limitation, risks relating to:

- 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 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;
- 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 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;
- the duration and impact of the novel coronavirus ("COVID-19") pandemic, or responses to the pandemic on our business, clinical trials or personnel; 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, such as the COVID-19 outbreak and associated business disruptions including delayed clinical trials and laboratory resources, 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.

Item 1A. Risk Factors.

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described below and all of the information contained in this Annual Report on Form 10-K before deciding whether to purchase our common stock. Our business, financial condition or results of operations could be materially and adversely affected by these risks if any of them actually occur. Our common stock is quoted on the OTCQB under the symbol "SKYE." This market is extremely limited, and the prices quoted are not a reliable indication of the value of our common stock. As of the date of this Annual Report, our shares of common stock are thinly traded. The trading price for our common stock could decline due to any of these risks, and an investor may lose all or part of his or her investment. Some of these factors have affected our financial condition and operating results in the past or are currently affecting us. We have organized the description of these risks into groupings in an effort to enhance readability, but many of the risks interrelate or could be grouped or ordered in other ways, so no special significant should be attributed to the groupings or order below.

Risk Factor Summary

Risks Related to our Business and Capital Requirements

- We currently have no product revenues and no products approved for marketing and need substantial additional funding to continue our operations.
- UM is a joint owner of the intellectual property for SBI-100 and SBI-200.
- Breach of any of the license agreements with UM could result in the loss of such license rights that are important to our business and our operations could be materially harmed.
- We are heavily dependent on the success of our early-stage product candidates, which will require significant additional efforts to develop and may prove not to be viable for commercialization.
- Our success depends on our ability to protect our intellectual property and our proprietary technologies.

Risks Related To Controlled Substances

- The product candidates we are developing will be subject to U.S. controlled substance laws and regulations, and failure to comply with or the cost of compliance with these laws and regulations, may adversely affect the results of our business operations, and our financial condition.
- Research restrictions, product shipment delays or prohibitions could have a material adverse effect on our business, results of operations and financial condition.
- Our ability to research, develop and commercialize our drug product candidates is dependent on our ability to obtain and maintain the necessary controlled substance registrations from the DEA.

Risks Related to Government Regulation

- We may not be able to file Investigational New Drug applications to commence clinical trials on the timelines we expect, and even if we are able to, the FDA may not permit us to proceed in a timely manner, or at all.
- Nonclinical and clinical drug development involves a lengthy and expensive process with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.
- If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.
- Our development and commercialization strategy for SBI-100, may depend, in part, on published scientific literature and the FDA's prior findings regarding the safety and efficacy of dronabinol, based on data not developed by us, but upon which the FDA may rely in reviewing our NDA.
- We rely on, and expect to continue relying on, third party contract manufacturing organizations to manufacture and supply product candidates for us, as well as certain raw materials used in the production thereof. If one of our suppliers or manufacturers fails to perform adequately, we may be required to incur significant delays and costs to find new suppliers or manufacturers.

Risks Related to our Common Stock

- Our stock price may be volatile, which may result in losses to our stockholders.
- We will need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our stockholders.
- The issuance of shares upon exercise of outstanding warrants, convertible debt and options may cause immediate and substantial dilution to our existing stockholders.

Risks Related to our Business and Capital Requirements

We currently have no product revenues and no products approved for marketing and need substantial additional funding to continue our operations.

We expect to need substantial additional funding to pursue the clinical development of our product candidates and launch and commercialize any product candidates for which we receive regulatory approval. We need to bring in additional capital in the near term and expect to incur additional costs associated with operating as a public company. We may also encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may increase our capital needs. As noted in our audited financial statements for the years ended December 31, 2021 and 2020, the uncertainties surrounding our ability to fund our operations raise substantial doubt about our ability to continue as a going concern.

To date, we have financed our operations entirely through debt and equity financings. We may seek additional funds through public or private equity or debt financing, via strategic transactions or collaborative arrangements. Additional funding from those or other sources may not be available when or in the amounts needed, on acceptable terms, or at all.

There are no assurances that future funding will be available on favorable terms or at all. If additional funding is not obtained, we may need to reduce, defer or cancel preclinical and lab work, planned clinical trials, or overhead expenditures, which could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts. Any of these events could significantly harm our business, financial condition and prospects.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern.

Our historical financial statements have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm has issued a report on our audited financial statements for the years ended December 31, 2021 and 2020 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 ability to continue as a going concern is dependent upon our ability to obtain additional equity financing or other capital, attain further operating efficiencies, reduce expenditures, and, ultimately, generate revenue. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. However, if adequate funds are not available to us when we need it, we will be required to curtail our operations which would, in turn, further raise substantial doubt about our ability to continue as a going concern. The doubt regarding our potential ability to continue as a going concern may adversely affect our ability to obtain new financing on reasonable terms or at all. Additionally, if we are unable to continue as a going concern, our stockholders may lose some or all of their investment in us.

UM is a joint owner of the intellectual property for SBI-100 and SBI-200.

Intellectual property rights (including any patents and non-manufacturing related know-how) that are conceived by both UM and us during the course of development for both SBI-100 and SBI-200 are to be jointly owned by UM and us, and we may need to seek UM's consent to pursue, use, license and/or enforce some of these intellectual property rights in the future. An unexpected deterioration in our relationship with UM may have a material adverse effect on our business, reputation, results of operations and financial condition.

Breach of any of the license agreements with UM could result in the loss of such license rights that are important to our business and our operations could be materially harmed.

We license from UM the use, development and commercialization rights for our product candidates. As a result, our current business plans are dependent upon our maintenance of the license agreements and the rights we license under them. If we breach the terms of our license agreements with UM, or any future license agreement on which our business or product candidates are dependent, UM or other licensors may have the right to terminate the applicable agreement in whole or in part and thereby limit or terminate our rights to the licensed technology and intellectual property and/or any rights we have acquired to develop and commercialize certain product candidates or cause us to have to negotiate new or reinstated licenses on less favorable terms, or enable a competitor to gain access to the licensed technology. Moreover, disputes may arise regarding intellectual property subject to a license agreement such as our license agreement with UM, including: (i) the scope of the rights granted under the license agreement and other interpretation related issues, (ii) the extent to which our product candidates, technology and processes infringe on intellectual property of the licensor that is not subject to the licensing agreement, (iii) our diligence obligations under the license agreement and what activities satisfy those diligence obligations. The loss of the rights licensed to us under our license agreements with UM, or any future license agreement that we may enter granting rights on which our business or product candidates are dependent, would harm, or even eliminate, our ability to further develop the applicable product candidates and would materially harm our business, prospects, financial condition and results of operations.

We are heavily dependent on the success of our early-stage product candidates, which will require significant additional efforts to develop and may prove not to be viable for commercialization.

We have no products approved for sale and all of our product candidates are in preclinical development, including the development of cannabinoid-based formulations. Further preclinical testing is ongoing and if successful, will be part of a regulatory filing to satisfy Australian regulatory authorities and human research ethics committees ("HREC") requirements that need to be met in order for the candidate compounds and routes of administration to enter testing in humans in Australia. Our business depends entirely on the successful development, clinical testing, and commercialization of these and any other product candidates we may seek to develop in the future, which may never occur. The success of our product candidates will depend on several factors, which we may not be able to successfully complete, such as:

- receipt of necessary controlled substance registrations from the DEA;
- successful completion of nonclinical studies and clinical trials;
- receipt of marketing approvals from the FDA and other applicable regulatory authorities;
- obtaining, maintaining and protecting our intellectual property portfolio;

- identifying, making arrangements and ensuring necessary registrations with third party manufacturers, or establishing commercial manufacturing capabilities for applicable product candidates;
- launching commercial sales of the products, if and when approved;
- acceptance of our products, if and when approved, by patients, the medical community and third party payors;
- obtaining and maintaining healthcare coverage and adequate reimbursement of our products; and
- maintaining a continued acceptable safety profile of our products following approval.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our product candidates, which would materially harm our business.

We expect to conduct clinical trials for certain of our product candidates at sites outside the United States, and this could have impact on how we conduct our clinical trials

The conduct of clinical trials outside the United States could have a significant impact on us. Risks inherent in conducting international clinical trials include:

- administrative burdens of conducting clinical trials under multiple foreign regulatory schema;
- foreign currency fluctuations which could negatively impact our financial condition since certain payments are paid in local currencies;
- manufacturing, customs, shipment and storage requirements;
- cultural differences in medical practice and clinical research; and
- diminished protection of intellectual property in some countries.

We conduct certain research and development operations through our Australian wholly owned subsidiary. If we lose our ability to operate in Australia, or if our subsidiary is unable to receive the research and development tax credit allowed by Australian regulations, our business and results of operations could suffer.

In August 2019, we formed a wholly owned Australian subsidiary, SKYE Bioscience Australia, to conduct various clinical activities for our product candidates in Australia. Due to the geographical distance and lack of employees currently in Australia, as well as our lack of experience operating in Australia, we may not be able to efficiently or successfully monitor, develop and commercialize our lead product candidate in Australia, including conducting clinical trials. Furthermore, we have no assurance that the results of any clinical trials that we conduct for our product candidates in Australia will be accepted by the FDA or foreign regulatory authorities for development and commercialization approvals. In addition, current Australian tax regulations provide for a refundable R&D tax credit equal to 43.5% of qualified expenditures. If our subsidiary loses its ability to operate in Australia, or if we are ineligible or unable to receive the R&D tax credit, or the Australian government significantly reduces or eliminates the tax incentive program, our business and results of operation may be adversely affected.

We expect to face intense competition, often from companies with greater resources and experience than we have.

The highly competitive pharmaceutical industry continues to rapidly expand and evolve as an increasing number of competitors and potential competitors enter the market, many of which have substantially greater financial, technological, managerial and research and development resources and experience than we have. Our pipeline products, if successfully developed, will compete with product offerings from large and well-established companies that have greater marketing and sales experience and capabilities than we or our collaboration partners have. If we are unable to compete successfully, we may be unable to grow and sustain our revenue.

The current volatility of global financial conditions could negatively impact our business and financial condition.

Current global financial conditions and recent market events have been characterized by increased volatility, inflation and the resulting tightening of the credit and capital markets has reduced the amount of available liquidity and overall economic activity. We cannot guaranty that debt or equity financing, and the ability to borrow funds or cash generated by operations will be available or sufficient to meet or satisfy our initiatives, objectives, or requirements. Our inability to access sufficient amounts of capital on terms acceptable to us for our operations will negatively impact our business, prospects, liquidity and financial condition.

If we are not able to attract and retain highly qualified personnel, we may not be able to successfully implement our business strategy.

Our ability to compete in the highly competitive biotechnology and pharmaceuticals industries depends upon our ability to attract and retain highly qualified managerial, scientific and medical personnel. Our success depends in large measure on our key personnel, including Mr. Punit Dhillon, our Chief Executive Officer, Ms. Kaitlyn Arsenault, our Chief Financial Officer and Mr. Tu Diep, our Chief Development Officer. The loss of the services of Mr. Dhillon, Ms. Arsenault or Mr. Diep could significantly hinder our operations. We do not currently have key person insurance in effect for Mr. Dhillon, Ms. Arsenault or Mr. Diep. In addition, the competition for qualified personnel in the pharmaceutical industry is intense and there can be no assurance that we will be able to continue to attract and retain all personnel necessary for the development and operation of our business. We also rely on, and have relied on in the past, consultants and advisors to assist us in formulating our strategy. Our consultants and advisors are either self-employed or employed by other organizations, and they may have conflicts of interest or other commitments, such as consulting or advisory contracts with other organizations, that may affect their ability to contribute to us.

Our success depends on our ability to protect our intellectual property and our proprietary technologies.

Our commercial success depends in part on our ability to obtain and maintain patent protection and trade secret protection for our product candidates, proprietary technologies and their uses as well as our ability to operate without infringing upon the proprietary rights of others. We generally seek to protect our proprietary position by filing patent applications in the United States and abroad related to our product candidates, proprietary technologies and their uses that are important to our business. We also seek to protect our proprietary position by acquiring or in-licensing relevant issued patents or pending applications, or other intellectual property rights, from third parties.

Pending patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless, and until, patents issue from such applications, and then only to the extent the issued claims cover the technology and/or its use. There can be no assurance that any of our future patent applications or the patent applications of our licensors will result in additional patents being issued or that issued patents will afford sufficient protection against competitors with similar technology, nor can there be any assurance that the patents issued will not be infringed, designed around or invalidated by third parties.

Even issued patents may later be found invalid or unenforceable or may be modified or revoked in proceedings instituted by third parties before various patent offices or in courts. The degree of future protection for our and our licensors proprietary rights is uncertain. Only limited protection may be available and may not adequately protect our rights or permit us to gain or keep any competitive advantage. These uncertainties and/or limitations in our ability to properly protect the intellectual property rights relating to our product candidates could have a material adverse effect on our financial condition and results of operations.

The patent application process is subject to numerous risks and uncertainties, and there can be no assurance that we or any of our potential future collaborators will be successful in protecting our product candidates by obtaining and defending patents.
The patent prosecution process is also expensive and time-consuming, and we and our licensors, such as UM, may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner or in all jurisdictions where protection may be commercially advantageous. It is also possible that we or our licensors will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection.

In addition, although we enter into non-disclosure and confidentiality agreements with parties who have access to patentable aspects of our research and development output, such as our employees, outside scientific collaborators, contract research organizations, third-party manufacturers, consultants, advisors and other third parties, any of these parties may breach such agreements and disclose such output before a patent application is filed, thereby jeopardizing our ability to seek patent protection.

Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our intellectual property may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

In some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology or products that we license from third parties. Therefore, we cannot be certain that these patents and applications will be prosecuted and enforced in a manner consistent with the best interests of our business. In addition, if third parties who license patents to us fail to maintain such patents, or lose rights to those patents, the rights we have licensed may be reduced or eliminated.

If we are unable to prevent disclosure of our trade secrets or other confidential information to third parties, our competitive position may be impaired.

We also may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. Our ability to stop third parties from obtaining the information or know-how necessary to make, use, sell, offer to sell or import our products or practice our technology is dependent in part upon the extent to which we prevent disclosure of the trade secrets that cover these activities. Trade secret rights can be lost through disclosure to third parties. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our trade secrets to third parties, resulting in loss of trade secret protection. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how, which would not constitute a violation of our trade secret rights. Enforcing a claim that a third party is engaged in the unlawful use of our trade secrets is expensive, difficult and time consuming, and the outcome is unpredictable. In addition, recognition of rights in trade secrets and a willingness to enforce trade secrets differs in certain jurisdictions.

Our operating activities may be restricted as a result of covenants related to the outstanding indebtedness under our Credit Agreement.

We could default on the payment of our indebtedness under our Amended and Restated Multi-Draw Credit Agreement (the “Amended Credit Agreement”) entered into with Emerald Health Sciences, Inc. ("Sciences"), a related party, when it comes due which may result in acceleration of all amounts outstanding under our Amended Credit Agreement. Additionally, our Amended Credit Agreement restricts, among other things, our ability to incur debt and requires us to comply with certain covenants. We may not be able to comply with these restrictions and covenants in the future, which could result in an event of default under our Amended Credit Agreement and result in the acceleration of the maturity of the indebtedness under the Amended Credit Agreement. We may not have enough available cash or be able to raise additional funds through equity or debt financings to repay such indebtedness at the time any such event of default occurs. In that case, we may be required to delay, limit, reduce or terminate our product candidate development or commercialization efforts or grant others rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

We engage in transactions with related parties which present possible conflicts of interest that could have an adverse effect on us.

We have entered, and may continue to enter, into transactions with Sciences and its affiliates and other related parties for financing, corporate, business development and operational services. Such transactions may not have been entered into on an arm’s-length basis, and we may have achieved more or less favorable terms because such transactions were entered into with our related parties. We rely, and will continue to rely, on our related parties to maintain these services. If the pricing for these services changes, or if our related parties cease to provide these services, including by terminating agreements with us, we may be unable to obtain replacements for these services on the same terms without disruption to our business. This could have a material effect on our business, results of operations and financial condition. The details of certain of these transactions are set forth in “Certain Relationships and Related Party Transactions.” Related party transactions create the possibility of conflicts of interest with regard to our management, we may enter into contracts between us, on the one hand, and related parties, on the other, that may not result in arm’s-length transactions, including that:

- our executive officers and directors that hold positions of responsibility with related parties may be aware of certain business opportunities that are appropriate for presentation to us as well as to such other related parties and may present such business opportunities to such other parties; and
- our executive officers and directors that hold positions of responsibility with related parties may have significant duties with, and spend significant time serving, other entities and may have conflicts of interest in allocating time.

Such conflicts could cause an individual in our management to seek to advance his or her economic interests or the economic interests of certain related parties above ours. Further, the appearance of conflicts of interest created by related party transactions could impair the confidence of our investors. Our audit committee reviews these transactions. Notwithstanding this, it is possible that a conflict of interest could have a material adverse effect on our liquidity, results of operations and financial condition.

We have experienced, and may in the future experience, delays to our SBI-100 clinical trial because of the COVID-19 pandemic and unpredictable business disruptions could seriously harm our future revenues and financial condition, increase our costs and expenses, and impact our ability to raise capital.

Our operations could be subject to unpredictable events, such as earthquakes, power shortages, telecommunications failures, water shortages, medical epidemics such as the COVID-19 outbreak and other natural or man made disasters or business interruptions, for which we are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. Notably, we rely on third party manufacturers to produce our product candidates, and such third party manufacturers ability to manufacture our products could be negatively affected by such events. Due to the continuing effects of the COVID-19 pandemic, there have been, and there could possibly be in the future, a negative impact on our ability to source materials that are part of the eye drop formulation, as well as negative impacts to our volunteer and/or patient recruitment in Australia for clinical studies. Therefore, we have shifted our first-in-human studies of the lead drug candidate, SBI-100, from the third quarter of 2021 to the second quarter of 2022. COVID-19 could also potentially affect the operations of other health or regulatory authorities, such as the DEA, which could result in delays in meeting or approvals from such authorities. Additionally, COVID-19 has caused significant disruptions to the global financial markets which could impact our ability to raise additional capital. The extent to which the COVID-19 outbreak impacts our future business and operations will depend on developments that are highly uncertain and cannot be predicted. As a result, there can be no assurance as to the manner and extent to which the COVID-19 outbreak (or other large-scale disruption) could continue to impact our operations, results and financial condition.

Due to our limited resources, we may be forced to focus on a limited number of development candidates which may force us to pass on opportunities that could have a greater chance of clinical success.

Due to our limited resources and capabilities, we will have to decide to focus on developing a limited number of product candidates. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial product candidates or profitable market opportunities. Our spending on research and development programs and product candidates for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

Our business and operations would be adversely affected in the event that our computer systems or those of our partners, contract research organizations, contractors, consultants or other third parties we work with were to suffer system failures, cyber-attacks, loss of data or other security incidents.

Despite the implementation of security measures, our computer systems, as well as those of our partners, contract research organizations, contractors, consultants, law and accounting firms and other third parties we work with, may sustain damage from computer viruses, unauthorized access, data breaches, phishing attacks, ransomware attacks, denial-of-service attacks, cybercriminals, natural disasters, terrorism, war and telecommunication and electrical failures. We rely on our partners and third-party providers to implement effective security measures and identify and correct for any such failures, deficiencies or breaches. The risks of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments and cyber-terrorists, have increased significantly and are becoming increasingly difficult to detect. If a failure, accident or security breach were to occur and cause interruptions in our operations, or the operations of our partners or third-party providers, it could result in a misappropriation of confidential information, including our intellectual property or financial information or clinical trial participant personal data, a material disruption or delay in our drug development programs, and/or significant monetary losses. For example, the loss of preclinical or clinical trial data from completed, ongoing or planned trials, or chemistry, manufacturing and controls data for our product candidates, could result in delays in regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Any such breach, loss or compromise of clinical trial participant personal data may also subject us to civil fines and penalties under the privacy laws of the European Union or other countries as well as state and federal privacy laws in the United States.

If we fail to enter and maintain successful collaborative arrangements or strategic alliances for our product candidates, we may have to reduce or delay our product candidate development or increase our expenditures.

An important element of our strategy for developing, manufacturing and commercializing our product candidates is entering into collaborative arrangements or strategic alliances with pharmaceutical companies, research institutions or other industry participants to advance our programs and enable us to maintain our financial and operational capacity. We face significant competition in seeking appropriate alliances. We may not be able to negotiate alliances on acceptable terms, if at all. In addition, these alliances may be unsuccessful. If we fail to create and maintain suitable alliances, we may have to limit the size or scope of, or delay, one or more of our research or development programs.

In addition, these kinds of collaborative arrangements and strategic alliances may place certain aspects of the development of our product candidates outside of our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us.

Dependence on collaborative arrangements or strategic alliances will subject us to several risks, including the risks that:

- we may not be able to control the amount and timing of resources that our collaborators may devote to the product candidates;
- our collaborators may experience financial difficulties;
- we may be required to relinquish important rights such as marketing and distribution rights;
- business combinations or significant changes in a collaborator's business strategy may also adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement;
- a collaborator could independently move forward with a competing product candidate developed either independently or in collaboration with others, including our competitors; and
- collaborative arrangements are often terminated or allowed to expire, which would delay development and may increase the cost of developing our product candidates.

Risks Related to Controlled Substances

The product candidates we are developing will be subject to U.S. controlled substance laws and regulations, and failure to comply with or the cost of compliance with these laws and regulations, may adversely affect the results of our business operations, and our financial condition.

The product candidates we plan to develop will contain controlled substances as defined in the CSA. Controlled substances that are pharmaceutical products are subject to a high degree of regulation under the CSA, which establishes, among other things, certain registration, manufacturing quotas, security, recordkeeping, reporting, import, export and other requirements administered by the DEA. The DEA classifies controlled substances into five schedules: Schedule I, II, III, IV or V substances. Schedule I substances by definition have a high potential for abuse, no currently "accepted medical use" in the United States, lack accepted safety for use under medical supervision, and may not be prescribed, marketed or sold in the United States. Pharmaceutical products approved for use in the United States may be listed as Schedule II, III, IV or V. Schedule I and II drugs are subject to the strictest controls under the CSA, including manufacturing and procurement quotas, security requirements and criteria for importation. In addition, dispensing of Schedule II drugs is further restricted. While certain cannabinoids may be classified as Schedule I controlled substances, products approved for medical use in the United States that contain certain cannabinoids must be placed on Schedules II-V, since approval by the FDA satisfies the "accepted medical use" requirement.

If approved by the FDA, we expect the finished dosage forms of our cannabinoid derivative product candidates to be listed by the DEA as a Schedule II or III controlled substance. Consequently, their manufacture, importation, exportation, domestic distribution, storage, sale and legitimate use will be subject to a significant degree of regulation by the DEA. In addition, the scheduling process may take one or more years, thereby delaying the launch of the drug product in the United States. Furthermore, if the FDA, DEA, or any foreign regulatory authority determines that any of our drug product candidates may have potential for abuse, it may require us to generate more clinical or other data than we currently anticipate establishing whether or to what extent the substance has an abuse potential, which could increase the cost and/or delay the launch of the drug product.

Facilities conducting research, manufacturing, distributing, importing or exporting, or dispensing controlled substances must be registered (licensed) to perform these activities and have the security, control, recordkeeping, reporting and inventory mechanisms required by the DEA to prevent drug loss and diversion. All these facilities must renew their registrations annually, except dispensing facilities, which must renew every three years. The DEA conducts periodic inspections of certain registered establishments that handle controlled substances. Obtaining the necessary registrations may result in delay of the manufacturing, development, or distribution of our product candidates. Furthermore, failure to maintain compliance with the CSA, particularly non-compliance resulting in loss or diversion, can result in regulatory action that could have a material adverse effect on our business, financial condition and results of operations. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to restrict, suspend or revoke those registrations. In certain circumstances, violations could lead to criminal proceedings. Individual states have also established controlled substance laws and regulations. While some states automatically schedule a drug based on federal action, other states schedule drugs through rule making or a legislative action. State scheduling may delay commercial sale of any product for which we obtain federal regulatory approval and adverse scheduling could have a material adverse effect on the commercial attractiveness of such product. We or our partners or clinical sites must also obtain separate state registrations, permits or licenses in order to be able to obtain, handle, and distribute controlled substances for clinical trials or commercial sale, and failure to meet applicable regulatory requirements could lead to enforcement and sanctions by the states in addition to those from the DEA or otherwise arising under federal law.

To conduct clinical trials with our product candidates in the United States prior to approval, each of our research sites must obtain and maintain a DEA researcher registration that will allow those sites to handle and dispense the product candidate and to obtain the product. If the DEA delays or denies the grant of a research registration to one or more research sites, the clinical trial could be significantly delayed, and we could lose clinical trial sites.

Manufacturing of our product candidates is, and, if approved, our commercial products will be, subject to the DEA's annual manufacturing and procurement quota requirements, if classified as Schedule II. The annual quota allocated to us or our contract manufacturers for the controlled substances in our product candidates may not be sufficient to meet commercial demand or complete clinical trials. Consequently, any delay or refusal by the DEA in establishing our, or our contract manufacturers', procurement and/or production quota for controlled substances could delay or stop our clinical trials or product launches, which could have a material adverse effect on our business, financial position and operations.

If, upon approval of any of our product candidates, the product is scheduled as Schedule II or III, we would also need to identify wholesale distributors with the appropriate DEA registrations and authority to distribute the product to pharmacies and other health care providers. The failure to obtain, or delay in obtaining, or the loss of any of those registrations could result in increased costs to us. Furthermore, state and federal enforcement actions, regulatory requirements, and legislation intended to reduce prescription drug abuse, such as the requirement that physicians consult a state prescription drug monitoring program may make physicians less willing to prescribe, and pharmacies to dispense, our products, if approved.

Research restrictions, product shipment delays or prohibitions could have a material adverse effect on our business, results of operations and financial condition.

Research on and the shipment, import and export of our product candidates and the active pharmaceutical ingredient ("API") used in our product candidates will require research permits, import and export licenses by many different authorities. For instance, in the United States, the FDA, U.S. Customs and Border Protection, and the DEA; in Canada, the Canada Border Services Agency, and HC; in Europe, the EMA and the European Commission; in Australia and New Zealand, the Australian Customs and Border Protection Service, the Therapeutic Goods Administration, the New Zealand Medicines and Medical Device Safety Authority and the New Zealand Customs Service; and in other countries, similar regulatory authorities, regulate the research on and import and export of pharmaceutical products that contain controlled substances. Specifically, the import and export process requires the issuance of import and export licenses by the relevant controlled substance authority in both the importing and exporting country. We may not be granted, or if granted, maintain, such licenses from the authorities in certain countries. Even if we obtain the relevant licenses, shipments of API and our product candidates may be held up in transit, which could cause significant delays and may lead to product batches being stored outside required temperature ranges. Inappropriate storage may damage the product shipment resulting in delays in clinical trials. Once shipment is complete, we or the research contractors we are working with may also suffer further delays or restrictions as a result of regulations governing research on controlled substances. A delay in a clinical trial or, upon commercialization, a partial or total loss of revenue from one or more shipments of API or our product candidates could have a material adverse effect on our business, results of operations and financial condition. The aforementioned examples and lists of various authorities that may currently, or in the future, affect our ability to conduct research on or import or export our product candidates and/or API, should not be construed as exhaustive or comprehensive in any way.

Our ability to research, develop and commercialize our drug product candidates is dependent on our ability to obtain and maintain the necessary controlled substance registrations from the DEA.

In the United States, the DEA regulates activities relating to the synthesis, possession and supply of controlled substances for medical research and/or commercial development.

We are partnering with multiple clinical research organizations and manufacturing organizations to research and develop our pharmaceutical drug products. The regulation of controlled substances is complex and subject to stringent controls. If our partners cannot obtain or maintain the necessary regulatory authorizations that we anticipate will be required for the contemplated development program, our business may suffer, and we may not be able to pursue the discovery, research and development of cannabinoids.

Laws and regulations affecting therapeutic uses of cannabinoids are constantly evolving.

The constant evolution of laws and regulations affecting the research and development of cannabinoid-based pharmaceutical products and treatments could detrimentally affect our business. Laws and regulations related to the therapeutic uses of cannabinoids are subject to changing interpretations. These changes may require us to incur substantial costs associated with legal and compliance fees and ultimately require us to alter our business plan. Furthermore, violations or alleged violation of these laws could disrupt our business and result in a material adverse effect on our operations. In addition, we cannot predict the nature of any future laws, regulations, interpretations or applications of laws and regulations and it is possible that new laws and regulations may be enacted in the future that will be directly applicable to our business.

Our product candidates may contain controlled substances, the use of which may generate public controversy.

Since our product candidates may contain controlled substances, their regulatory approval may generate public controversy or scrutiny. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, our product candidates. These pressures could also limit or restrict the introduction and marketing of our product candidates. Adverse publicity from misuse or adverse side effects cannabinoid derivatives may adversely affect the commercial success or market penetration achievable by our product candidates. The nature of our business will likely attract a high-level of public and media interest, and in the event of any resultant adverse publicity, our reputation may be harmed.

Risks Related to Government Regulation

We may not be able to file Investigational New Drug applications to commence clinical trials on the timelines we expect, and even if we are able to, the FDA may not permit us to proceed in a timely manner, or at all.

Prior to commencing clinical trials in territories with a regulatory authority we must obtain the necessary approvals to commence the clinical studies. For example, before initiating a clinical trial in the United States for any of our product candidates, we may be required to have an Investigational New Drug application ("IND") in effect for each product candidate. Submission of an IND may not result in the FDA allowing clinical trials to begin and, once begun, issues may arise that will require us to suspend or terminate such clinical trials. Once an IND is submitted, the sponsor must wait 30 calendar days before initiating the clinical trial, during which FDA will review the IND and either provide comments or allow the trial to proceed. Additionally, even if relevant regulatory authorities agree with the design and implementation of the clinical trials set forth in an IND or a clinical trial application (the equivalent of an IND in foreign jurisdictions), these regulatory authorities may change their requirements in the future.

If we fail to demonstrate the safety and efficacy of any product candidate that we develop to the satisfaction of the regulatory authorities, we may incur additional costs or experience difficulty in completing, the development and commercialization of such product candidate.

We are not permitted to commercialize, market, promote, or sell any product candidate in the United States without obtaining marketing approval from the FDA or in other countries without obtaining approvals from comparable foreign regulatory authorities, such as the European Medicines Agency (the “EMA”), and we may never receive such approvals. To gain approval to market a drug product, we must complete extensive nonclinical development and clinical trials that demonstrate the safety and efficacy of the product for the intended indication to the satisfaction of the FDA or other regulatory authority.

We have not previously submitted a new drug application ("NDA") to the FDA, or similar drug approval filings to comparable foreign authorities, for any product candidate, and we cannot be certain that any of our product candidates will be successful in clinical trials or receive regulatory approval. If we do not receive regulatory approval for our product candidates, we may not be able to continue our operations. Even if we successfully obtain regulatory approval to market our product candidates, our revenue will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval and have commercial rights.

The FDA or any foreign regulatory bodies could delay, limit or deny approval of our product candidates for many reasons, including our inability to demonstrate to the satisfaction of the FDA or the applicable foreign regulatory body that the product candidate is safe and effective for the requested indication, the regulatory agency's disagreement with the interpretation of data from preclinical studies or clinical trials, or our inability to demonstrate that the clinical and other benefits of the product candidate outweigh any safety or other perceived risks. The FDA or applicable regulatory body could also require additional preclinical or clinical studies, deny approval of the formulation, labeling or the specifications of the product candidate, or the manufacturing processes or facilities of third party manufacturers with which we contract. The policies of the applicable regulatory agencies could also significantly change in a manner rendering our clinical data insufficient for approval.

Even if we eventually complete clinical testing and receive approval of a NDA or foreign regulatory filing for a product candidate, the FDA or the applicable foreign regulatory agency may grant approval contingent on the performance of costly additional clinical trials. The FDA or the applicable foreign regulatory agency also may approve the product candidate for a more limited indication or a narrower patient population than we originally requested, and the FDA, or applicable foreign regulatory agency, may not approve the labeling that we believe is necessary or desirable for the successful commercialization of the product. Any delay in obtaining, or inability to obtain, applicable regulatory approval would delay or prevent commercialization of the product candidate and would materially adversely impact our business and prospects.

Nonclinical and clinical drug development involves a lengthy and expensive process with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Clinical testing is expensive and can take several years to complete, and its outcome is inherently uncertain. Moreover, obtaining sufficient quantities of product for clinical testing is subject to regulation by DEA and, in some cases, NIDA. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical studies and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. A failure of one or more clinical trials can occur at any stage of testing. We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval or subsequently to commercialize our product candidates, including:

- FDA, DEA or NIDA or other foreign equivalent authorities may not authorize the use and distribution of sufficient quantities of product for clinical testing;
- regulators or independent institutional review boards (IRBs) may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- regulators or IRBs may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or IRBs to suspend or terminate the trials.

If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside the United States. Our pool of suitable patients may be smaller for some of our product candidates, which will impact our ability to enroll a sufficient number of suitable patients. In addition, some of our competitors have ongoing clinical trials for product candidates that treat the same indications as our product candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors' product candidates. Patient enrollment is affected by other factors including the severity of the disease under investigation, the eligibility criteria for the study in question, the perceived risks and benefits of the product candidate, the patient referral practices of physicians, the ability to monitor patients adequately during and after treatment, and the proximity and availability of clinical trial sites for prospective patients. Additionally, the COVID-19 pandemic may slow enrollment in our future clinical trials.

Our inability to enroll a sufficient number of patients for our clinical trials would result in significant delays and could require us to abandon one or more clinical trials altogether, which could result in increased development costs and cause the value of our company to decline and limit our ability to obtain additional financing.

Our development and commercialization strategy for SBI-100, may depend, in part, on published scientific literature and the FDA's prior findings regarding the safety and efficacy of dronabinol, based on data not developed by us, but upon which the FDA may rely in reviewing our NDA.

The Hatch-Waxman Act added Section 505(b)(2) to the Federal Food, Drug and Cosmetic Act ("FDCA"), Section 505(b)(2) permits the filing of a NDA where at least some of the information required for approval comes from investigations that were not conducted by or for the applicant and for which the applicant has not obtained a right of reference or use from the person by or for whom the investigations were conducted. The FDA interprets Section 505(b)(2) of the FDCA, for purposes of approving a NDA, to permit the applicant to rely, in part, upon published literature or the FDA's previous findings of safety and efficacy for an approved product. The FDA may also require companies to perform additional clinical trials or measurements to support any deviation from the previously approved product. The FDA may then approve the new product candidate for all or some of the label indications for which the referenced product has been approved, as well as for any new indication sought by the Section 505(b)(2) applicant. The label, however, may require all or some of the limitations, contraindications, warnings or precautions included in the listed product's label, including a black box warning, or may require additional limitations, contraindications, warnings or precautions. Depending on guidance from the FDA, we may decide to submit a NDA for SBI-100 under Section 505(b)(2) relying, in part, on the FDA's previous findings of safety and efficacy from investigations for the approved drug product Dronabinol for which we have not received a right of reference and published scientific literature. Even though we may be able to take advantage of Section 505(b)(2) to support potential U.S. approval, the FDA may require us to perform additional clinical trials or measurements to support approval. In addition, notwithstanding the approval of many products by the FDA pursuant to Section 505(b)(2), over the last few years some pharmaceutical companies and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA changes its interpretation of Section 505(b)(2), or if the FDA's interpretation is successfully challenged in court, this could delay or even prevent the FDA from approving any Section 505(b)(2) NDAs that we submit. Such a result could require us to conduct additional testing and costly clinical trials, which could substantially delay or prevent the approval and launch of our product candidates, including SBI-100.

Even if we receive regulatory approval for a product candidate, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense and subject us to restrictions, withdrawal from the market, or penalties if we fail to comply with applicable regulatory requirements or if we experience unanticipated problems with our product candidates, when and if approved.

Once regulatory approval has been granted, the approved product and its manufacturer are subject to continual review by the FDA, DEA and/or non-U.S. regulatory authorities and such approval may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for potentially costly post-marketing follow-up studies or surveillance. In addition, we will be subject to extensive and ongoing regulatory requirements with regard to labeling, packaging, adverse event reporting, storage, distribution, advertising, promotion, recordkeeping and submission of safety and other post-market information. Manufacturers of our products and manufacturers' facilities are required to comply with current good manufacturing practice ("cGMP") regulations, which include requirements related to quality control and quality assurance as well as the corresponding maintenance of records and documentation Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. We will also be required to report certain adverse reactions and production problems, if any, to the FDA and to comply with requirements concerning advertising and promotion for our products. If we, any future collaboration partner or a regulatory authority discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory authority may impose restrictions on that product, the collaboration partner, the manufacturer or us, including requiring withdrawal of the product from the market or suspension of manufacturing.

Any DEA registrations that we receive may also be subject to limitations such as the DEA's annual manufacturing and procurement quota requirements. The annual quota allocated to us or our contract manufacturers for the controlled substances in our product candidates may not be sufficient to meet commercial demand. Our facilities that handle controlled substances, and those of our third party contractors, will also be subject to registration requirements and periodic inspections. Additionally, if approved by the FDA, the finished dosage forms of our drug product candidates will be subject to the DEA's rescheduling process, which may delay product launch and impose additional regulatory burdens. Failure to maintain compliance with the CSA, particularly non-compliance resulting in loss or diversion, can result in regulatory action that could have a material adverse effect on our business, financial condition and results of operations. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to restrict, suspend or revoke those registrations. In certain circumstances, violations could lead to criminal proceedings. For additional information, see Risk Factor, "*The product candidates we are developing will be subject to U.S. controlled substance laws and regulations and failure to comply with these laws and regulations, or the cost of compliance with these laws and regulations, may adversely affect the results of our business operations, both during non-clinical and clinical development and post-approval, and our financial condition.*"

The FDA closely regulates the post-approval marketing and promotion of drugs to ensure drugs are marketed only for the approved indications and in accordance with the provisions of the approved labeling and regulatory requirements. If we, our product candidates or the manufacturing facilities for our product candidates fail to comply with regulatory requirements of the FDA and/or other non-U.S. regulatory authorities, we could be subject to administrative or judicially imposed sanctions.

Widely publicized events concerning the safety risk of certain drug products have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products and the imposition by the FDA of risk evaluation and mitigation strategies ("REMS"), to ensure that the benefits of the drug outweigh its risks. In addition, widely publicized events concerning the safety risk of certain drug products have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products and the imposition by the FDA of REMS to ensure that the benefits of the drug outweigh its risks. In addition, because of the serious public health risks of high-profile adverse safety events with certain products, the FDA may require, as a condition of approval, costly REMS programs.

We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or in other countries. If we or any future collaboration partner are not able to maintain regulatory compliance, we or such collaboration partner, as applicable, will not be permitted to market our future products and our business will suffer.

Serious adverse events or undesirable side effects or other unexpected properties of any of our product candidates may be identified during development or after approval that could delay, prevent or cause the withdrawal of regulatory approval, limit the commercial potential, or result in significant negative consequences following marketing approval.

Serious adverse events or undesirable side effects caused by, or other unexpected properties of, our product candidates could cause us, an IRB, or regulatory authorities to interrupt, delay or halt our clinical trials and could result in a more restrictive label, the imposition of distribution or use restrictions or the delay or denial of regulatory approval by the FDA or comparable foreign regulatory authorities. If any of our product candidates are associated with serious adverse events or undesirable side effects or have properties that are unexpected, we may need to abandon their development or limit development to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Many compounds that initially showed promise in clinical or earlier stage testing have later been found to cause undesirable or unexpected side effects that prevented further development of the compound.

Undesirable side effects or other unexpected adverse events or properties of any of our other product candidates could arise or become known either during clinical development or, if approved, after the approved product has been marketed. If such an event occurs during development, our trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of, or deny approval of, our product candidates. If such an event occurs after such product candidates are approved, a number of potentially significant negative consequences may result, including withdrawal of regulatory approval, requirements for additional warnings on the label, use or distribution restrictions, requirements to conduct post-market studies, requirements to create a medication guide outlining side effects, and liability for harm caused to patients.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product candidate, if approved, or could substantially increase commercialization costs and expenses, which could delay or prevent us from generating revenue from the sale of our products and harm our business and results of operations.

We expect to rely on third parties, such as CROs, to conduct some or all of our nonclinical and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be unable to obtain regulatory approval for or commercialize any of our product candidates.

We expect to rely on medical institutions, clinical investigators, contract laboratories and other third parties, such as CROs, to conduct our nonclinical and clinical studies on our product candidates in compliance with applicable regulatory requirements. For example, we have currently engaged with Novotech in Australia to conduct our clinical trials that are expected to begin in the second quarter of 2022. These third parties will not be our employees and, except for restrictions imposed by our contracts with such third parties, we will have limited ability to control the amount or timing of resources that they devote to our programs. Although we expect to rely on these third parties to conduct our preclinical studies and clinical trials, we will remain responsible for ensuring that each of our preclinical studies and clinical trials is conducted in accordance with its investigational plan and protocol and the applicable legal, regulatory, and scientific standards, and our reliance on these third parties will not relieve us of our regulatory responsibilities. These entities must maintain and comply with valid DEA registrations and requirements. The FDA and regulatory authorities in other jurisdictions require us to comply with regulations and standards, commonly referred to as current good clinical practices ("cGCPs"), for conducting, monitoring, recording and reporting the results of clinical trials, in order to ensure that the data and results are scientifically credible and accurate and that the trial subjects are adequately informed of the potential risks of participating in clinical trials. If we or any of our third party contractors fail to comply with applicable cGCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. In addition, we are required to report certain financial interests of our third party investigators if these relationships exceed certain financial thresholds and meet other criteria. The FDA or comparable foreign regulatory authorities may question the integrity of the data from those clinical trials conducted by principal investigators who previously served or currently serve as scientific advisors or consultants to us from time to time and receive cash compensation in connection with such services. Our clinical trials must also generally be conducted with products produced under cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

Some of the third parties with whom we contract may also have relationships with other commercial entities, some of which may compete with us. If the third parties conducting our preclinical studies or our clinical trials do not perform their contractual duties or obligations or comply with regulatory requirements, we may need to enter into new arrangements with alternative third parties. This could be costly, and our preclinical studies or clinical trials may need to be extended, delayed, terminated or repeated, and we may not be able to obtain regulatory approval in a timely fashion, or at all, for the applicable product candidate, or to commercialize such product candidate being tested in such studies or trials. If any of our relationships with these third parties terminate, we may not be able to enter into arrangements with alternative third party contractors or to do so on commercially reasonable terms. Though we plan to carefully manage our relationships with our CROs, there can be no assurance that we will not encounter similar challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition and prospects.

We rely on, and expect to continue relying on, third party contract manufacturing organizations to manufacture and supply product candidates for us, as well as certain raw materials used in the production thereof. If one of our suppliers or manufacturers fails to perform adequately, we may be required to incur significant delays and costs to find new suppliers or manufacturers.

We currently have no experience in, and we do not own facilities for, manufacturing our product candidates. We rely on, and expect to continue relying upon, third party manufacturing organizations to manufacture and supply our product candidates and certain raw materials used in the production thereof. Some of our key components for the production of our product candidates may have a limited number of suppliers.

The facilities used by our contract manufacturers to manufacture our product candidates must be approved by the FDA pursuant to inspections that will be conducted after we submit our NDA to the FDA. We expect that we will not control the manufacturing process of, and will be completely dependent on, our contract manufacturing partners for compliance with cGMP requirements, for manufacture of our drug products. If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA, DEA or others, they will not be able to secure and/or maintain DEA registrations and regulatory approval for their manufacturing facilities. In addition, we expect that we will have no control over the ability of our contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA or a comparable foreign regulatory authority does not approve these facilities for the manufacture of our product candidates, or if DEA does not register these facilities for the manufacture of controlled substances, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market our product candidates, if approved.

Although we have quality agreements governing our development of clinical supplies, we do not have any commercial supply agreements with our suppliers. In the event that we and our suppliers cannot agree to the terms and conditions for them to provide clinical and commercial supply needs, we would not be able to manufacture our product or candidates until a qualified alternative supplier is identified, which could also delay the development of, and impair our ability to commercialize, our product candidates. The failure of third party manufacturers or suppliers to perform adequately or the termination of our arrangements with any of them may adversely affect our business.

Healthcare reform measures could hinder or prevent our products candidates' commercial success, if approved.

In the United States, there have been, and we anticipate there will continue to be, a number of legislative and regulatory changes to the healthcare system that could impact our ability to sell any of our products profitably if approved. In the United States, the Federal government passed the Patient Protection and Affordable Care Act in 2010, as amended by the Health Care and Education Reconciliation Act (collectively, the "ACA"). The ACA:

- increases the minimum level of Medicaid rebates payable by manufacturers of brand-name drugs from 15.1% to 23.1%;
- requires collection of rebates for drugs paid by Medicaid managed care organizations
- requires manufacturers to participate in a coverage gap discount program, under which they must agree to offer 50 percent point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D; and
- imposes a non-deductible annual fee on pharmaceutical manufacturers or importers who sell "branded prescription drugs" to specified federal government programs.

We expect that state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates if approved, or additional pricing pressure. The implementation of cost containment measures or other healthcare reform initiatives may prevent us from being able to generate revenue, attain profitability, or commercialize any products for which we may obtain regulatory approval. The continuing efforts of the government, insurance companies, managed care organizations and other payers of healthcare services to make and implement healthcare reforms may adversely affect our ability to set a price we believe is fair for our products, to generate revenues and achieve or maintain profitability, to raise capital, and to obtain timely approval of our products.

We may be subject, directly or indirectly, to federal and state healthcare fraud and abuse laws, false claims laws, and health information privacy and security laws. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.

If we obtain FDA approval for any of our product candidates and begin commercializing those products in the United States, our operations may be directly, or indirectly through our customers, subject to various federal and state fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute, the federal False Claims Act, and physician sunshine laws and regulations. These laws may impact, among other things, our proposed sales, marketing, and education programs. In addition, we may be subject to patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third party payors that are false or fraudulent;
- HIPAA, which created federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters, and as amended by the Health Information Technology and Clinical Health Act and its implementing regulations, which imposes certain requirements relating to the privacy, security, and transmission of individually identifiable health information;
- the federal physician sunshine requirements under the ACA, which require manufacturers of drugs, devices, biologics, and medical supplies to report annually to the U.S. Department of Health and Human Services information related to payments and other transfers of value to physicians, other healthcare providers, and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members; and
- state law equivalents of each of the above federal laws, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available, it is possible that some of our business activities could be subject to challenge under one or more of such laws. In addition, recent health care reform legislation has strengthened these laws. If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from participation in government health care programs, such as Medicare and Medicaid, imprisonment, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

We may be subject to requests for access to our product candidates. Demand for compassionate use of our unapproved therapies could strain our resources, delay our drug development activities, negatively impact our regulatory approval or commercial activities, and result in losses.

We are developing product candidates to treat conditions for which there are currently limited therapeutic options. If we experience requests for access to unapproved drugs, we may experience significant disruption to our business which could result in losses. We are a small company with limited resources, and any unanticipated trials or access programs resulting from requests for access could deplete our drug supply, increase our capital expenditures, and otherwise divert our resources from our primary goals.

In addition, legislation referred to as "Right to Try" laws have been introduced at the local and national levels, which are intended to give patients access to unapproved therapies. Patients who receive access to unapproved drugs through compassionate use or expanded access programs have life-threatening illnesses and generally have exhausted all other available therapies. The risk for serious adverse events in this patient population is high and could have a negative impact on the safety profile of our product candidate, which could cause significant delays or an inability to successfully commercialize our product candidate and could materially harm our business. In addition, in order to perform the controlled clinical trials required for regulatory approval and successful commercialization of our product candidates, we may also need to restructure or pause any ongoing compassionate use and/or expanded access programs, which could prompt adverse publicity.

Risks Related to our Common Stock

Our stock price may be volatile, which may result in losses to our stockholders.

The stock markets have experienced significant price and trading volume fluctuations, and the market prices of companies quoted on the OTCQB, where our shares of common stock will be quoted, generally have been very volatile and have experienced sharp share-price and trading-volume changes. The trading price of our common stock is likely to be volatile and could fluctuate widely in response to factors which may be out of our control, such as variations in our operating results, changes in expectations of our future financial performance, changes in operating and stock price performance of other companies in our industry, additions or departures of key personnel, and future sales of our common stock.

Domestic and international stock markets often experience significant price and volume fluctuations. These fluctuations, as well as general economic and political conditions unrelated to our performance, may adversely affect the price of our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been initiated.

Our common shares are thinly-traded, and in the future, may continue to be thinly-traded, and you may be unable to sell at or near ask prices or at all.

Our common shares are quoted on the OTCQB and are thinly traded. We cannot predict whether, and the extent to which, an active public market for our common stock will develop or be sustained due to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors, and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and may be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there have been, and may continue to be, periods of several days or more when trading activity in our shares is minimal or non-existent. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

The market for our common shares can be characterized by significant price volatility when compared to other more well-known issuers, and we expect that our share price will continue to be more volatile than a well-known issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares have been, and may continue to be, sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. Secondly, an investment in us is a speculative or "risky" investment due to our lack of revenues or profits to date. You should not invest in our common shares unless you have the ability to tolerate a thinly traded and volatile market for the shares.

We cannot assure you that our common stock will become eligible for listing or quotation on any exchange and the failure to do so may adversely affect your ability to dispose of our common stock in a timely fashion.

We may in the future consider actions that make us eligible to list our common shares on a stock exchange. We may not be able satisfy the initial standards for listing or quotation on any exchange in the foreseeable future or at all. Even if we are able to become listed or quoted on an exchange, we may not be able to maintain a listing of the common stock on such stock exchange.

We do not anticipate paying any cash dividends.

We presently do not anticipate that we will pay any dividends on any of our capital stock in the foreseeable future. The payment of dividends, if any, would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any dividends will be within the discretion of our Board. We presently intend to retain all earnings, if any, to implement our business plan; accordingly, we do not anticipate the declaration of any dividends in the foreseeable future.

Our common stock is subject to penny stock rules, which may make it more difficult for our stockholders to sell their common stock.

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price of less than $5.00 per share. The penny stock rules require a broker-dealer, prior to a purchase or sale of a penny stock not otherwise exempt from the rules, to deliver to the customer a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules.

We will need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our stockholders.

We require additional capital for the development and commercialization of our product candidates and may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we will seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our stockholders. If we incur additional indebtedness it would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Our principal stockholder owns a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Our principal stockholder, Sciences, owns a significant percentage of our outstanding capital stock. As of March 24, 2022, Sciences owned 22.5% of our outstanding shares of common stock. As such, Sciences may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This concentration of ownership may prevent or discourage unsolicited acquisition proposals or offers for our common stock that some of our stockholders may believe is in their best interest.

We have a substantial number of authorized common shares available for future issuance that could cause dilution of our stockholders' interest and adversely impact the rights of holders of our common stock.

We have a total of 5,000,000,000 shares of common stock authorized for issuance and up to 50,000,000 shares of preferred stock with the rights, preferences and privileges that our Board may determine from time to time. As of March 24, 2022, we have reserved; 34,540,000 shares for issuance upon the exercise of outstanding options, 4,000,000 shares for issuance upon the vesting of outstanding restricted stock units, 16,979,595 shares for issuance under our 2014 equity incentive plan, 5,474,962 shares underlying the Amended Credit Agreement including accrued interest, and 134,312,225 shares for issuance upon the exercise of outstanding warrants. As of March 24, 2022, we had no outstanding preferred stock. As of March 24, 2022, we had 4,308,768,106 shares of common stock unreserved and available for issuance. We may seek financing that could result in the issuance of additional shares of our capital stock and/or rights to acquire additional shares of our capital stock. We may also make acquisitions that result in issuances of additional shares of our capital stock. Those additional issuances of capital stock would result in a significant reduction of your percentage interest in us. Furthermore, the book value per share of our common stock may be reduced. This reduction would occur if the exercise price of any issued warrants, the conversion price of any convertible notes is lower than the book value per share of our common stock at the time of such exercise or conversion.

The addition of a substantial number of shares of our common stock into the market or by the registration of any of our other securities under the Securities Act of 1933, as amended (the "Securities Act"), may significantly and negatively affect the prevailing market price for our common stock. The future sales of shares of our common stock issuable upon the exercise of outstanding warrants may have a depressive effect on the market price of our common stock, as such warrants would be more likely to be exercised at a time when the price of our common stock is greater than the exercise price.

The issuance of shares upon exercise of outstanding warrants, convertible debt and options may cause immediate and substantial dilution to our existing stockholders.

If the price per share of our common stock at the time of exercise of any warrants, options, or any other convertible securities is in excess of the various conversion or exercise prices of these convertible securities, conversion or exercise of these convertible securities would have a dilutive effect on our common stock. As of March 24, 2022, we had outstanding (i) warrants to purchase up to 134,312,225 shares of our common stock at exercise prices ranging from $0.08 to $5.00 per share, (ii) options to purchase up to 34,540,000 shares of our common stock at exercise prices ranging from $0.05 to $0.31 per share, (iii) convertible debt and accrued interest with a conversion price of $0.40 convertible into up to 5,474,962 shares of our common stock, and (iv) 4,000,000 unreleased restricted stock units exchangeable for shares of our common stock upon vesting. Further, any additional financing that we secure may require the granting of rights, preferences or privileges senior to those of our common stock and which result in additional dilution of the existing ownership interests of our common stockholders.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. In general, an “ownership change” occurs if the aggregate stock ownership of one or more stockholders or groups of stockholders who own at least 5% of a corporation’s stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. During 2018, pursuant to the Emerald Financing transaction, the Company underwent a significant ownership change which likely triggered a limitation under Section 382. If we experience ownership changes as a result of future transactions in our stock, our ability to use our net operating loss carryforwards and other tax attributes to offset U.S. federal taxable income may be subject to further limitations, which could potentially result in increased future tax liability to us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease our principal executive and corporate offices are located at 11250 El Camino Real, Suite 100, San Diego, CA 92130.

Item 3. Legal Proceedings.

On June 3, 2021, Wendy Cunning, a former employee of the Company, initiated a legal proceeding against the Company in the U.S. District Court Central District of California (the "Action"). The Action asserts claims by Ms. Cunning for violation of whistleblower protections under the Sarbanes-Oxley Act, retaliation under California labor code section 1102.5, wrongful termination in violation of public policy and intentional infliction of emotional distress, against the Company. The Action seeks monetary damages in an indeterminable amount and civil penalties. The Company denies all claims and is vigorously defending the Action.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information.

Our common stock has been quoted on the OTCQB, under the symbol "SKYE". Previously, it traded under the symbol "EMBI" until January 19, 2021. There can be infrequent trading volume, which precipitates wide spreads in the "bid" and "ask" quotes of our common stock, on any given day. On March 24, 2022, the last reported sale price of our common stock on the OTCQB was $0.04 per share.

The following table sets forth, for the quarters indicated, the high and low bid prices per share of our common stock on the OTCQB, reported by the Financial Industry Regulatory Authority Composite Feed or other qualified interdealer quotation medium. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

Quarter Ended	High	Low
December 31, 2021	$ 0.11	$ 0.05
September 30, 2021	0.18	0.08
June 30, 2021	0.26	0.08
March 31, 2021	0.25	0.04
December 31, 2020	0.06	0.03
September 30, 2020	0.16	0.04
June 30, 2020	0.20	0.07
March 31, 2020	0.20	0.05

Holders. As of March 24, 2022, there were 61 stockholders of record. The number of stockholders of record does not include beneficial owners of our common stock, whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

Dividends. We have never declared or paid a cash dividend on our common stock. We do not expect to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain our earnings, if any, for use in our business. Any dividends declared in the future will be at the discretion of our Board and subject to any restrictions that may be imposed by our lenders.

Recent Sales of Unregistered Securities. None.

Issuer Purchases of Equity Securities. None during the fiscal year ended December 31, 2021 covered by this Annual Report.

Penny Stock Regulation. Shares of our common stock are subject to rules adopted by the SEC that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks are generally equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the SEC, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;
- a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the "bid" and "ask" price;
- a toll-free telephone number for inquiries on disciplinary actions;
- definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- such other information and is in such form (including language, type, size and format), as the SEC shall require by rule or regulation.

Prior to affecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock;
- the compensation of the broker-dealer and its salesperson in the transaction;
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
- monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock will probably be subject to the penny stock rules.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2021 and 2020 together with 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 Annual Report on Form 10-K.

Unless otherwise provided in this Annual Report, references to "we," "us," "our" and "Skye Bioscience" in this discussion and analysis refer to Skye Bioscience, Inc., a Nevada corporation formerly known as Emerald Bioscience, Inc., together with its wholly owned subsidiaries, Nemus, a California corporation, and SKYE Bioscience Pty Ltd ("SKYE Bioscience Australia"), an Australian proprietary limited company formerly known as EMBI Australia Pty Ltd.

About Skye Bioscience, Inc.

We were incorporated in the State of Nevada on March 16, 2011. We are a preclinical pharmaceutical company focused on the discovery, development and commercialization of a novel class of cannabinoid derivatives to modulate the endocannabinoid system, which has been shown to play a vital role in overall human health and, notably, in multiple ocular indications. We are developing novel cannabinoid derivatives through our own directed research efforts and multiple license agreements.
Effective March 25, 2019, we changed our name from Nemus Bioscience, Inc. to Emerald Bioscience, Inc. and effective January 19, 2021, we changed our name to Skye Bioscience, Inc. Our common stock is quoted on the OTCQB, under the symbol "SKYE". Previously, it traded under the symbol "EMBI".
In August 2019, we formed a new subsidiary in Australia, SKYE Bioscience Australia, in order to qualify for the Australian government's research and development tax credit for research and development dollars spent in Australia. The primary purpose of SKYE Bioscience Australia is to conduct clinical trials for our drug product candidates.

Our Product Candidates and Significant Contracts.

UM 5050 and UM 8930 License Agreements

In May 2019, we executed amended and restated license agreements with University of Mississippi ("UM") which expanded our use of UM 5050 and UM 8930 from ocular delivery only to "all fields of use" (collectively, the "License Agreements"). Pursuant to the License Agreements, UM granted us an exclusive perpetual license including, with the prior written consent of UM, the right to sublicense the intellectual property related to UM 5050 and UM 8930 for all fields of use. All fields of use means that we may develop UM 5050 and UM 8930 to treat any disease through any form of delivery under the License Agreements.

The exclusive license for SBI-100, a cannabinoid receptor type 1 ("CBR1") agonist, under UM 5050 is expected to allow us to explore related uses for the active moiety of SBI-100. Independent in vitro and in vivo studies have demonstrated the potential use of SBI-100 in a variety of potential indications based on the ability of CBR1 agonists to act as an anti-inflammatory, anti-fibrotic, and/or inhibitor of neovascularization. The Company has generated data related to these effects using an ex vivo human tissue model of the eye. SBI-100 is designed to enhance the pharmacokinetics and pharmacodynamics of the active part of the molecule once introduced into the body through various routes of administration being considered by the development team.

The exclusive license of SBI-200, a novel cannabinoid receptor ("CBR") modulator, under UM 8930, is expected to allow us to explore uses in ophthalmic disorders as well as expanded research and development into organ systems outside of ophthalmology. Potential therapeutic areas beyond ophthalmic indications for SBI-200 may include the central nervous system, the gastrointestinal tract, the endocrine/metabolic system, reproductive system diseases, or as yet unrecognized opportunities. We have developed strategic collaborations to identify and advance these applications.

SBI-100

Our lead compound, SBI-100, is initially being developed to treat ocular disease. The first-in-human Phase 1 trials are expected to be conducted in healthy volunteers in Australia (the "Clinical Trial") to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of SBI-100. We are eligible under the AusIndustry research and development tax incentive program to obtain a cash incentive from the Australian Taxation Office. The tax incentive is available to us based on specific criteria with which we must comply and is based on our eligible research and development spend in Australia. The Company may be eligible for either a 43.5% refundable tax offset if it has aggregate turnover of less than $20 million per annum or a 38.5% non-refundable tax offset of eligible research and development expenditure up to $100 million if it has annual turnover of $20 million or more per annum. Prior to August 2020, we executed several agreements and the work underlying those agreements was subsequently delayed to the second quarter of 2022. Since August 2020, we have been focused on clinical enabling activities, notably:

- formulation and manufacturing of drug product to supply for our first-in-human Phase 1 clinical trial;
- initiating and completing GLP toxicology studies to support our first-in-human Phase 1 clinical trial;
- initiating and completing validation of a pharmacokinetic assay for both animal and human samples to support our pre-clinical and clinical studies; and
- engaging our vendors and contractors to support the finalization of study-related materials for our Phase 1 study, including the finalization of the clinical study protocol and investigator's brochure.

The manufacturing of SBI-100 ophthalmic emulsion is conducted in the United States. Formulation of the eye drop for testing is also performed in the United States but we rely on compendial excipients that can be sourced from countries outside the United States, such as China. Due to the continuing effects of the COVID-19 pandemic, there could possibly be a negative impact on our ability to source materials that are part of the eye drop formulation, as well as negative impacts to our volunteer and/or patient recruitment in Australia for clinical studies.

Subsequent to the initiation of the Phase 1 study, we intend to file an investigational new drug ("IND") application with the United States Food and Drug Administration ("FDA") to study SBI-100 ophthalmic emulsion in a Phase 2 randomized, controlled, double-masked clinical trial in patients with glaucoma or ocular hypertension to obtain additional data to determine whether the topical delivery of SBI-100 ophthalmic emulsion is safe and well-tolerated, and whether the IOP is markedly different between SBI-100 and placebo. Design of the Phase 2 clinical trial will be dependent upon the advice of our clinical advisory board, the FDA and other regulatory bodies.

SBI-200

We have initiated research activities to explore the utility of different formulations of SBI-200. Early studies of SBI-200 demonstrated analgesic, anti-inflammation, anti-fibrotic and anti-seizure properties, including the potential treatment and management of several eye diseases, such as uveitis, dry eye syndrome, macular degeneration and diabetic retinopathy. Data we presented at the American Association of Pharmaceutical Scientists ("AAPS") meeting held in November 2017 revealed that an ocular formulation of SBI-200 was able to penetrate multiple compartments of the eye, including reaching the retina and the optic nerve. Further testing will need to be conducted to further evaluate the possible utility of this compound as a therapeutic agent and we continue to advance our research studies related to SBI-200 to explore different therapeutic applications.

General Trends and Outlook

COVID-19 related

The evolving COVID-19 pandemic has prompted governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of business, quarantines, and shelter-in-place orders. The COVID-19 pandemic has significantly curtailed global economic activity and caused significant volatility and disruption in global financial markets. The COVID-19 pandemic and the measures taken by many countries in response have affected, and could in the future, materially impact the Company's business, results of operations, financial condition and stock price.

As we approach the start of our Phase 1 Clinical study in Australia, the ultimate impact on us is unknown. However, we expect that our contract research organizations ("CROs") could experience setbacks during clinical trials from reduced capacity for safety monitoring due to on site social distancing, reductions in the participant pool or staffing due to vaccination requirements or patients testing positive for COVID-19 prior to enrollment or dosing in the study. To mitigate operational risk our CRO has a COVID Emergency Management Committee in place to assess the various health and government recommendations, advice, potential risks, and impacts so that proactive measures may be taken, as needed, such as remote patient monitoring.

The majority of our workforce continues to be and was remote prior to the COVID-19 pandemic, and therefore our employees have seen little disruption as a result of the COVID-19 pandemic. However, employee safety and well-being is of paramount importance to us in any year and continued to be of particular focus in 2021 in light of the continuing and evolving COVID-19 pandemic. In response to the pandemic, we have supported our employees and government efforts to curb the COVID-19 pandemic through safety and communication efforts and investments, which include:

- Aligning onsite policies to local guidelines and regulation;
- Continuing to provide and promote flexibility for onsite employees to reduce density at our facility;
- Implementing weekly COVID-19 testing for all onsite employees;
- Increased cleaning protocols;
- Provision of masks to all onsite employees and masking requirements aligned to state and local guidelines; and
- Limited domestic and international non-essential travel for all employees.

The full extent of the future impact of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside of our control, including, without limitation, the timing, extent, trajectory, and the duration of the pandemic; the availability, distribution, acceptance and effectiveness of vaccines, particularly against new variants; the imposition of protecting public safety measures, and the impact of the pandemic on any local operations across the United States, European Union, and Australia, where we have operations and conduct laboratory research and clinical studies.

The overall delay in our drug product research and development, is unknown, but our operations and financial condition will likely continue to suffer in the event of continued business interruptions, supply chain issues, delayed clinical trials, production or a lack of laboratory resources due to the pandemic. As of the date of this filing, we are aware of the impact on our business as a result of COVID-19 but uncertain as to the extent of this impact on our consolidated financial statements. There is uncertainty as to the duration and hence the ultimate impact. As a result, we are unable to estimate the potential impact on our business as of the date of this filing.

Financial Overview

We have incurred net losses and generated negative cash flows from operations since inception and expect to incur losses in the future as we continue development activities to support our product candidates through clinical trials. As a result, we expect to continue to incur operating losses and negative cash flows until our product candidates gain market acceptance and generate significant revenues.

Our net loss for the year ended December 31, 2021 was $8,522,182 as compared to a net loss of $6,560,699, for the year ended December 31, 2020. As of December 31, 2021, we had an accumulated deficit of $47,256,163 and negative cash flows from operations of $6,474,888. As of December 31, 2021, we had unrestricted cash of $8,983,007 as compared to $2,469,410 as of December 31, 2020.

On February 5, 2021, we increased our authorized shares of common and preferred stock to 5,000,000,000 and 50,000,000, respectively.

Critical Accounting Policies and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income 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, 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 consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the consolidated financial statements included in this Annual Report on Form 10-K. We believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our consolidated financial statements.

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 Amended Credit Agreement and derivative liabilities, approximate their fair value due to their short maturities. The derivative liabilities are valued on a recurring basis utilizing Level 3 inputs.

As of December 31, 2020, we estimated that the fair value of the Amended Credit Agreement was materially consistent with the fair value estimate as of December 31, 2019 of $1,877,938, plus the non-convertible advances made in 2020. This determination was based on the following considerations: (i) we had not experienced any significant change in our credit worthiness or operations year over year, (ii) there have been no repayments or convertible draws, (iii) the facility is closer to maturity, and (iv) the embedded conversion feature on the convertible advances is out-of-the-money at the reporting date. As of December 31, 2021, we estimated that the fair value of the Amended Credit Agreement, including the non-convertible advances was $2,484,768. Information pertinent to estimating the fair value of the Amended Credit Agreement includes valuing the embedded conversion feature using Level 3 inputs and considering the discounted cash flows of the interest and principal payments through maturity.

Convertible Instruments

We account for hybrid contracts with embedded conversion features in accordance with Accounting Standards Codification ("ASC") 815,*Derivatives and Hedging Activities* ("ASC 815") which 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 GAAP 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.

We account for convertible debt instruments with embedded conversion features in accordance with ASC 470-20,*Debt with Conversion and Other Options* ("ASC 470-20") if it is determined that the conversion feature should not be bifurcated from their host instruments. Under ASC 470-20, we record, 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 and the embedded effective conversion price. When we determine that the embedded conversion option should be bifurcated from its host instrument, the embedded feature is accounted for in accordance with ASC 815. 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 recorded at fair value at each reporting date based on current fair value, with the changes in fair value reported in the results of operations.

We also follow ASC 480-10, *Distinguishing Liabilities from Equity* ("ASC 480-10") when evaluating the accounting for our hybrid instruments. 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 in other expense (income), net in the accompanying Consolidated Statements of Comprehensive Loss. When determining the short-term vs. long-term classification of derivative liabilities, we first evaluate 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, we carefully evaluate all factors that could potentially restrict the instrument from being exercised or create a situation where exercise would be considered remote. We re-evaluate our derivative liabilities at each reporting period end and make updates for any changes in facts and circumstances that may impact classification.

Warrants Issued in Connection with Financings

We generally account 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 we 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, we record the fair value of the warrants as a liability at each balance sheet date and record changes in fair value in other expense (income), net in our Consolidated Statements of Comprehensive Loss.

Stock-Based Compensation Expense

Stock-based compensation expense is estimated at the grant date based on the fair value of the award, and the fair value is recognized as expense ratably over the vesting period with forfeitures accounted for as they occur. We use the Black-Scholes valuation method for estimating the grant date fair value of stock options using the following assumptions:

- Volatility - Expected volatility is estimated using the historical stock price performance over the expected term of the award.
- 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.

Loss Per Common Share

We apply ASC No. 260, *Earnings per Share* in calculating its basic and diluted loss per common share. Basic loss per common share is computed by dividing net loss available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The diluted loss per share of common stock is computed by giving effect to all potential common stock equivalents outstanding for the period determined using the treasury stock method. For purposes of this calculation, options to purchase common stock, restricted stock subject to vesting, warrants to purchase common stock and common shares underlying convertible debt instruments are considered to be common stock equivalents.

Recently Issued and Adopted Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K 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

Our results of operations have fluctuated from period to period and may continue to fluctuate in the future, based upon the progress of our clinical trials, our research and development efforts, variations in the level of expenditures related to investor relations and seeking new sources of capital, debt service obligations during any given period, and the uncertainty as to the extent and magnitude of the impact from the COVID-19 pandemic. Results of operations for any period may be unrelated to results of operations for any other period. In addition, historical results should not be viewed as indicative of future operating results.

For the years ended December 31, 2021 and 2020

Research and Development Expenses

Research and development expenses included the following:

- license fees;
- employee-related expenses, which include salaries, benefits and stock-based compensation;
- payments to third party contract research organizations and investigative sites; and
- payments to third party manufacturing organizations and consultants.

We expect to incur future research and development expenditures to support our preclinical and clinical studies. Preclinical activities include, laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies to assess safety and efficacy. Subject to the submission and approval by the FDA of our IND, clinical trials may commence and will involve the administration of the investigational new drug candidate to human subjects.

Below is a summary of our research and development expenses during the years ended December 31, 2021 and 2020:

	Year Ended December 31,			
	2021	2020	$ Change 2021 vs. 2020	% Change 2021 vs. 2020
Research and development expenses	$ 2,931,437	$ 1,944,411	$ 987,026	51 %

Research and development expenses for the year ended December 31, 2021 increased as compared to the year ended December 31, 2020. The increase in research and development expenses was primarily due to an increase in contract research and development activities of approximately $765,000, an increase in our use of specialized consultants of approximately $215,000 and an increase in compensation cost of approximately $122,000 due to additional headcount from the addition of regulatory and development personnel. These increases were offset by a decrease of $200,000 from reduced license fees due to the milestone payment related to the notice of patent allowance for SBI-200, which was paid to UM in the prior year.

General and Administrative Expenses

Below is a summary of general and administrative expenses during the years ended December 31, 2021 and 2020:

	Year Ended December 31,			
	2021	2020	$ Change 2021 vs. 2020	% Change 2021 vs. 2020
General and administrative expenses	$ 4,916,277	$ 4,344,602	$ 571,675	13 %

General and administrative expenses for the year ended December 31, 2021 increased as compared to the year ended December 31, 2020. The increase in general and administrative expenses was primarily due to an increase in employee headcount of approximately $487,000 which included a one-time stock compensation charge from the modification of option awards, an increase in recruiting fees of approximately $72,000, an increase in dues and subscriptions of approximately $79,000, an increase in facilities and rent expense of approximately $52,000, and an increase in investor relations expenses of approximately $441,000. The aggregate increase was partially offset by a decrease of approximately $589,000 in professional fees from lower legal and accounting costs, and a decrease of approximately $87,000 in insurance premiums incurred during the period.

Other Expense (Income)

Below is a summary of other expense (income) during the years ended December 31, 2021 and 2020:

	Year Ended December 31,			
	2021	2020	$ Change 2021 vs. 2020	% Change 2021 vs. 2020
Change in fair value of derivative liabilities	21,165	(436,270)	$ 457,435	(105) %
Gain on forgiveness of PPP loan	(117,953)	—	(117,953)	100 %
Interest expense	769,159	706,385	62,774	9 %
Interest income	(3)	(29)	26	(90) %
Total other expense (income)	**$ 672,368**	**$ 270,086**	**$ 402,282**	**149 %**

For the year ended December 31, 2021, we had net other expense of $672,368 primarily related to interest expense and a loss from the change in fair value of derivative liabilities. The primary reason for the increase in the loss on the change in fair value of our derivative liabilities was due to the increase in our stock price and volatility, for the period ended December 31, 2021 as compared to the period ended December 31, 2020. In addition, the Amended Credit Agreement was amended in the prior period which resulted in the extinguishment of the compound derivative liability. The increase in interest expense was due to a higher average outstanding principal balance from non-convertible advances on the Amended Credit Agreement for the period ended December 31, 2021, as compared to the period ended December 31, 2020. Other expenses during the period were offset by the gain on debt forgiveness realized from the PPP Loan.

For the year ended December 31, 2020, the Company had other expense of $270,086 related primarily to interest expense under the Amended Credit Agreement, which was offset by a gain from the decrease in the fair value of our derivative liabilities.

Our results of operations have fluctuated from period to period and may continue to fluctuate in the future, based upon the progress of our clinical trials, our research and development efforts, variations in the level of expenditures related to investor relations and seeking new sources of capital, debt service obligations during any given period, and the uncertainty as to the extent and magnitude of the impact from the COVID-19 pandemic. Results of operations for any period may be unrelated to results of operations for any other period. In addition, historical results should not be viewed as indicative of future operating results. In particular, to the extent our medical affairs personnel and clinical trial subjects are subject to varying levels of restriction on accessing clinical trial sites due to COVID-19, we expect our progress towards executing our clinical trials to be adversely affected.

Liquidity, Going Concern and Capital Resources

Liquidity and Going Concern

We have incurred operating losses and negative cash flows from operations since our inception. We expect to continue to incur significant losses and negative cash flows from operations through 2022 and into the foreseeable future. We anticipate that we will continue to incur net losses in order to advance and develop potential drug candidates into preclinical and clinical development activities and support our corporate infrastructure, which includes the costs associated with being a public company. Historically, we have funded our operations primarily through issuance of equity securities and borrowings from a related party.

On October 5, 2018, we secured a Credit Agreement with Sciences, that provided us with a credit facility of up to $20,000,000. On April 29, 2020, we entered into the first amendment to the Credit Agreement with Sciences, which amended and restated the Credit Agreement. On March 29, 2021, we entered the second amendment to the Amended Credit Agreement to defer interest payments until the earlier of maturity or prepayment of the principal balance. Effective September 15, 2021, the disbursement line under the credit facility was closed and the Amended Credit Agreement no longer serves as a potential source of liquidity to the Company. The outstanding principal advances of $2,464,500 under the Amended Credit Agreement bear interest at 7% per annum and mature on October 5, 2022.

On April 22, 2020, we received a principal amount of $116,700 from City National Bank under the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act administered by the U.S. Small Business Administration. We used the proceeds of the PPP loan for the payment of payroll and rent for our office space. On May 20, 2021, the principal amount plus interest was forgiven in full and we recognized a gain of $117,953 for the year ended December 31, 2021.

On July 21, 2021, we entered into the July 2021 Inducement with certain institutional investors to exercise 21,166,667 existing warrants in exchange for the issuance of 21,166,667 new warrants with an exercise price of $0.15 per share. The existing warrants had an exercise price of $0.06 and we received gross proceeds of $1,270,000 from the exercise. Wainwright acted as the placement agent in the transaction and upon the issuance of the Inducement Warrants, we issued 1,481,667 placement agent warrants with an exercise price of $0.19 and paid $132,950 in fees to Wainwright.

On September 27, 2021, we entered into a Securities Purchase Agreement with certain institutional investors for the issuance and sale of securities, with Wainwright acting as the placement agent, pursuant to which we sold 58,111,112 shares of common stock and 19,666,667 pre-funded warrants, and issued 77,777,779 common stock warrants, in a registered direct public offering which closed on September 29, 2021. The common stock and pre-funded warrants were sold at a price per share of $0.09 and $0.0899, respectively, for gross aggregate proceeds of $6,998,034. The common stock warrants and pre-funded warrants have an exercise price of $0.09 and $0.0001, respectively. The common stock warrants have a term of five years, and the pre-funded warrants are exercisable indefinitely.

As of December 31, 2021, we had an accumulated deficit of $47,256,163, stockholders' equity of $5,864,166 and working capital of $5,699,875. We had unrestricted cash of $8,983,007 as of December 31, 2021, as compared to $2,469,410 as of December 31, 2020. The net increase was primarily attributable to the exercise of 116,666,668 common stock warrants and 11,800,000 pre-funded warrants for cash proceeds of $6,999,999 and $11,800, respectively, net cash proceeds of $6,062,774 from the sale of our common stock, pre-funded warrants, and common stock warrants, as described above, offset by operating cash burn during the year ended December 31, 2021. Without additional funding, management believes that we will not have enough funds to meet our obligations and continue our pre-clinical and clinical studies beyond one year after the date the consolidated financial statements are issued. These conditions indicate it is probable that there is substantial doubt as to our ability to continue as a going concern, unless we are able to raise sufficient capital to continue our operations.

Our independent registered public accounting firm has issued a report on our audited consolidated financial statements as of and for the year ended December 31, 2021 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 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 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.

Cash Flows

The following is a summary of our cash flows for the periods indicated and has been derived from our consolidated financial statements which are included elsewhere in this Form 10-K:

	Year Ended December 31,	
	2021	**2020**
Net cash used in operating activities	$ (6,474,888)	$ (6,054,131)
Net cash used in investing activities	(90,866)	(7,230)
Net cash provided by financing activities	13,079,356	6,700,822

Cash Flows from Operating Activities

The primary use of cash for our operating activities during these periods was to fund research development activities for our pre-clinical product candidates and general and administrative activities. Our cash used in operating activities also reflected changes in our working capital, net of adjustments for non-cash charges, such as stock-based compensation, non-cash interest expense related to the amortization of our debt discounts on our related party Amended Credit Agreement, fair value adjustments related to our warrant liability and the gain realized from the forgiveness of the PPP Loan.

Cash used in operating activities of $6,474,888 during the year ended December 31, 2021, reflected a net loss of $8,522,182, partially offset by aggregate non-cash charges of $1,400,351 and included a $646,943 net change in our operating assets and liabilities. Non-cash charges included $869,206 for stock-based compensation expense, $593,802 non-cash interest expense from the amortization of the debt discount on the Amended Credit Agreement, a $21,165 loss from the increase in fair value of our warrant liability, depreciation and amortization of $34,131, and a $117,953 gain from the forgiveness of the PPP Loan. The net change in our operating assets and liabilities included a $434,110 increase in our prepaid expense and other current assets, an increase in accounts payable of $518,638, and a $580,258 increase in our accrued expense and other current liabilities.

Cash Flows from Investing Activities

Our investing activities have consisted primarily of our capital expenditures in relation to the purchase of property plant and equipment. During the years ended December 31, 2021 and 2020, the Company purchased $90,866 and $7,230, respectively, in machinery and office equipment.

Cash Flows from Financing Activities

Cash flows from financing activities primarily reflect proceeds from the sale of our securities and debt financings.

During the year ended December 31, 2021 and 2020, cash provided by financing activities included $7,011,799 and $48,533 in proceeds received in connection with the exercise of warrants, $6,062,774 and $6,085,589 in net proceeds from the issuance of common stock, pre-funded warrants and common stock warrants, respectively, and $4,783 received from employee stock option exercises in 2021.

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 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements and the report of our independent registered public accounting firm are included in this report on pages F-1 through F-31.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. 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 Exchange Act 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. Based upon their evaluation of those controls and procedures performed as of the end of the period covered by this report, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2021, based on criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework - 2013 (COSO 2013 Framework).*

Based on their assessment, our management concluded that, as of December 31, 2021, our internal control over financial reporting was effective.

As we are a smaller reporting company, our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting during the fourth quarter ended December 31, 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets forth certain information as of the date of this Annual Report, with respect to our directors, executive officers and significant employees.

Name	Age	Position
Punit Dhillon	41	Chief Executive Officer, Chairman, Director
Kaitlyn Arsenault	35	Chief Financial Officer
Margaret Dalesandro	75	Director
Jim Heppell	66	Director
Praveen Tyle	62	Director
Keith Ward	52	Director

Biographies of Directors, Executive Officers and Significant Employees

Punit Dhillon. Mr. Dhillon currently serves as the Chair of the Board and as the Company's Chief Executive Officer. Mr. Dhillon was appointed as a member of our Board in 2018. On December 17, 2019, Mr. Dhillon was appointed as our board Chair. On August 10, 2020, Mr. Dhillon was appointed as our Chief Executive Officer. Mr. Dhillon is currently a board member of Emerald Health Pharmaceuticals, Inc., Emerald Health Therapeutics, Inc. (CSE: EMH), a Canadian Securities Exchange listed company, and Arch Therapeutics Inc. (OTCQB: ARTH). Mr. Dhillon was previously a Co-founder and Director of OncoSec Medical Incorporated (NASDAQ: ONCS) and was formerly the CEO of OncoSec through March 2018. Prior to OncoSec, Mr. Dhillon was the Vice President of Finance and Operations at Inovio Pharmaceuticals, Inc. (NASDAQ: INO) from September 2003 until March 2011. Mr. Dhillon has previously been a consultant and board member for several TSX Venture Exchange-listed early-stage life science companies, which matured through advances in their development pipelines and subsequent M&A transactions. Prior to joining Inovio, Mr. Dhillon worked for a corporate finance law firm as a law clerk and worked with MDS Capital Corp. (now Lumira Capital Corp.). Mr. Dhillon is an active member of his community and places great value on helping future leaders overcome challenges through mentorship and education. He is a co-founder and board member of Young Entrepreneurship Leadership Launchpad (YELL), a not-for-profit and charity organization in Canada. Mr. Dhillon has a Bachelor of Arts with honors in Political Science and a minor in Business Administration from Simon Fraser University. We believe Mr. Dhillon's experience in the biotechnology and pharmaceutical industry and his experience with publicly traded companies give him the qualifications necessary to serve as an officer and director of the Company.

Kaitlyn Arsenault, CPA. Ms. Arsenault currently serves as the Company's Chief Financial Officer. Ms. Arsenault previously served as an independent financial consultant for emerging public and private companies in the life sciences, technology, and FinTech industries from 2014 to 2021. Prior to her appointment as Chief Financial Officer, she served as the Company's Manager of Financial Reporting and Technical Accounting for the past six years. Ms. Arsenault's experience includes addressing complex technical accounting issues related to equity financings, derivatives, debt instruments, stock-based compensation, revenue recognition, and M&A, among other subjects. Prior to becoming an independent financial consultant, Ms. Arsenault spent seven years in public accounting as an assurance manager in Friedman LLP's SEC practice, gaining public and private audit engagement experience across multiple industries. Ms. Arsenault received her Bachelor of Science degree in accounting from Ramapo College of New Jersey and is a Certified Public Accountant in California (active) and New Jersey (inactive). We believe that Ms. Arsenault's prior track record with the Company, experience with life science and technology companies, and vast exposure to different accounting and financial issues in the public markets gives her the qualifications and skills necessary to serve as an officer of the Company.

Jim Heppell. Mr. Heppell is a member of the Board and has served as a member of the Board since January 2018. Mr. Heppell currently serves as the Chief Executive Officer and Chair of the Board of Directors of Emerald Health Sciences, Inc.; Chair of Emerald Health Therapeutics, Inc. (CSE: EMH) and Emerald Health Pharmaceuticals, Inc.; and President of Emerald Health Research Inc. Formerly, Mr. Heppell served as a director of Sophiris Bio, Inc. (NASDAQ: SPHS). Mr. Heppell was the founder, CEO, and director of the B.C. Advantage Life Sciences I Fund, which was awarded the Canadian Venture Capital Deal of the Year Award in 2006 for having the highest realized return (23.4x its investment in Aspreva Pharmaceuticals) of any venture capital fund in Canada. Mr. Heppell graduated with a Bachelor of Science degree in Microbiology and a law degree from the University of British Columbia. After being called to the Bar, he worked for six years with Fasken Martineau DuMoulin, during which he was seconded to the B.C. Securities Commission for six months. Mr. Heppell then became President and Chief Executive Officer of Catalyst Corporate Finance Lawyers, a boutique corporate finance law firm focused on building life science and technology companies. He is a past member of the Securities Policy Advisory Committee to the BCSC and is Past-Chairman of the Securities Section of the Canadian Bar Association (B.C. Branch). For numerous years, Mr. Heppell taught corporate finance and corporate governance courses at the University of British Columbia, Simon Fraser University, and several biotechnology conferences. He is currently a director of several public and private life science companies. We believe Mr. Heppell's significant experience with life science and technology companies and the public markets give him the qualifications and skills necessary to serve as a director of the Company.

Dr. Margaret Dalesandro, PhD. Dr. Margaret Dalesandro is currently a member of the Board and has served as a member of the Board since August 2020. Dr. Dalesandro served from 2019 through 2021 on the Board of OncoSec Medical Incorporated (NASDAQ: ONCS), a late-stage biotechnology company focused on designing, developing, and commercializing innovative therapies and proprietary medical approaches to stimulate and guide an anti-tumor immune response for the treatment of cancer. She served as Chair of the OncoSec Medical Board from early 2020 through 2021. Dr Dalesandro also serves on the Board of Seelos Therapeutics (NASDAQ: SEEL). In addition, Dr. Dalesandro is the President of Brecon Pharma Consulting LLC. Dr. Dalesandro has over thirty-five years of experience leading strategic product development in the pharmaceutical, biotechnology, and diagnostics industries. She has previously served as the Business Director of Integrative Pharmacology at Corning, Incorporated; Vice President of Project, Portfolio and Alliance Management at ImClone Systems Inc.; Executive Director of Project and Portfolio Management at GlaxoSmithKline; and Senior Consultant at Cambridge Pharma Consultancy. During her tenure at Centocor, Inc, Dr. Dalesandro developed and holds the patents on a diagnostic test for acute coronary syndrome based on the detection of platelet surface integrins. Dr. Dalesandro received her Ph.D. in Biochemistry from Bryn Mawr College and completed an NIH Post-Doctoral Fellowship in Molecular Immunology at Wake Forest University School of Medicine. We believe Dr. Dalesandro's significant experience with life science and technology companies give her the qualifications and skills necessary to serve as a director of the Company.

Dr. Praveen Tyle, PhD. Dr. Praveen Tyle is currently a member of the Board and has served as a member of the Board since July 2021. Dr. Tyle also serves as a member of the Board of Directors of Kiora Pharmaceuticals (NASDAW: KPRX) and Orient Europharma Co., Ltd. Dr. Tyle is currently President & Chief Executive Officer and Director of Invectys, Inc., an immuno-oncology company born from the world-renowned Pasteur Institute. Previously, he was Executive Vice President of Lexicon Pharmaceuticals, Inc. and prior to that he serve as President & Chief Executive Officer and director of Osmotica Pharmaceutical Corp, a company focusing on central nervous system drug development. In past roles, Dr. Tyle served at Novartis OTC as Senior Vice President and Global Head of Business Development and Licensing and Senior Vice President & Global Head of Research and Development. Earlier in his career, he was Corporate Senior Vice President and Chief Scientific Officer of Bausch & Lomb. Dr. Tyle was also an Adjunct Associate Professor of Ophthalmology at the University of Rochester Eye Institute Medical Center, among other current and past academic roles. He has co-authored over 100 peer-reviewed academic papers and presentations and is named on multiple patents, including patents related to ophthalmic innovations, drug delivery, and glaucoma. We believe Dr. Tyles's significant contributions in the field of ophthalmology and experience with life science companies give him the qualifications and skills necessary to serve as a director of the Company.

Dr. Keith Ward, PhD. Dr. Keith Ward is currently a member of the Board and has served as a member of the Board since December 2021. Dr. Ward is a life sciences executive with over 25 years of experience in the biotech and pharmaceutical industry. Dr. Ward currently serves as President and Chief Executive Officer of InterveXion Therapeutics, a private clinical-stage biotech company developing immunotherapies for substance use disorders. Prior to joining InterveXion, Dr. Ward served as Executive Vice President and Chief Development Officer for Reata Pharmaceuticals, where he led research and development, clinical operations, regulatory affairs, manufacturing, and project management. Before that, Dr. Ward developed ophthalmic pharmaceuticals and medical devices as Global Vice President of Pharmaceutical R&D for Bausch & Lomb. Dr. Ward has also held positions of increasing responsibility within GlaxoSmithKline and SmithKline Beecham Pharmaceuticals. Dr. Ward earned a BSc in toxicology with a minor in chemistry from Northeast Louisiana University and a Ph.D. in toxicology from the University of North Carolina at Chapel Hill. We believe Dr. Ward's significant experience in biotech and pharmaceutical companies give him the qualifications and skills necessary to serve as a director of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers, and any persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. SEC regulation requires executive officers, directors and greater than 10% stockholders to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during the year ended December 31, 2021, our executive officers, directors, and greater than 10% stockholders complied with all applicable filing requirements on a timely basis.

Family Relationships

There are no family relationships among our directors or executive officers.

Term of Office of Directors

Our directors serve until the next annual meeting of stockholders or until their successor has been duly elected and qualified, or until their earlier death, resignation or removal.

Directors and Officers Involvement in Certain Legal Proceedings

During the past ten years, our current directors and executive officers have not been involved in any of the legal proceedings set forth in Item 401(f) of Regulation S-K promulgated by the SEC.

Board and Committee Meetings

During 2021, our Board met eleven times (including telephonic meetings) and took action by written consent 18 times. Each director attended at least 75% of the meetings held by the Board and by each committee on which she or he served while she or he was a director, either in person or by teleconference, during the year.

Director Attendance at Annual Meetings

Although we do not have a formal policy regarding attendance by members of our Board at each annual meeting of stockholders, we encourage all of our directors to attend. All our directors other than Dr. Tyle and Dr. Ward, each of which were elected as directors during 2021, attended our most recent annual general meeting of stockholders.

Audit Committee and Financial Expert

On February 23, 2015, our Board established an audit committee that operates under a written charter that has been approved by our Board. The members of our audit committee are Mr. Jim Heppell, Dr. Margaret Dalesandro and Dr. Praveen Tyle. Mr. Jim Heppell serves as chairman of the audit committee and our Board has determined that he is an "audit committee financial expert" as defined by applicable SEC rules. The Board has determined that Dr. Margaret Dalesandro and Dr. Praveen Tyle are independent directors as that term is defined in Rule 5605(a)(2) of the Nasdaq Listing Rules, and we have determined that both Dr. Margaret Dalesandro and Dr. Praveen Tyle as audit committee members meet the more stringent requirements under Rule 5605(c)(2) of the Nasdaq Listing Rules. Our audit committee met four times (including telephonic meetings) and acted by written consent one time in 2021.

Our audit committee is responsible for: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; (3) establishing procedures for the confidential, anonymous submission by our employees of concerns regarding accounting and auditing matters; (4) engaging outside advisors; and, (5) approving fees for the independent auditor and any outside advisors engaged by the audit committee. The Audit Committee Charter is filed as Exhibit 99.1 to our Report on Form 8-K filed on February 27, 2015.

Compensation Committee

On May 31, 2015, our Board established a compensation and compliance committee which operated under a written charter that was approved by the Board. In 2018, the Board dissolved the former compensation and compliance committee and established a new compensation committee which operates under a written charter approved by the Board. The members of our compensation committee are Dr. Praveen Tyle, Mr. Jim Heppell and Dr. Margaret Dalesandro. Dr. Praveen Tyle serves as chairman of the compensation committee. The Board has determined that Dr. Margaret Dalesandro, Jim Heppell and Dr. Praveen Tyle are independent directors as that term is defined in Rule 5605(a)(2) of the Nasdaq Listing Rules. Our compensation committee met four times (including telephonic meetings) during 2021 and took action by written consent two times during 2021.

Our compensation committee is responsible for the oversight of, and the annual and ongoing review of, the Chief Executive Officer, the compensation of the senior management team, and the bonus programs in place for employees, which includes: (1) reviewing the performance of the Chief Executive Officer and such other senior officers as the Board may request, and determining the bonus entitlement for such officer or officers on an annual basis and recommending the same to the Board for approval; (2) determining the proposed annual compensation of our executive officers for each fiscal year and recommending the same to the Board for approval; (3) reviewing and discussing the bonus plan proposed for our senior management team with the Chief Executive Officer; (4) reviewing and discussing the terms and conditions of proposed grants of stock options to directors, employees, consultants and advisors with the Chief Executive Officer; (5) reviewing and recommending to the Board the compensation of the Board and committee members; (6) reviewing and discussing with the Chief Executive Officer the standard forms of employment and consulting contracts used by us; (7) reviewing and discussing with the Chief Executive Officer the general benefit plans in place for employees; (8) engaging and setting the compensation for independent counsel and other advisors and consultants; and (9) reviewing and assessing the adequacy of its Charter and submitting any recommended changes to our Board for its consideration and approval.

Nomination and Corporate Governance Committee

In 2018, our Board established a nomination and corporate governance committee that operates under a written charter approved by the Board. The members of our nomination and corporate governance committee are Mr. Jim Heppell and Dr. Margaret Dalesandro, Dr. Praveen Tyle and Dr. Keith Ward. Dr. Margaret Dalesandro serves as chairman of the nomination and corporate governance committee. The Board has determined that Dr. Margaret Dalesandro, Dr. Praveen Tyle, Jim Heppell and Dr. Keith Ward are independent directors as that term is defined in Rule 5605(a)(2) of the Nasdaq Listing Rules. Our nomination and corporate governance committee met four times during 2021 (including telephonic meetings) and took action by written consent one time.

Our nominating and corporate governance committee is responsible for assisting the Board in (1) identifying qualified individuals to become Board members, consistent with criteria approved by the Board, (2) determining the composition of the Board and its committees, (3) selecting the director nominees for the next annual meeting of shareholders, (4) monitoring a process to assess Board, committee and management effectiveness, (5) aiding and monitoring management succession planning and (6) developing, recommending to the Board, implementing and monitoring policies and processes related to our corporate governance guidelines.

Nominations to the Board of Directors

We do not have any defined policy or procedural requirements for shareholders to submit recommendations or nominations for directors. Our Board believes that, given the stage of our development, a specific nominating policy would be premature and of little assistance until our business operations develop to a more advanced level. We do not currently have any specific or minimum criteria for the election of nominees to the Board. The Board, with the help of its nomination and corporate governance committee, will assess all candidates and make recommendations for election or appointment.

Stockholder Communications

We do not have a formal policy regarding stockholder communications with our Board. A shareholder who wishes to communicate with our Board may do so by directing a written request addressed to our Chief Executive Officer, at the address appearing on the first page of this filing.

Code of Ethics

On October 31, 2014, we adopted a formal code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as well as our other officers, directors and employees. A copy of our code of ethics is available on our website at http://www.skyebioscience.com. We intend to disclose any future amendments to provisions of our code of ethics, or waivers of provisions required to be disclosed under the rules of the SEC, on a current report on Form 8-K or at the same location on our website identified in the preceding sentence. Any amendment or waiver disclosed on our website will remain available on our website for at least 12 months after the initial disclosure.

Item 11. Executive Compensation.

Summary Compensation Table

The following table sets forth information concerning the compensation earned for services rendered to us for the fiscal years ended December 31, 2021 and 2020 of our named executive officers as determined in accordance with SEC rules.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Kaitlyn Arsenault	2021	75,000	19,031	58,000	269,240	—	—	181,473	602,744
Chief Financial Officer (2)	2020	—	—	—	—	—	—	—	—
Richard Janney	2021	—	—	—	—	—	—	124,350	124,350
Former Interim PAO (3)	2020	—	—	—	—	—	—	52,425	52,425
Punit Dhillon	2021	400,000	220,521	116,000	160,680	—	—	2,500	899,701
CEO	2020	160,000	—	—	387,000	—	—	—	547,000

(1) Amounts reflect the full grant date fair value of stock options and awards, computed in accordance with ASC Topic 718 -*Stock based compensation*, rather than the amounts paid to or realized by the named individual.

(2) For the years ended December 31, 2021 and 2020, other compensation consists of consulting fees charged to the Company by KA Consulting, Inc. and RoseRyan, Inc. for Ms. Arsenault's services.

(3) For the years ended December 31, 2021 and 2020, other compensation consists of consulting fees charged to the Company by RoseRyan, Inc. for Mr. Richard Janney's services.

Employment and Severance Arrangements

Employment Agreement and Equity Awards

On August 7, 2020, we entered into an employment agreement with Mr. Punit Dhillon, our Chief Executive Officer. The agreement provides for an annual base salary of $400,000 per year and an annual discretionary bonus up to fifty percent (50%) of his base salary based on Mr. Punit Dhillon's achievement of annual corporate milestones agreed to by the Board. Mr. Punit Dhillon will also receive the normal benefits available to other similarly situated executives and will be entitled to severance pay under the circumstances described below.

Mr. Punit Dhillon's employment with the Company is at-will. Except for termination of Mr. Punit Dhillon's employment for "Cause," "By Death" or "By Disability" (as such terms are defined in his employment agreement), Mr. Punit Dhillon will be entitled to a minimum six months' severance if he is terminated by the Company without cause. Under his employment agreement, Mr. Punit Dhillon will be eligible to receive a 12-months' severance if he is employed by the Company for at least 12 months commencing on August 10, 2020, or a 24 months' severance if he is employed by the Company for at least 24 months commencing on August 10, 2020.

In connection with his appointment, the Company granted Mr. Punit Dhillon options to purchase 9,000,000 shares of the Company's common stock at an exercise price of $0.045 per share (the then market price of the Company's shares), with 10% of such options vested immediately upon grant and the remaining 90% vesting equally on each six-month anniversary of the grant date over four and a half years.

During the year ended December 31, 2021, Mr. Dhillon was granted 2,000,000 restricted stock units and 3,090,000 stock options. The restricted stock units vest 33% on the anniversary of the grant date over a three year period and the stock options vest 25% on the one year anniversary of the grant date and monthly thereafter over a four year period.

On October 4, 2021, we entered into an employment agreement with Ms. Kaitlyn Arsenault, our Chief Financial Officer. The agreement provides for an annual base salary of $300,000 per year and an annual discretionary bonus of up to thirty five percent (35%) of her base salary based in part on Ms. Arsenault's achievement of milestones agreed to by the Board or the Compensation Committee of the Board. Ms. Arsenault will also receive the normal benefits available to other similarly situated executives and will be entitled to severance pay under the circumstances described below.

Ms. Arsenault's employment with the Company is at-will. Except for termination of Mr. Arsenault's employment for "Cause," "By Death" or "By Disability" (as such terms are defined in her employment agreement), Ms. Arsenault will be entitled to a minimum six months' severance if she is terminated by the Company.

In connection with her appointment, the Company granted Ms. Arsenault options to purchase 1,600,000 shares of the Company's common stock at an exercise price of $0.09 per share (the then market price of the Company's shares), with 10% of such options vested immediately upon grant and the remaining 90% vesting equally in semi-annual installments over four years from issuance.

During the year ended December 31, 2021, Ms. Arsenault was granted 1,000,000 restricted stock units and 1,770,000 stock options. The restricted stock units vest 33% on the anniversary of the grant date over a three year period and the stock options vest 25% on the one year anniversary of the grant date and monthly thereafter over a four year period.

On September 15, 2021, prior to Ms. Arsenault's appointment as CFO, Ms. Arsenault was granted 400,000 stock options in connection with her consulting arrangement with us. The stock options vest 10% on the grant date and 90% in equal annual installments thereafter over a period of four years.

The foregoing description of the employment agreements above does not purport to be complete and is qualified in its entirety by reference to the full text of the employment agreements attached hereto as an exhibit and incorporated by reference herein.

Severance Arrangements

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 resignation for a 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 us, 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 the 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.

The foregoing descriptions of the change of control severance plan does not purport to be complete and is qualified in its entirety by reference to the full text of such change of control severance plan attached hereto as an exhibit and incorporated by reference herein.

Outstanding Equity Awards at Fiscal Year-end

As of December 31, 2021, our named executive officers held the following outstanding Company equity awards.

	Option Awards					Stock Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Un-exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock Not Vested (#)	Market Value of Shares Not Vested ($)(1)
Punit Dhillon,	(2)10/10/2018	200,000	—	0.305	10/10/2028		
CEO/Chairman	(3)8/7/2020	2,700,000	6,300,000	0.045	8/7/2030		
	(4)12/14/2021	—	3,090,000	0.058	12/14/2031		
	(5)12/14/2021					2,000,000	104,000
Kaitlyn Arsenault	(6)9/15/2021	40,000	360,000	0.120	9/15/2031		
CFO	(7)10/4/2021	160,000	1,440,000	0.090	10/4/2031		
	(4)12/14/2021	—	1,770,000	0.058	12/14/2031		
	(5)12/14/2021					1,000,000	52,000

(1) The market value of shares that have not vested is calculated based on the per share closing price of our common stock on December 31, 2021.

(2) The options specified above vest as follows: 1/12th each month on the anniversary of the grant date.

(3) The options specified above vest as follows: 10% vests on the grant date and 90% vests in equal semi-annually installments thereafter over four years.

(4) The options specified above vest as follows: 25% vests on the one year anniversary of the grant date and 1/48th vests monthly thereafter over three years following the one year anniversary of the grant date.

(5) The restricted stock units specified above vest as follows: 33% on each grant date anniversary over three years.

(6) The options specified above vest as follows: 10% vests on the grant date and 90% vests in equal annual installments thereafter over four years.

(7) The options specified above vest as follows: 10% vests on the grant date and 90% vests in equal semi-annually installments thereafter over four years.

Exercises of Options

There were no exercises of stock options by our named executive officers during the year ended December 31, 2021.

Director Compensation

As of December 31, 2021, our policy for the compensation of our non-employee directors is as follows:

Each non-employee director receives a cash retainer of $40,000 on an annual basis, and an executive chair of the Board, if one is appointed as such and is a non-employee director, receives an additional $40,000 retainer annually.

Upon election to the Board, non-employee directors receive a one-time award of 250,000 stock options which vest in twelve equal monthly installments. In subsequent annual periods, each non-employee director receives a grant of 150,000 common stock options which vest in twelve equal monthly installments.

Non-employee directors who serve as members of special committees of the Board 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)

The table below summarizes the compensation paid by us to our non-employee directors for the year ended December 31, 2021. Mr. Dhillon, our employee director, does not receive additional compensation for his services as a member of our Board :

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) [1]	All Other Compensation ($)	Total ($)
Jim Heppell [2]	96,179	—	18,300	—	114,479
Margaret Dalesandro [3]	52,500	—	18,300	—	70,800
Praveen Tyle [4]	23,595	—	37,800	—	61,395
Keith Ward [5]	1,984	—	12,750	—	14,734

(1) As of December 31, 2021, each non-employee director is entitled to an annual grant of 150,000 common stock options, all of which vest in twelve equal monthly installments. The amounts reported under "Option Awards" in the above table reflect the grant date fair value of these awards as determined in accordance with the Financial Accounting Standards Board's Accounting Standards Codification *Topic 718, Compensation - Stock Compensation*. The value of stock option awards was estimated using the Black-Scholes option pricing model. The valuation assumptions used in the valuation of options granted may be found in Note 6 to our financial statements included in this annual report on Form 10-K for the year ended December 31, 2021.

(2) On September 14, 2021, Mr. Heppell was granted options to purchase 150,000 shares of common stock. These options have an exercise price of $0.12, vest monthly over one year and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $18,300. In addition, on August 7, 2020, Mr. Heppell was granted options to purchase 1,000,000 shares of common stock. These options have an exercise price of $0.05, vest 10% on the date of grant with the remaining 90% vesting semi-annually over two years and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $40,000. On October 10, 2018, Mr. Heppell was granted options to purchase 200,000 shares of common stock. These options have an exercise price of $0.0.03, are fully vested and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $45,000. The aggregate number of shares issuable upon exercise of option awards outstanding at December 31, 2021 for Mr. Heppell was 1,350,000, of which 787,500 were fully vested.

(3) On September 14, 2021, Dr. Dalesandro was granted options to purchase 150,000 shares of common stock. These options have an exercise price of $0.12, vest monthly over one year and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $18,300. In addition, on August 7, 2020, Dr. Dalesandro was granted options to purchase 250,000 shares of common stock. These options have an exercise price of $0.05 and vest 10% on the date of grant with the remaining 90% vesting semi-annually over two years and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $10,000. The aggregate number of shares issuable upon exercise of option awards outstanding at December 31, 2021 for Dr. Dalesandro was 400,000, of which 175,000 were fully vested.

(4) On September 14, 2021, Dr. Tyle was granted options to purchase 25,000 shares of common stock. These options have an exercise price of $0.12, vest monthly over one year and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $3,050. In addition, on July 22, 2021, Dr. Tyle was granted options to purchase 250,000 shares of common stock. These options have an exercise price of $0.14 and vest 10% on the date of grant with the remaining 90% vesting semi-annually over two years and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $34,750. The aggregate number of shares issuable upon exercise of option awards outstanding at December 31, 2021 for Dr. Tyle was 275,000, of which 31,250 were fully vested.

(5) On December 14, 2021, Dr. Ward was granted options to purchase 250,000 shares of common stock. These options have an exercise price of $0.06, vest monthly over one year and have a term of 10 years from the grant date. The value of the stock option award was estimated using the Black-Scholes option pricing model and totaled $12,750. The aggregate number of shares issuable upon exercise of option awards outstanding at December 31, 2021 for Dr. Ward was 250,000, of which none have vested.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Securities Authorized for Issuance under Equity Compensation Plans

The table below includes the following information as of December 31, 2021 for the Company's 2014 Omnibus Incentive Plan. Shares available for issuance under the 2014 Omnibus Incentive Plan can be granted pursuant to stock options, stock appreciation rights, restricted stock, restricted stock unit awards, performance awards and other stock-based or cash-based awards, as selected by the plan administrator. For additional information about the 2014 Omnibus Incentive Plan, refer to Note 6 in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Equity Compensation Plan Information

Plan category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares of common stock reflected in column (a)) (c)
Equity compensation plans approved by security holders	39,405,000	$ 0.07	14,132,929
Total	**39,405,000**	**$ 0.07**	**14,132,929**

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to beneficial ownership of our common stock as of March 24, 2022, by:

- each person known to be the beneficial owner of 5% or more of our outstanding common stock;
- each executive officer;
- each director; and
- all of the executive officers and directors as a group.

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option or warrant) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person's actual voting power at any particular date.

The information set forth in the table below is based on 495,925,112 shares of our common stock issued and outstanding on March 24, 2022.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Unless otherwise indicated, the address of each beneficial owner listed below is 11250 El Camino Real, Suite 100, San Diego, CA 92130.

Name and Address of Beneficial Owner	Beneficial Ownership	Percent of Class
Emerald Health Sciences, Inc. (1)	124,362,213 (2)	24.4 %
Punit Dhillon	4,800,000 (3)	*%
Kaitlyn Arsenault	420,000 (4)	*%
Richard Janney	—	*%
James Heppell	1,200,000 (5)	*%
Dr. Margaret Dalesandro	200,000 (6)	*%
Dr. Praveen Tyle	66,667 (7)	*%
Dr. Keith Ward	104,167 (8)	*%
All executive officers and directors as a group (7 persons)	6,790,834	1.4 %

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*Denotes less than 1% of our outstanding shares of common stock.

(1) The address of Sciences is 8262, The Landing, 408 - 55 Water St., Vancouver, British Columbia, Canada V6B 1A1.

(2) Includes (i) 111,387,251 shares of common stock, (ii) 7,500,000 shares issuable on exercise of warrants and (iii) 5,474,962 shares issuable upon the conversion of outstanding principal and accrued interest associated with the Amended Credit Agreement.

(3) Includes 3,800,000 shares of common stock underlying options that may be exercised within 60 days of March 24, 2022.

(4) Includes 420,000 shares of common stock underlying options that may be exercised within 60 days of March 24, 2022.

(5) Includes 700,000 shares of common stock underlying options that may be exercised within 60 days of March 24, 2022.

(6) Includes 200,000 shares of common stock underlying options that may be exercised within 60 days of March 24, 2022.

(7) Includes 66,667 shares of common stock underlying options that may be exercised within 60 days of March 24, 2022.

(8) Includes 104,167 shares of common stock underlying options that may be exercised within 60 days of March 24, 2022.

Changes in Control

Our management is not aware of any arrangements which may result in "changes in control" as that term is defined by the provisions of Item 403(c) of Regulation S-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Transactions with Related Persons

Except as specified below, there have been no other transactions with related persons in the last two fiscal years, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeds the lesser of $120,000 or 1% of the average of our total assets as of December 31, 2021 and 2020, and in which any related person had or will have a direct or indirect material interest.

Emerald Health Sciences

In January 2018, we entered into a securities purchase agreement with Emerald Health Sciences, Inc. ("Sciences") pursuant to which Sciences purchased a majority of the equity interest us, resulting in a change in control transaction. Sciences holds a significant interest in our equity as of December 31, 2021 and has provided us with financing under the Amended Credit Agreement.

On October 5, 2018, we entered into the Credit Agreement with Sciences. The Credit Agreement originally provided for a credit facility to us of up to $20,000,000, and is unsecured. Advances under the Credit Agreement bear interest at an annual rate of 7% and mature on October 5, 2022. At Sciences' 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.

In connection with the advances under the Credit Agreement, we issued Sciences 7,500,000 warrants to purchase shares of common stock. The warrants have an exercise price of $0.50 per share, a term of five years and are fully vested. 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 our shareholders.

On November 1, 2018, we affected an initial draw under the Credit Agreement in the amount of $2,000,000 and issued Sciences 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. On February 1, 2019, we affected the second draw under the Credit Agreement in the amount of $2,000,000 and issued Sciences 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. On March 29, 2019, we affected the third draw under the Credit Agreement in the amount of $2,000,000 and issued Sciences 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.

On December 20, 2019, we entered into a Warrant Exchange Agreement, pursuant to which Sciences exercised 40.8 million of such warrants and paid the aggregate exercise price of approximately $4.08 million for the related warrant shares in the form of a reduction of the corresponding amount of obligations outstanding under the Credit Agreement. Upon consummation of the transaction under the Warrant Exchange Agreement, the total outstanding principal amount excluding discounts under the Credit Agreement was $2,014,500.

On April 29, 2020, we entered into an Amended and Restated Multi-Draw Credit Agreement with Sciences, which amended and restated the Credit Agreement, as reported in the current report on the Form 8-K filed with the SEC on April 29, 2020. The Amended Credit Agreement provided for a credit facility to us in the principal amount of up to $20,000,000, which includes, without limitation, the advances totaling $6,000,000 that were granted prior to the amendment. During the year ended December 31, 2020, we received the fourth and fifth advances of $150,000 and $300,000 pursuant to the Amended Credit Agreement. The advances bear interest at 7% per annum and mature on October 5, 2022. The net proceeds of each advance were used for general corporate purposes.

On March 29, 2021, we entered into amendment two to the Amended Credit Agreement to defer interest payments through the earlier of maturity or prepayment of the principal balance. On September 15, 2021, we further amended the Amended Credit Agreement to close our access to any further disbursements.

On December 19, 2019, the Company entered into an Independent Contractor Services Agreement with Dr. Avtar Dhillon, at the time, a member of Sciences Board of Directors and its CEO, pursuant to which Dr. Dhillon provided ongoing corporate finance and strategic business advisory services to the Company. In exchange for his services, Dr. Dhillon received a monthly fee of $10,000, per month for his services. Under the Independent Contractor Services Agreement, for the years ended December 31, 2021 and 2020, the Company incurred fees of $94,516 and $127,387, respectively. On September 14, 2021, Dr. Dhillon provided his notice to terminate the Independent Contractor Services Agreement, with an effective termination date of October 14, 2021. In connection with the termination of Dr. Dhillon's Independent Contractor Services Agreement, the Company modified Dr. Dhillon's option awards to accelerate the vesting of 1,650,000 unvested stock options and, extend the post-termination exercise period from 30 days to five years for all of his outstanding awards. As of October 14, 2021, the Company no longer had any obligations or business relationship with Dr. Dhillon

On August 10, 2020, Sciences transferred to Dr. Avtar Dhillon 500,000 shares of the Company's common stock at a deemed price of $0.10 in exchange for the cancellation of $50,000 of debt.

On August 10, 2020, Sciences, extinguished debt of $186,667 by transferring 1,566,666 shares of the Company's common stock at a deemed price of $0.10 per share to certain officers, employees and directors of the Company.

In addition, the Board Observer Agreement in place with Sciences was amended in September 2021 to allow any board member or officer of Sciences to act as a representative of Sciences on a non-voting observer basis in meetings of the Board. On December 14, 2021, the Board Observer Agreement was terminated.

As of December 31, 2021, Jim Heppell and Punit Dhillon are board members of the Company and Emerald Health Pharmaceuticals, a subsidiary of Sciences. As of December 31, 2021, Jim Heppell is also the CEO and Chairman of Sciences and a director of VivaCell Biotechnology España, S.L.U ("VivaCell"), a wholly owned subsidiary of Sciences. The Company's CEO, Punit Dhillon also served as a board member of Sciences and VivaCell until he tendered his resignation from such boards on August 10, 2020 and September 22, 2021, respectively.

VivaCell Biotechnology España, S.L.U (formerly known as Emerald Health Biotechnology España, S.L.U.)

In January 2021 and April 2021, we entered into two separate Collaborative Research Agreements with VivaCell, a research and development entity with substantial expertise in cannabinoid science and a subsidiary of Emerald Health Research, Inc. which is 100% owned by Sciences. Under the agreements, VivaCell will provide research and development services pursuant to agreed upon project plans for the research and development of SBI-200 and the preclinical development services for novel derivatives. The term of each agreement is initially for a one-year period. The agreements will terminate upon delivery and acceptance of the final deliverables under the project plans or if either party is in breach of the terms of the contract and such breach remains uncured for 45 days. Payment for services are based on the negotiated amounts for the completion of agreed upon objectives as provided in the Collaborative Research Agreements. For the year ended December 31, 2021, we incurred $220,418 in expenses under the Collaborative Research Agreements. The foregoing summary of the Collaborative Research Agreements do not purport to be complete and are qualified in their entirety by the full text of such agreement, a copy of which is attached as an exhibit hereto and incorporated by reference herein.

On October 11, 2021, we entered into an Exclusive Sponsored Research Agreement (the "ESRA") with VivaCell to fund certain research and development programs which are of mutual interest to both the Company and VivaCell. We will have the right to use all data, products, and information, including intellectual property which are generated in the performance of the research under each and all projects funded by the Company pursuant to the ESRA, and VivaCell assigns and agrees to assign, to us all rights to any intellectual property created or reduced-to-practice under, or as a part of, a project funded by us pursuant to the ESRA. The foregoing summary of the ESRA does not purport to be complete and is qualified in its entirety by the full text of such agreement, a copy of which is attached as an exhibit hereto and incorporated by reference herein.

We have agreed to pay to VivaCell a royalty based on any and all licensing revenue or other consideration paid to us by a third-party licensee, assignee or purchaser of intellectual property rights created under the ESRA. In addition, upon a change of control transaction we have agreed to pay an amount equal to the royalty percentage multiplied by the fair value of the intellectual property created under the ESRA. Pursuant to the ESRA, VivaCell will provide a budget to be approved by us for each project, and we will make payments in accordance with the approved budget and pay an annual retainer to VivaCell of $200,000 per year. The initial term of the agreement is one year, with automatic renewal for successive one-year terms unless either party terminates upon 60 days' prior written notice to the other party pursuant to the ESRA.

Review, Approval and Ratification of Related Party Transactions

It is the Company's policy that all related party transactions must be approved by directors independent of the parties involved. All of the transactions described above were approved and ratified by the independent members of our Board. In connection with the approval of the transactions described above, our Board took into account several factors, including their fiduciary duties to the Company, the relationships of the related parties described above to the Company, the material facts underlying each transaction, the anticipated benefits to the Company and related costs associated with such benefits, whether comparable products or services were available, and the terms we could receive from an unrelated third party.

Conflicts Related to Other Business Activities

The persons serving as our officers and directors have existing responsibilities and, in the future, may have additional responsibilities, to provide management and services to other entities in addition to us. As a result, conflicts of interest between us and the other activities of those persons may occur from time to time.

We will attempt to resolve any such conflicts of interest in our favor. Our officers and directors are accountable to our shareholders and us as fiduciaries, which requires that such officers and directors exercise good faith and integrity in handling our affairs. A shareholder may be able to institute legal action on our behalf or on behalf of that shareholder and all other similarly situated shareholders to recover damages or for other relief in cases of the resolution of conflicts in any manner prejudicial to us.

Director Independence

We have determined that Mr. Jim Heppell, Dr. Margaret Dalesandro, Dr. Praveen Tyle, and Dr. Keith Ward are independent members of our Board, as that term is defined in Rule 5605(a)(2) of the Nasdaq Listing Rules.

Item 14. Principal Accounting Fees and Services.

Audit Fees

The aggregate fees billed for each of the fiscal years ended December 31, 2021 and 2020, for professional services rendered by Mayer Hoffman McCann P.C. for the audit of our annual consolidated financial statements included in our Annual Report on Form 10-K and quarterly reviews of the unaudited interim consolidated financial statements included in our Quarterly Reports on Form 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the years ended December 31, 2021 and 2020 were $366,736 and $392,402, respectively. Substantially all MHM's personnel, who work under the control of MHM shareholders, are employees of wholly owned subsidiaries of CBIZ, Inc., which provides personnel and various services to MHM in an alternative practice structure.

Tax Fees

None.

All Other Fees

None.

Pre-Approval Policies and Procedures

Prior to engaging Mayer Hoffman McCann P.C. to perform audit services, our Board obtains an estimate for the service to be performed. All of the services described above were approved by the members of the Audit Committee of the Board in accordance with its procedures.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Financial Statements. The following consolidated financial statements of Skye Bioscience, Inc., together with the report thereon of Mayer Hoffman McCann P.C., an independent registered public accounting firm (PCAOB Firm No. 199), are included in this Annual Report on Form 10-K:

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Skye Bioscience, Inc. and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Skye Bioscience, Inc., formerly known as Emerald Bioscience, Inc., and Subsidiaries ("Company") as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring operating losses and is dependent on additional financing to fund operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1 to the financial statements. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

/s/ Mayer Hoffman McCann P.C.

We have served as the Company's auditor since 2014.

Irvine, California
March 25, 2022

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
ASSETS	**2021**	**2020**
Current assets		
Cash	$ 8,983,007	$ 2,469,410
Restricted cash	4,571	4,566
Prepaid expenses	554,217	190,134
Prepaid expenses - related party	13,432	—
Other current assets	56,870	275
Total current assets	9,612,097	2,664,385
Property and equipment, net	87,710	7,341
Operating lease right-of-use asset	146,972	—
Other assets	8,309	—
Total assets	$ 9,855,088	$ 2,671,726
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 897,880	$ 364,340
Accounts payable - related party	2,130	17,032
Accrued interest - related party	174,911	44,087
Accrued payroll liabilities	344,450	61,547
PPP loan current	—	64,062
Other current liabilities	375,842	197,564
Derivative liabilities	59,732	38,567
Multi-draw credit agreement - related party	450,000	—
Convertible multi-draw credit agreement - related party, net of discount	1,524,905	—
Operating lease liability, current portion	82,372	—
Total current liabilities	3,912,222	787,199
Non-current liabilities		
PPP loan non-current	—	52,638
Multi-draw credit agreement - related party	—	450,000
Convertible multi-draw credit agreement - related party, net of discount	—	931,103
Operating lease liability, net of current portion	78,700	—
Total liabilities	3,990,922	2,220,940
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, $0.001 par value; 50,000,000 and 20,000,000 shares authorized at December 31, 2021 and 2020; no shares issued and outstanding at December 31, 2021 and 2020	—	—
Common stock, $0.001 par value; 5,000,000,000 and 500,000,000 shares authorized; 476,108,445 and 288,074,415 shares issued and outstanding at December 31, 2021 and 2020, respectively	476,108	288,074
Additional paid-in-capital	52,644,221	38,896,693
Accumulated deficit	(47,256,163)	(38,733,981)
Total stockholders' equity	5,864,166	450,786
Total liabilities and stockholders' equity	$ 9,855,088	$ 2,671,726

See accompanying notes to the consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31	
	2021	**2020**
Operating expenses		
Research and development	$ 2,931,437	$ 1,944,411
General and administrative	4,916,277	4,344,602
Total operating expenses	7,847,714	6,289,013
Operating loss	(7,847,714)	(6,289,013)
Other expense (income)		
Change in fair value of derivative liabilities	21,165	(436,270)
Gain on forgiveness of PPP loan	(117,953)	—
Interest expense	769,159	706,385
Interest income	(3)	(29)
Total other expense (income), net	672,368	270,086
Loss before income taxes	(8,520,082)	(6,559,099)
Provision for income taxes	2,100	1,600
Net loss and comprehensive loss	$ (8,522,182)	$ (6,560,699)
Loss per common share:		
Basic	$ (0.02)	$ (0.03)
Diluted	$ (0.02)	$ (0.03)
Weighted average shares of common stock outstanding used to compute loss per share:		
Basic	406,599,390	230,746,878
Diluted	406,599,390	231,420,973

See accompanying notes to the consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2021	**2020**
Cash flows from operating activities:		
Net loss and comprehensive loss	$ (8,522,182)	$ (6,560,699)
Adjustments to reconcile net loss and comprehensive loss to net cash used in operating activities:		
Depreciation and amortization	34,131	1,872
Stock-based compensation expense	869,206	302,742
Change in fair value of derivative liabilities	21,165	(436,270)
Amortization of debt discount - related party	593,802	544,033
Gain on debt forgiveness	(117,953)	—
Changes in assets and liabilities:		
Prepaid expenses	(364,083)	(37,439)
Prepaid expenses - related parties	(13,432)	—
Other current assets	(56,595)	7,275
Other assets	(8,309)	—
Accounts payable	533,540	234,531
Accounts payable – related party	(14,902)	7,032
Accrued interest – related party	130,824	44,087
Accrued payroll liabilities	282,903	—
Operating lease liability	(9,534)	—
Other current liabilities	166,531	(161,295)
Net cash used in operating activities	(6,474,888)	(6,054,131)
Cash flows from investing activities:		
Purchases of property and equipment	(90,866)	(7,230)
Net cash used in investing activities	(90,866)	(7,230)
Cash flows from financing activities:		
Proceeds from the issuance of common stock and warrants - net of $935,260 and $854,078 of issuance costs in 2021 and 2020, respectively	6,062,774	6,085,589
Proceeds from warrant exercises	6,999,999	48,533
Proceeds from pre-funded warrant exercises	11,800	—
Proceeds from option exercises	4,783	—
Proceeds from PPP loan	—	116,700
Proceeds from multi-draw credit agreement - related party	—	450,000
Net cash provided by financing activities	13,079,356	6,700,822
Net increase in cash and restricted cash	6,513,602	639,461
Cash and restricted cash, beginning of year	$ 2,473,976	$ 1,834,515
Cash and restricted cash, end of year	$ 8,987,578	$ 2,473,976
Supplemental disclosures of cash-flow information:		
Reconciliation of cash and restricted cash:		
Cash	$ 8,983,007	$ 2,469,410
Restricted cash	4,571	4,566
Total cash and restricted cash shown in the consolidated statements of cash flows	$ 8,987,578	$ 2,473,976
Cash paid during the year for:		
Interest	$ 44,087	$ 117,459
Income taxes	1,600	1,600
Supplemental disclosures of non-cash financing activities:		
Establishment of right-of-use asset	$ 170,606	$ —
Reclassification of warrant liabilities to equity from exercise of warrants	—	26,250

See accompanying notes to the consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Stockholders' Equity				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amounts			
Balance, December 31, 2019	**182,895,247**	**$ 182,895**	**$ 32,538,445**	**$ (32,173,282)**	**$ 548,058**
Stock-based compensation expense	—	—	302,742	—	302,742
Issuance of common stock and warrants, net of issuance costs of $854,078	56,333,334	56,333	6,029,256	—	6,085,589
Exercise of pre-funded warrants	48,533,334	48,533	—	—	48,533
Series B warrant exercises	312,500	313	26,250	—	26,563
Net loss and comprehensive loss for the year ended December 31, 2020	—	—	—	(6,560,699)	(6,560,699)
Balance, December 31, 2020	**288,074,415**	**$ 288,074**	**$ 38,896,693**	**$ (38,733,981)**	**$ 450,786**
Stock-based compensation expense	1,350,000	1,350	854,856	—	856,206
Issuance of common stock and warrants, net of issuance costs of $935,260	58,111,112	58,111	6,004,663	—	6,062,774
Exercise of pre-funded warrants	11,800,000	11,800	—	—	11,800
Exercise of common stock warrants	116,666,668	116,666	6,883,333	—	6,999,999
Exercise of stock options	106,250	107	4,676	—	4,783
Net loss and comprehensive loss for the year ended December 31, 2021	—	—	—	(8,522,182)	(8,522,182)
Balance, December 31, 2021	**476,108,445**	**$ 476,108**	**$ 52,644,221**	**$ (47,256,163)**	**$ 5,864,166**

See accompanying notes to the consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Business Activities

Nature of Operations

Skye Bioscience, Inc. (the "Company") was initially incorporated in Nevada on March 16, 2011 as Load Guard Logistics, Inc. On October 31, 2014, the Company closed a reverse merger transaction (the "Merger") pursuant to which Nemus, a California corporation ("Nemus Sub"), became the Company's wholly owned subsidiary, and the Company assumed the operations of Nemus Sub. Nemus Sub was incorporated in the State of California on July 17, 2012. On November 3, 2014, the Company changed its name to Nemus Bioscience, Inc. by merging with Nemus Sub to form a Nevada company.

Effective March 25, 2019, the Company changed its name from Nemus Bioscience, Inc. to Emerald Bioscience, Inc. Effective January 19, 2021, the Company changed its name from Emerald Bioscience, Inc. to Skye Bioscience, Inc.

In August 2019, the Company formed a new subsidiary in Australia, SKYE Bioscience Pty Ltd. (formerly "EMBI Australia Pty Ltd."), an Australian proprietary limited company ("SKYE Bioscience Australia"), in order to qualify for the Australian government's research and development tax credit for research and development dollars spent in Australia. The primary purpose of SKYE Bioscience Australia is to conduct clinical trials for the Company's product candidates.
The Company is a pre-clinical pharmaceutical company located in San Diego, California that researches and develops and plans to commercialize cannabinoid derivatives through its own directed research efforts and through several license agreements with the University of Mississippi ("UM").

As of December 31, 2021, the Company has devoted substantially all its efforts to securing product licenses, carrying out its own 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 away 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 December 31, 2021, had an accumulated deficit of $47,256,163. As of December 31, 2021, the Company had unrestricted cash in the amount of $8,983,007. For the years ended December 31, 2021 and 2020, the Company incurred losses from operations of $7,847,714 and $6,289,013, respectively. The Company expects to continue to incur significant losses and negative cash flows from operations through 2022 and into the foreseeable future.

The Company's continued existence is dependent on its ability to raise sufficient additional funding to cover operating expenses and to carry out its research and development activities. As the Company approaches its first clinical trial, it expects to ramp up research and development spending and to increase cash used in operating activities. However, based on the Company's expected cash requirements, without obtaining additional funding by the third quarter of 2022, management believes that the Company will not have enough funds to continue clinical studies and pay down its related party debt. These conditions give rise to substantial doubt as to the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

On October 5, 2018, the Company entered into a Multi-Draw Credit Agreement (the "Credit Agreement") with Emerald Health Sciences ("Sciences"), a related party (See Note 11). On April 29, 2020, the Company entered into an Amended and Restated Multi-Draw Credit Agreement (the "Amended Credit Agreement") with Sciences. As of December 31, 2021, the Company had an outstanding principal balance of $2,464,500 under the Amended Credit Agreement. Effective September 15, 2021, the disbursement line under the Amended Credit Agreement was closed and it no longer serves as a potential source of liquidity to the Company. The outstanding advances plus accrued interest under the Amended Credit Agreement are due on October 5, 2022 (See Note 4).

The Company plans to continue to pursue funding through public equity financings, licensing arrangements, government grants or other strategic 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, dilution to existing stockholders would result.

In December 2019, a novel strain of coronavirus ("COVID-19") emerged in Wuhan, China. Since then, it has spread to the United States, the European Union, and Australia, where the Company has operations and conducts laboratory research and clinical studies. The effects of COVID-19 could impact the Company's ability to operate as a going concern and maintain sufficient liquidity to continue operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain. It is possible that the Company may encounter issues relating to the current situation that will need to be considered by management in the future. The factors to take into account in going concern judgments and financial projections include travel bans, restrictions, government assistance and potential sources of replacement financing, financial health of suppliers and the general economy.

The Company has made adjustments to its operations designed to keep its employees safe and comply with federal, state, and local guidelines. The extent to which COVID-19 may further impact the Company's business, results of operations, financial condition and cash flows will depend on future developments, which are highly uncertain and cannot be predicted with confidence. In response to COVID-19, the United States government has passed legislation and taken other actions to provide financial relief to companies and other organizations affected by the pandemic.

Notably, the Company relies on third party manufacturers to produce its product candidates. The manufacturing of SBI-100 is conducted in the United States. Formulation of the eye drop for testing is also performed in the United States but can rely on regulatory-accepted excipients that can be sourced from countries outside the United States. In connection with the COVID-19 pandemic, there could possibly be an impact on sourcing materials that are part of the eye drop formulation, as well as impacting volunteer and/or patient recruitment in Australia for clinical studies. The location of the clinical trial are clinical sites in Australia and since the COVID-19 outbreak in that country, the multiple cities have experienced health emergency lockdowns which have had a negative impact on the conduct and timelines of clinical studies. Therefore, the Company has shifted its first-in-human studies of SBI-100 to the second quarter of 2022.

After considering the plans to alleviate substantial doubt, management has concluded that there is substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The accompanying Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

Basis of Presentation

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries SKYE Bioscience Australia and Nemus Sub. All intercompany accounts and transaction have been eliminated in consolidation.

Use of Estimates

The preparation of the 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 Consolidated Financial Statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates and judgments as to the appropriate carrying values of equity instruments, derivative liabilities, debt with embedded features, and the valuation of stock based compensation awards, which are not readily apparent from other sources.

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, uncertainties related to the impact of COVID-19 (Note 1), results of research and development activities, uncertainties surrounding regulatory developments in the United States, the European Union and Australia, and the Company's ability to attract new funding.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying values of those investments approximate their fair value due to their short maturity and liquidity. Cash includes 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. As of December 31, 2021, and 2020, the Company has no cash equivalents.

Restricted cash on the balance sheet represents a certificate of deposit held by the Company's bank as collateral for the Company's credit cards.

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally two to three years. Leasehold improvements are amortized over the shorter of the estimated useful life of the improvements or the remaining lease term. Expenditures for repairs and maintenance, which do not extend the useful life of the property and equipment, are expensed as incurred. Upon retirement, the asset cost and related accumulated depreciation are relieved from the accompanying Consolidated Balance Sheets.

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 the Company's financial instruments, with the exception of the Amended Credit Agreement and derivative liabilities, approximate their fair value due to their short maturities. The derivative liabilities are valued on a recurring basis utilizing Level 3 inputs (Note 3).

As of December 31, 2020, the Company estimated that the fair value of the Amended Credit Agreement to be materially consistent with the fair value estimate as of December 31, 2019 of $1,877,938, plus the non-convertible advances made in 2020. This determination was based on the following considerations: (i) the Company has not experienced any significant change in its credit worthiness or operations year over year, (ii) there have been no repayments or convertible draws, (iii) the facility is closer to maturity, and (iv) the embedded conversion feature on the convertible advances is out-of-the-money at the reporting date. As of December 31, 2021, the Company estimated that the fair value of the Amended Credit Agreement, including the non-convertible advances was $2,484,768. As of December 31, 2021 and 2020, the carrying value of the Amended Credit Agreement was $1,974,905 and $1,381,103, respectively. Information pertinent to estimating the fair value of the Amended Credit Agreement includes valuing the embedded conversion feature using Level 3 inputs and considering the discounted cash flows of the interest and principal payments through maturity (Note 4).

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, net operating loss carryforwards (the "NOLs") and other tax credit carryforwards. 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 Consolidated Statements of Comprehensive Loss in the period incurred. When necessary, the Company recognizes interest and penalties related to income tax matters in income tax expense.
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 December 31, 2021 and 2020. As a result of this valuation allowance, there are no income tax benefits reflected in the accompanying Consolidated Statements of 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.

Convertible Instruments

The Company accounts for hybrid contracts with embedded conversion features in accordance with GAAP. ASC 815,*Derivatives and Hedging Activities* ("ASC 815") which 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 GAAP 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.

The Company accounts for convertible debt instruments with embedded conversion features in accordance with ASC 470-20, Debt with Conversion and Other Options ("ASC 470-20") if it is 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 and the embedded effective conversion price. When the Company determines that the embedded conversion option should be bifurcated from its host instrument, the embedded feature is accounted for in accordance with ASC 815. 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 recorded at fair value at each reporting date based on current fair value, with the changes in fair value reported in the results of operations.

The Company also follows ASC 480-10, Distinguishing Liabilities from Equity ("ASC 480-10") when evaluating the accounting for its hybrid instruments. 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 in other expense (income), net in the accompanying Consolidated Statements of Comprehensive Loss.

When determining the 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.

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 expense (income), net in the Consolidated Statements of Comprehensive Loss.

Debt Issuance Costs and Interest

Discounts related to bifurcated derivatives, freestanding instruments issued in bundled transactions, and issuance costs are recorded as a reduction to the carrying value of the debt and amortized over the life of the debt using the effective interest method. The Company makes changes to the effective interest rate, as necessary, on a prospective basis. For debt facilities that provide for multiple advances, the Company initially defers any issuance costs until the first advance is made and then amortizes the costs over the life of the facility.

Research and Development Expenses and Licensed Technology

Research and development 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 and benefits for the personnel involved in the Company’s preclinical drug development activities, other 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 Expense

Stock-based compensation expense is estimated at the grant date based on the fair value of the award, and the fair value is recognized as expense ratably over the vesting period with forfeitures accounted for as they occur. Upon the exercise of stock option awards, the Company's policy is to issue new shares of its common stock. The Company uses the Black-Scholes valuation method for estimating the grant date fair value of stock options using the following assumptions:

- Volatility - Expected volatility is estimated using the historical stock price performance over the expected term of the award.
- 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 the Company’s history and expectation of paying no dividends in the foreseeable future.

Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. ASC 220 *Comprehensive Income* requires that an entity records all components of comprehensive (loss) income, net of their related tax effects, in its financial statements in the period in which they are recognized. For the years ended December 31, 2021 and 2020, the comprehensive loss was equal to net loss.

Loss Per Common Share

The Company applies ASC No. 260, *Earnings per Share* in calculating its basic and diluted loss per common share. Basic loss per common share is computed by dividing net loss available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The diluted loss per share of common stock is computed by giving effect to all potential common stock equivalents outstanding for the period determined using the treasury stock method. For purposes of this calculation, options to purchase common stock, restricted stock subject to vesting, warrants to purchase common stock and common shares underlying convertible debt instruments are considered to be common stock equivalents. In periods with a reported net loss, such common stock equivalents are excluded from the calculation of diluted net loss per share of common stock if their effect is anti-dilutive. For additional information regarding the loss per share, see Note 7 “Loss Per Share of Common Share.”

Leases

In February 2016, the FASB issued Accounting Standards Update, or ASU, No. 2016-02, *Leases (Topic 842),* to enhance the transparency and comparability of financial reporting related to leasing arrangements. The Company adopted the standard effective January 1, 2019.

At the inception of an arrangement, the Company determines whether the arrangement is, or contains, a lease based on the unique facts and circumstances present. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in the lease contract is typically not readily determinable. As such, the Company utilizes its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

Lease expense is recognized over the expected term on a straight-line basis. Operating leases are recognized on the Consolidated Balance Sheets as operating lease right-of-use assets, operating lease liability, current portion and operating lease liability, net of current portion.

Recent Accounting Pronouncements

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance*. The aim of ASU 2021-10 is to increase the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity’s accounting for the assistance, and (3) the effect of the assistance on an entity’s financial statements. Diversity currently exists in the recognition, measurement, presentation, and disclosure of government assistance received by business entities because of the lack of specific authoritative guidance in GAAP. The ASU will be effective for annual reporting periods after December 15, 2021, and early adoption is permitted. Upon implementation, the Company may use either a prospective or retrospective method of adoption when adopting the ASU. The adoption of ASU 2021-10 will impact the disclosures related to the rebates that the Company receives from the Australian Taxation Office ("ATO") against research and development activities for its Phase I clinical trials in Australia. The Company currently plans to adopt the provisions of this ASU on the effective date using a prospective adoption method as rebates from the ATO in prior periods have not been material to the Company's financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805), *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* The aim of ASU 2021-08 is to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to (1) Recognition of an acquired contract liability, and (2) Payment terms and their effect on subsequent revenue recognized by the acquirer. The ASU will be effective for annual reporting periods after December 15, 2022, should be applied on a prospective basis and early adoption is permitted. The adoption of ASU 2021-08 does not currently impact the Company's financial statements. The Company plans to adopt the provisions of this ASU on the effective date but reserves the right to early adopt this guidance.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. This ASU amends the guidance on convertible instruments and the derivatives scope exception for contracts in an entity's own equity and improves and amends the related EPS guidance for both Subtopics. The ASU will be effective for annual reporting periods after December 15, 2023 and interim periods within those annual periods and early adoption is permitted in fiscal periods ending after December 15, 2020. Upon implementation, the Company may use either a modified retrospective or full retrospective method of adoption. The adoption of ASU 2020-6 will likely impact the way the Company calculates its (loss) earnings per share, result in expanded disclosures around convertible instruments and remove the requirement to assess and record beneficial conversion features. The impact from adoption will depend on whether the Company elects to early adopt this ASU. The Company currently plans to adopt the provisions of this ASU on the effective date. However, it reserves the right to early adopt these provisions.

Recently Adopted Accounting Pronouncements

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options.* The aim of ASU 2021-04 is to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options that remain equity classified after modification or exchange. The Company elected to early adopt this guidance as of July 1, 2021, and has applied the guidance as of January 1, 2021, in accordance with the ASU. The adoption of this guidance had no impact on the interim periods in 2021 prior to the date of adoption. Upon implementation, the new guidance was applied to the July 2021 Inducement (Note 5), which resulted in recording the value attributable to the Inducement Warrants as an equity issuance cost. Because this amendment provided clarification where there was a lack of GAAP, management has determined that there was no resulting impact from the adoption of this standard to the financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* The Board issued this update as part of its Simplification Initiative to improve areas of GAAP and reduce cost and complexity while maintaining usefulness of the financial statements. The main provisions remove certain exceptions, including the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. In addition, the amendments simplify income tax accounting in the areas such as income-based franchise taxes, eliminating the requirements to allocate consolidated current and deferred tax expense in certain instances and a requirement that an entity reflects the effect of enacted changes in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The Company adopted this ASU on the effective date of January 1, 2021. The amendments in the update related to foreign subsidiaries have been applied on a modified retrospective basis, the amendments to franchise taxes were applied on a modified retrospective basis and all other amendments have been applied on a prospective basis. Because the Company's deferred tax assets net of deferred tax liabilities are fully reserved, the impact from the adoption of this standard was not material.

In October 2020, the FASB issued ASU 2020-10, *Codification Improvements*. The amendments in this ASU represent changes to clarify the ASC, correct unintended application of the guidance, or make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. This new standard was effective beginning January 1, 2021. The adoption of ASU 2020-10 did not have a material impact on the Company's financial position or results of operations upon adoption.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The ASU was effective and adopted by the Company on January 1, 2021. However, as of the effective date the Company did not have any cloud computing arrangements for which this guidance was applicable. During the fourth quarter of 2021, the Company entered into hosting arrangements meeting the definition of a service contract for which this guidance will be applicable. Due to the short term nature of these contracts, the impact to the Company's financial statements from the adoption of this guidance was not material.

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 and derivative liabilities. These judgments and estimates include assumptions regarding the Company's future operating performance, the time to completing a liquidity event, if applicable, and the determination of the appropriate valuation methods. If the Company had made different assumptions, the fair value of the warrants and derivative liabilities could have been significantly different (See Note 2).

Warrants vested and outstanding as of December 31, 2021 are summarized as follows:

Source	Exercise Price	Term (Years)	Number of Warrants Vested and Outstanding
Pre 2015 Common Stock Warrants	$ 1.00	10	1,110,000
2015 Common Stock Warrants	5.00	10	100,000
2016 Common Stock Warrants to Service Providers	1.15	10	40,000
2017 Series D Common Stock Warrants to Placement Agent	0.25	5	480,000
2017 Common Stock Warrants to Service Provider	0.41	5	125,000
2018 Emerald Financing Warrants	0.10	5	3,400,000
Emerald Multi-Draw Credit Agreement Warrants	0.50	5	7,500,000
2019 Common Stock Warrants	0.35	5	8,000,000
2020 Common Stock Warrants to Placement Agent	0.08	4.99	8,166,667
2021 Inducement Warrants	0.15	5	21,166,667
2021 Inducement Warrants to Placement Agent	0.19	5	1,481,667
2021 Common Stock Warrants	0.09	5	77,777,779
2021 Pre-Funded Warrants	0.0001	Indefinite	19,666,667
2021 Common Stock Warrants to Placement Agent	0.11	5	5,444,445
Total warrants vested and outstanding as of December 31, 2021			**154,458,892**

July 2021 Inducement Warrants and September 2021 Financing Warrants

In connection with the July 2021 Inducement (Note 5), the Company issued21,166,667 common stock warrants and 1,481,667 warrants to the placement agent. The warrants were equity classified at issuance and the Company recorded the fair value of the common stock warrants and placement agent warrants of $2,790,884 and $192,224, respectively, as equity issuance costs related to the September 2021 Financing within equity.

The warrants were vested at issuance and were valued utilizing the Black-Scholes Merton option pricing model with the following assumptions:

	Common Stock Warrants	Placement Agent Warrants
Dividend yield	— %	— %
Volatility factor	137.87 %	137.87 %
Risk-free interest rate	0.73 %	0.73 %
Expected term (years)	5.0	5.0
Underlying common stock price	$ 0.15	$ 0.15

In connection with the September 2021 Financing (Note 5), the Company issued 77,777,779 common stock warrants, 19,666,667 pre-funded warrants, and 5,444,445 common stock warrants to the placement agent. The warrants were equity classified at issuance and the Company allocated $3,265,676 and $943,489 of the gross proceeds to the common stock warrants and pre-funded warrants on a relative fair value basis, respectively. The common stock warrants issued to the placement agent were valued at $421,522 and recorded as equity issuance costs within equity. The warrants vested immediately and were valued utilizing the Black-Scholes Merton option pricing model with the following assumptions:

	Common Stock Warrants	Pre-funded Warrants	Placement Agent Warrants
Dividend yield	— %	— %	— %
Volatility factor	136.02 %	135.06 %	136.02 %
Risk-free interest rate	1.01 %	1.55 %	1.01 %
Expected term (years)	5.0	10.0	5.00
Underlying common stock price	$ 0.09	$ 0.09	$ 0.09

August 2020 Financing Warrants

In connection with the August 2020 Financing (Note 5), the Company issued 116,666,668 common stock warrants, 8,166,667 common stock warrants to the placement agent and 60,333,334 pre-funded warrants. The warrants were equity classified at issuance and of the $6,939,667 in gross proceeds, the Company allocated $2,767,767 and $2,146,997 of the gross proceeds to the common stock warrants and pre-funded warrants on a relative fair value basis, respectively. The remaining $2,024,903 was allocated to the common stock. The warrants issued to the placement agent were valued at $261,333 and recorded as equity issuance costs within equity. The warrants vested immediately and were valued utilizing the Black-Scholes option pricing model with the following assumptions:

	Common Stock Warrants	Pre-funded Warrants	Placement Agent Warrants
Dividend yield	— %	— %	— %
Volatility factor	91.64 %	93.86 %	91.64 %
Risk-free interest rate	0.19 %	0.52 %	0.19 %
Expected term (years)	5.0	10	4.99
Underlying common stock price	$ 0.05	$ 0.05	$ 0.05

Derivative Liabilities

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

	Year Ended December 31, 2021				
	DECEMBER 31, 2020, Fair Value of Derivative Liability	Fair Value of Derivative Liability Issued	Change in Fair value of Liability	Reclassification of Derivative to Equity	December 31, 2021, Fair Value of Derivative Liability
Emerald Financing - warrant liability[(1)]	38,567	—	21,165	—	59,732
Total derivative liability	**$ 38,567**	**$ —**	**$ 21,165**	**$ —**	**$ 59,732**

	Year Ended December 31, 2020				
	December 31, 2019 , Fair Value of Derivative Liabilities	Fair Value of Derivative Liabilities Issued	Change in Fair value of Liabilities	Reclassification of Derivatives to Equity	December 31, 2020, Fair Value of Derivative Liabilities
Emerald Multi-Draw Credit Agreement - compound derivative liability [2]	$ 90,797	$ —	$ (90,797)	$ —	$ —
Emerald Financing - warrant liability [1]	276,024	—	(237,457)	—	38,567
Series B - warrant liability [3]	134,579	—	(108,016)	(26,563)	—
Total derivative liabilities	**$ 501,400**	**$ —**	**$ (436,270)**	**$ (26,563)**	**$ 38,567**
Less, noncurrent portion of derivative liabilities	(90,797)				—
Current balance of derivative liabilities	**$ 410,603**				**$ 38,567**

Emerald Financing Warrant Liability (1)

The Emerald Financing Warrants were issued during 2018 in connection with the Emerald Financing, and originally contained a price protection feature. In connection with the August 2020 Financing, the exercise price was permanently set to $0.10. The warrants contain a contingent put option if 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 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 Measurements*. Beginning March 31 2021, the Company changed its valuation model for the Emerald Financing Warrant Liability to a Black-Scholes valuation method, as it was determined that a more simplistic model such as the Black-Scholes valuation method yields a substantially similar result as a Monte Carlo simulation due to the Company's current assumptions.

The warrant liabilities were valued at the balance sheet dates using the following assumptions:

	As of December 31,	
	2021	2020
Dividend yield	— %	— %
Volatility factor	126.50 %	90.90 %
Risk-free interest rate	0.43 %	0.14 %
Expected term (years)	1.13	2.13
Underlying common stock price	$ 0.05	$ 0.04

Emerald Multi-Draw Credit Agreement Compound Derivative Liability (2)

In connection with the advances under the Credit Agreement (See Note 4), the Company bifurcated a compound derivative liability related to a contingent interest feature and acceleration upon default provision (contingent put option) provided to Sciences. The Company's estimate of fair value of the compound derivative liability was determined by using a differential cash flows valuation model, wherein the fair value of the underlying debt facility and its conversion right are estimated both with and without the presence of the contingent interest feature, holding all other assumptions constant. The resulting difference between the estimated fair values in both scenarios is the estimated fair value of the compound derivative. The fair value of the underlying debt facility was estimated by calculating the expected cash flows with consideration of the estimated probability of a change in control transaction, defined as an event of default by the agreement, and applying the expected default interest rate from the date of such default through maturity. The expected cash flows are then discounted back to the reporting date using a benchmark market yield. The conversion right component of the compound derivative was measured using a standard Black-Scholes Option Pricing model for each payment period.

On April 29, 2020, the Company entered into the Amended Credit Agreement which removed the change in control provision as an event of default for advances before and after the amendment. As a result of the modification, the contingent interest feature component of the compound derivative is no longer required to be bifurcated as a derivative liability. During the year ended December 31, 2020, the liability was reduced to $0 through an adjustment to the change in fair value of derivative liabilities.

Because Sciences would forgo the contingent interest if the contingent put option was exercised upon an event of default, the value ascribed to the contingent put option within the compound derivative is considered de minimis before and after the amendment to the Credit Agreement.

Series B Warrant Liability (3)

During the year ended December 31, 2020,312,500 Series B Common Stock Warrants with an intrinsic value of $26,563 were exercised for no consideration per share, which resulted in the issuance of 312,500 shares of common stock. Prior to exercise, these Series B Warrants were adjusted to fair value using a Black-Scholes valuation method 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. The warrants required liability classification because of certain cash redemption rights upon the occurrence of certain fundamental transactions, as defined in the Series B Common Stock Warrant agreements.

4. Debt

Multi-Draw Credit Agreement-Related Party

The Company's Debt with Sciences consists of the following:

		As of December 31,	
	Conversion Price	2021	2020
Total principal value of convertible debt—related party	$ 0.40	$ 2,014,500	$ 2,014,500
Unamortized debt discount		(487,668)	(1,079,821)
Unamortized debt issuance costs		(1,927)	(3,576)
Carrying value of total convertible debt—related party		**1,524,905**	**931,103**
Total principal value of non-convertible debt—related party	n/a	450,000	450,000
Total carrying value of advances under the multi-draw credit agreement		**$ 1,974,905**	**$ 1,381,103**

On October 5, 2018, the Company entered into the Credit Agreement with Sciences, a related party (See Note 11). On April 29, 2020, the Company entered into the Amended Credit Agreement with Sciences, which amends and restates the Credit Agreement. For all pre-existing and new advances, the Amended Credit Agreement removed the change in control as an event of default (See Note 3) and deferred the quarterly payment of interest until the Company completed a capital raise of at least $5,000,000. As of August 2020, interest ceased being deferred as a result of the August 2020 Financing. The amendments to the pre-existing advances were accounted for as a modification.

On March 29, 2021, the Company amended the Amended Credit Agreement to defer interest payments through the earlier of maturity or prepayment of the principal balance. On September 15, 2021, the Company further amended the Amended Credit Agreement to close the disbursement line. The amendments were considered a modification for accounting purposes.

Advances under the Amended Credit Agreement are unsecured and bear interest at an annual rate of 7% and mature on October 5, 2022. At Sciences' election, convertible advances and unpaid interest may be converted into common stock at the fixed conversion price of the underlying advance, subject to customary adjustments for stock splits, stock dividends, recapitalizations, etc.

The Amended 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. In the case of an event of default arising from specified events of bankruptcy or insolvency or reorganization, all outstanding advances will become due and payable immediately without further action or notice. If any other event of default under the Amended Credit Agreement occurs or is continuing, Sciences may, by written notice, terminate its commitment to make any advances and/or declare all the advances with any other amounts payable due immediately. If any amount under the Amended 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 Amended Credit Agreement, the Company agreed to issue to Sciences 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 a term of five years that are immediately exercisable upon issuance. All of the warrants issued under the Credit Agreement have an exercise price of $0.50 per share. 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 stockholders (See Note 3).

In accounting for each advance and the warrants issued under the Amended Credit Agreement, the Company allocated the proceeds between the debt host and the freestanding warrants on a relative fair value basis for each advance. On the date of each advance, if the effective conversion rate of the debt was less than the market value of the Company's common stock, the Company recorded a beneficial conversion feature as a discount to the debt and an increase to additional paid-in capital. The debt discounts related to the warrants, beneficial conversion features and compound derivatives, if any, are being amortized over the term of the Amended Credit Agreement using the effective interest rate method. Amortization of the debt discount is recognized as non-cash interest expense and the compound derivatives related to the contingent interest feature and acceleration upon default provision were remeasured at fair value in subsequent periods in the Company's Consolidated Balance Sheets.

On November 1, 2018, an initial advance was made for $2,000,000 and the Company issued 2,500,000 warrants with an exercise price of $0.50 per share (See Note 3). In accounting for the convertible advance and warrants under the Credit Agreement, $1,684,920 of the proceeds was allocated to the debt and $315,080 was allocated to equity classified warrants. A beneficial conversion feature of $90,080 and a compound derivative liability of $204,102 were also recorded.

During the year ended December 31, 2019, the Company initiated two advances, each in the amount of $2,000,000, for an aggregate principal amount of $4,000,000, and the Company issued an aggregate of 5,000,000 warrants with an exercise price of $0.50 per share (See Note 3). In accounting for the convertible advances and warrants, an aggregate amount of $3,283,890 was allocated to the debt and $716,110 was allocated to equity classified warrants. A beneficial conversion feature of $1,584,850 and compound derivative liabilities of an aggregate of $516,058 were recorded (See Note 3). Of the $516,058 in compound derivatives, $322,644 was recorded as other expense in the Consolidated Statements of Comprehensive (Loss) Income for the year ended December 31, 2019, as the value of the beneficial conversion feature exceeded the proceeds allocated to the third draw.

During the year ended December 31, 2019, the Company used $3,985,500 in proceeds from the exercise of the 2019 Emerald Financing Warrants to prepay a portion of the outstanding principal balance. In connection with the prepayment, the Company recorded an extinguishment loss of $725,425 in the fourth quarter of 2019. The extinguishment loss was calculated as the difference between the fair value of the consideration paid to extinguish the debt and carrying value of the debt host plus the related compound derivative liability.

During the year ended December 31, 2020, the Company effected a fourth and fifth advance in the amounts of $150,000 and $300,000, respectively. Sciences has elected that the fourth and fifth advances will not be convertible into shares of the Company's common stock and gave notice to the Company that no warrants will be issued in connection with the advances.

Aggregate financing costs of $63,007 have been incurred and are recorded as a discount to the debt host and are being amortized using the effective interest rate method and recognized as non-cash interest expense over the term of the Amended Credit Agreement.

For the years ended December 31, 2021 and 2020, the effective interest rate related to the convertible portion of the Amended Credit Agreement was 43.30% and 98.01%, respectively. As of December 31, 2021, the unamortized debt discount on the convertible advances will be amortized over a remaining period of approximately 0.76 years. As of December 31, 2021, the fair value of the shares underlying the convertible advances under the Amended Credit agreement was $261,885. As of December 31, 2021, the if-converted value did not exceed the principal balance.

PPP Loan

On April 24, 2020, the Company received funding from the PPP Loan Lender pursuant to the PPP of the CARES Act administered by the SBA for a principal amount of $116,700. The PPP Loan had an interest rate of1.00% per year and funds from the PPP Loan could only be used by the Company for payroll costs, costs for continuing group healthcare benefits, mortgage interest payments, rent, utility and interest on any other debt obligations that were incurred before October 9, 2020.

On April 5, 2021, the Company submitted an application for the full forgiveness of the PPP Loan to the PPP Loan Lender for the full amount of the loan. On May 20, 2021, the Company received notification that the application was accepted and that the full amount of the PPP Loan including accrued interest was forgiven. During the year ended December 31, 2021, the Company has recorded a gain on forgiveness of the PPP loan in an amount of $117,953.

Interest Expense

The Company's interest expense consists of the following:

	Year Ended December 31,	
	2021	**2020**
Related party interest expense – stated rate	$ 174,911	$ 161,546
PPP loan interest expense – stated rate	446	806
Non-cash interest expense:		
Amortization of debt discount	592,154	542,523
Amortization of transaction costs	1,648	1,510
	$ 769,159	**$ 706,385**

5. Stockholders' Equity and Capitalization

As of December 31, 2021 and 2020, the Company had reserved shares of common stock, on an as-if converted basis, for issuance as follows:

	Year Ended December 31,	
	2021	**2020**
Options issued and outstanding	35,405,000	22,050,000
Options available for grant under the 2014 Plan	14,132,929	12,790,775
Restricted stock unit awards issued and outstanding	4,000,000	0
Unreleased restricted stock awards issued to a service provider	150,000	0
Common stock underlying the Amended Credit Agreement	5,393,684	5,126,343
Warrants issued and outstanding	154,458,892	157,513,335
	213,540,505	**197,480,453**

Increase to Authorized Shares of Capital Stock

On February 5, 2021, the Company increased its authorized shares of common and preferred stock to5,000,000,000 and 50,000,000, respectively.

Common Stock

July 2021 Inducement and September 2021 Financing

On July 21, 2021, the Company entered into an Inducement Offer to Exercise Common Stock Purchase Warrants (the "July 2021 Inducement") with certain institutional investors and H.C. Wainwright & Co., LLC ("Wainwright") acting as the placement agent. As a result, on July 26, 2021, the investors exercised 21,166,667 warrants at their original exercise price of $0.06, for gross proceeds of $1,270,000. In exchange, the Company granted 21,166,667 new warrants with substantially the same terms and an exercise price of $0.15 per share (Notes 2 & 3).

On September 27, 2021, the Company entered into a Securities Purchase Agreement with certain institutional investors for the issuance and sale of securities, with Wainwright acting as the placement agent, pursuant to which the Company sold 58,111,112 shares of common stock and 19,666,667 pre-funded warrants, and issued 77,777,779 common stock warrants, in a registered public offering which closed on September 29, 2021 (the "September 2021 Financing"). The common stock and pre-funded warrants were sold at a price per share of $0.09 and $0.0899, respectively, for gross aggregate proceeds of $6,998,034. The common stock warrants and pre-funded warrants have an exercise price of $0.09 and $0.0001, respectively. The common stock warrants have a term of five years, and the pre-funded warrants are exercisable until all the pre-funded warrants have been exercised in full (Note 3).

In connection with the July 2021 Inducement and September 2021 Financing, the Company incurred cash issuance costs of $935,260, for net proceeds of $6,062,774. Additionally, the Company issued warrants to purchase 6,926,112 shares of common stock to the placement agent, which represent 7% of the total shares of common stock and pre-funded warrants sold in the offering and 7% of the Inducement Warrants issued (Note 3).

August 2020 Financing

On July 31, 2020, the Company entered into a Securities Purchase Agreement with certain institutional investors for the issuance and sale of securities, with H.C. Wainwright & Co., LLC acting as the placement agent, pursuant to which the Company sold 56,333,334 common units, each consisting of one share of common stock and one warrant to purchase one share of common stock, and 60,333,334 pre-funded units, each consisting of one pre-funded warrant to purchase one share of common stock and one warrant to purchase one share of common stock, in a registered public offering which closed on August 4, 2020 (the "August 2020 Financing"). The common units and pre-funded units were sold at a price per unit of $0.06 and $0.059, respectively, for gross aggregate proceeds of $6,939,667. The common stock warrants and prefunded warrants have an exercise price of $0.06 and $0.001, respectively. The common stock warrants have a term of five years, and the pre-funded warrants are exercisable until all the pre-funded warrants have been exercised in full (Note 3).

In connection with the August 2020 Financing, the Company incurred issuance costs of $854,078, for net proceeds of $6,085,589. Additionally, the Company issued warrants to purchase 8,166,667 shares of common stock to the placement agent, which represent 7% of the total shares of common stock and pre-funded warrants sold in the offering. The placement agent warrants have an exercise price of $0.075 per share and a term of five years.

Warrant Exercises

During the year ended December 31, 2021, 11,800,000 pre-funded warrants with an intrinsic value of $460,200 were exercised in exchange for 11,800,000 shares of common stock for gross proceeds of $11,800. As of December 31, 2021 all of the pre-funded warrants from the August 2020 Financing have been exercised.

During the year ended December 31, 2021, 116,666,668 of the 2020 common stock warrants, including the warrants that were exercised in connection with the July 2021 Inducement discussed above, with an intrinsic value of $8,764,967 were exercised in exchange for 116,666,668 shares of common stock for gross proceeds of $6,999,999.

During the year ended December 31, 2020, the Pre-Funded Warrant holders exercised 48,533,334 warrants with an intrinsic value of $2,104,667, which resulted in the issuance of 48,533,334 shares of common stock.

During the year ended December 31, 2020, the Series B Warrant holders exercised 312,500 warrants with an intrinsic value of $26,563, which resulted in the issuance of 312,500 shares of common stock.

6. Stock-Based Compensation

Stock Incentive Plan

On October 31, 2014, the Board approved the Company's 2014 Omnibus Incentive Plan (the "2014 Plan"). The 2014 Plan initially reserved 3,200,000 shares for future grants. In October 2018, the Company increased the share reserve under the 2014 Plan to equal 10% of the number of issued and outstanding shares of common stock of the Company on an evergreen basis. In August 2020, the Company approved Amendment No. 2 to the 2014 Plan, which increased the share reserve by an additional 7,876,835 shares over the 10% of the number of issued and outstanding shares of common stock and removed certain restrictions on the number of shares of common stock and the amount of cash-based awards up to which participants of the 2014 Plan can receive in a calendar year. 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. As of December 31, 2021, the shares available for future grant under the 2014 Plan are as follows:

	Shares Available for Grant
Available as of December 31, 2020	**12,790,775**
Share pool increase	18,803,404
Cancelled	202,500
Forfeited	1,091,250
Granted	(18,755,000)
Available as of December 31, 2021	**14,132,929**

Stock Options

Options granted under the 2014 Plan expire no later than ten years from the date of grant. Options granted under the 2014 Plan may be either incentive or non-qualified stock options. For incentive and non-qualified stock option grants, the option price shall be at least 100% of the fair value on the date of grants, as determined by the Company's Board of Directors. If at any time the Company grants an option, and the optionee directly or by attribution owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the option price shall be at least 110% of the fair value and shall not be exercisable more than five years after the date of grant.

Options granted under the 2014 Plan may be immediately exercisable if permitted in the specific grant approved by the Board of Directors and, if exercised early may be subject to repurchase provisions. The shares issued generally vest over a period of one to four years from the date of grant.

The following is a summary of option activities under the Company's 2014 Plan for the year ended December 31, 2021:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding, December 31, 2020	**22,050,000**	**$ 0.06**	**9.52**	**$ —**
Granted	14,755,000	0.08		
Exercised	(106,250)	0.05		13,281
Forfeited	(1,091,250)	0.05		
Cancelled	(202,500)	0.05		
Outstanding, December 31, 2021	**35,405,000**	**$ 0.07**	**9.08**	**$ 134,750**
Exercisable, December 31, 2021	**9,122,500**	**$ 0.09**	**8.41**	**$ 49,963**
Vested and expected to vest, December 31, 2021	**35,405,000**	**$ 0.07**	**9.08**	**$ 134,750**

**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 December 31, 2021 for those stock options for which the quoted market price was in excess of the exercise price ("in-the-money options").*

During the year ended December 31, 2021, the Company received gross proceeds of $4,783 from the exercise of stock options.

The weighted-average grant-date fair value of stock options granted for the years ended December 31, 2021 and 2020 was $0.07 and $0.04, respectively. The total fair value of the stock options that vested during the years ended December 31, 2021 and 2020 was $316,929 and $168,168, respectively.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model under the following assumptions:

	Year Ended December 31,	
	2021	**2020**
Dividend yield	0.00 %	0.00 %
Risk-free interest rate	0.01-1.11%	0.28-0.46%
Expected term (years)	5.27-6.13	5.65-6.13
Volatility	119.10-138.00%	92.51-107.87%

In connection with the termination of Dr. Avtar Dhillon's Independent Contractor Agreement on October 14, 2021 (Note 11), the Company modified Dr. Dhillon's option awards to accelerate the vesting of 1,650,000 unvested stock options and, extend the post-termination exercise period from 30 days to five years for all of his outstanding awards. The approval of the modification and receipt of notice to terminate the Independent Contractor Agreement on September 14, 2021, resulted in the recognition of $309,487 in stock compensation expense for the year ended December 31, 2021.

Restricted Stock Units

On December 14, 2021, the Company granted restricted stock units ("RSUs") to its executive management team. The RSUs cliff vest 33% per year on the anniversary of the grant date over a three year period. The following is a summary of restricted stock unit activity during the year ended December 31, 2021:

	Number of Shares	**Weighted Average Grant Date Fair Value**
Unvested, December 31, 2020	**—**	**$ —**
Granted	4,000,000	0.06
Released	—	—
Unvested, December 31, 2021	**4,000,000**	**$ 0.06**

There was no RSU activity under the Company's 2014 Plan during the year ended December 31, 2020.

Awards Granted Outside the 2014 Plan

During the year ended December 31, 2021, the Company granted 1,200,000 and 300,000 restricted shares of common stock to a non-employee consultant for investor relations services under two successive six month service contracts. Half of the shares will be issued within the first month of entering each service contract and the remaining half will be issued within thirty days from contract completion.

The following is a summary of restricted stock activity outside of the Company's 2014 Plan during the year ended December 31, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, December 31, 2020	**—**	**$ —**
Granted	1,500,000	0.12
Released	(1,350,000)	0.12
***Unvested, December 31, 2021**	**150,000**	**$ 0.13**

**As of December 31, 2021, the Company has recorded a share issuance liability of $13,000, included in other current liabilities for the vested and unreleased portion of the restricted stock awards (Note 13).*

Stock-Based Compensation Expense

The Company recognizes stock-based compensation expense using the straight-line method over the requisite service period.The Company recognized stock-based compensation expense, including compensation expense for RSUs discussed above, in its Consolidated Statements of Comprehensive Loss as follows:

	Year Ended December 31,	
	2021	**2020**
Research and development	$ 59,653	$ 93,545
General and administrative	809,553	209,197
	$ 869,206	**$ 302,742**

The total amount of unrecognized compensation cost was $1,645,478 as of December 31, 2021. This amount will be recognized over a weighted-average period of 3.12 years.

7. Loss Per Share of Common Stock

The following tables are a reconciliation of the numerators and denominators used in the calculation of basic and diluted net loss per share computations:

	For the Year Ended December 31, 2021		
	Loss (Numerator)	**Shares (Denominator)**	**Per-Share Amount**
Net loss and comprehensive loss	$ (8,522,182)		
Basic EPS			
Loss available to common stockholders	(8,522,182)	406,599,390	**$ (0.02)**
Diluted EPS			
Loss available to common stockholders + assumed conversions	$ (8,522,182)	406,599,390	**$ (0.02)**

	For the Year Ended December 31, 2020		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net loss and comprehensive loss	$ (6,560,699)		
Basic EPS			
Income available to common stockholders	(6,560,699)	230,746,878	**$ (0.03)**
Effect of Dilutive Securities			
Warrants – liability classified	(345,473)	674,095	
Diluted EPS			
Loss available to common stockholders + assumed conversions	$ (6,906,172)	231,420,973	**$ (0.03)**

The following outstanding shares of 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:

	Year Ended December 31,	
	2021	2020
Stock options	35,405,000	22,050,000
Unvested restricted stock units	4,000,000	—
Unvested restricted stock	150,000	—
Common shares underlying convertible debt	5,393,684	5,126,343
Warrants	134,792,225	145,039,240

8. Income Taxes

The components of loss before the income tax provision consist of the following:

	Year Ended December 31,	
	2021	2020
United States	$ (8,446,034)	$ (6,556,280)
Foreign	(74,048)	(2,819)
Pre-tax loss and comprehensive loss from operations	**$ (8,520,082)**	**$ (6,559,099)**

The Company is subject to taxation in the United States, various states, and Australia. The Company's tax years for 2018 (federal), 2017 (states) and 2020 (Australia) and forward are subject to examination by the United States, state and Australia tax authorities. However, to the extent allowed by law, the taxing authorities may have the right to examine periods where NOLs and credits were generated and carried forward and make adjustments up to the amount of the NOL and credit carryforwards. The Company is not currently under examination by any jurisdiction.

At December 31, 2021, the Company had federal and state NOLs aggregating $36,355,745 and $36,211,638, respectively. If not used, $13,129,037 of Federal NOLs and $36,138,820 of state NOLs will begin to expire in 2033. $23,226,708 of federal NOLs and $72,818 of state NOLs will carry forward indefinitely subject to an 80% limitation against taxable income. At December 31, 2021, the Company had Australia NOLs aggregating $71,322 which do not expire.

At December 31, 2021, the Company had federal and California research credit carryforwards of approximately $208,183 and $87,316, respectively. The federal research credit carry forwards will begin to expire in 2040, unless previously utilized and the California research credits will carry forward indefinitely. The Company's NOLs and research credit carryforwards are subject to a reserve.

Utilization of the domestic NOL could be subject to a substantial annual limitation due to ownership change limitations that may have occurred, or that could occur in the future, as required by Section 382 and 383 of the Internal Revenue Code of 1986, as amended (the Code), as well as similar state provisions. These ownership changes may limit the amount of NOLs that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders.

Upon the occurrence of an ownership change under Section 382 as outlined above, utilization of the NOLs are subject to an annual limitation under Section 382 of the Code, which is determined by first multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term, tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the NOL before utilization. While the Company has not performed a Section 382 study, multiple ownership changes may have already occurred as the Company raised capital through the issuance of stock. However, due to the existence of the valuation allowance for deferred tax assets, any potential change in ownership will not impact the Company's effective tax rate.

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred income tax assets are as follows:

	As of December 31,	
Current deferred tax assets/(liabilities):	**2021**	**2020**
State taxes	$ 441	$ 336
Amortization	109	180
Research and development credits	138,581	54,324
Lease liability	33,906	—
Other	446,623	83,056
Net operating loss	8,887,647	7,679,216
Gross deferred tax assets	**9,507,307**	**7,817,112**
Valuation allowance	(9,373,577)	(7,590,215)
Net deferred tax assets	**$ 133,730**	**$ 226,897**
Deferred tax liabilities		
Right-of-use asset	$ (30,939)	$ —
Discount - Amended Credit Agreement	(102,791)	(226,897)
Total deferred tax liabilities	**(133,730)**	**(226,897)**
Net deferred tax assets	**$ —**	**$ —**

The provision for income taxes on earnings subject to income taxes differs from the statutory Federal rate at December 31, 2021 and 2020, due to the following:

	As of December 31,	
	2021	**2020**
Expected income tax benefit at federal statutory tax rate	$ (1,789,217)	$ (1,377,411)
State income taxes, net of federal benefit	(475,287)	(415,249)
Change in fair value of warrants	4,445	(72,549)
Change in valuation allowance	1,783,362	1,383,765
Uncertain tax positions	557,016	470,838
Non-deductible interest	36,731	33,925
Stock compensation	31,863	64,273
Research and development credits	(168,514)	(108,649)
Rate adjustment	785	—
Other permanent difference	20,916	22,657
Provision for income taxes	**$ 2,100**	**$ 1,600**

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. 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 December 31, 2021. As a result of this valuation allowance, there are no income tax benefits reflected in the accompanying Consolidated Statements of Comprehensive Loss to offset pre-tax losses. During the year ended December 31, 2021, the valuation allowance increased by $1,783,362.

The Tax Cuts and Jobs Act of 2017 subjects a U.S. shareholder to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election to recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company elects to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. Due to the Company's history of net operating losses, the CARES Act is not expected to have a material impact on the Company's financial statements.

On April 22, 2020, the Company entered into the PPP Loan with the PPP Loan Lender (Note 4). In accordance with the Consolidated Appropriations Act, 2021 enacted on December 27, 2020, certain qualified expenses used with the funds of the PPP Loan are fully deductible for Federal income tax purposes. In 2021, the Company received forgiveness of the PPP loan. This amount is not considered taxable for Federal or state income tax purposes.

Under the FASB's accounting guidance related to income tax positions, among other things, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the guidance provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

A reconciliation of the beginning and ending amounts of unrecognized tax positions are as follows:

	As of December 31,	
	2021	**2020**
Unrecognized tax positions, beginning of the year	$ 1,134,173	$ 552,082
Gross increase - current period tax positions	687,598	585,812
Gross decrease – prior period tax positions	(37,145)	(3,721)
Unrecognized tax positions, end of year	**$ 1,784,626**	**$ 1,134,173**

If recognized, none of the unrecognized tax positions would impact the Company's income tax benefit or effective tax rate as long as the Company's net deferred tax assets remain subject to a full valuation allowance. The Company does not expect any significant increases or decreases to the Company's unrecognized tax positions within the next twelve months.

The Company had no accrual for interest or penalties on the Company's Consolidated Balance Sheets at December 31, 2021 and 2020 and hasnot recognized interest and/or penalties in the Consolidated Statements of Comprehensive Loss for the years then ended.

9. Other Current Liabilities

Other current liabilities consist of the following:

	As of December 31	
	2021	**2020**
Accrued research and development costs	140,953	93,888
Accrued legal expense	133,537	57,596
Accrued board fees	44,984	40,625
Total other accrued liabilities	56,368	5,455
	$ 375,842	**$ 197,564**

10. Significant Contracts - University of Mississippi

UM 5050 and UM 8930 License Agreements

In July 2018, the Company renewed its ocular licenses for UM 5050 and UM 8930. On May 24, 2019, the ocular delivery licenses were replaced by "all fields of use" licenses for both UM 5050 and UM 8930 (collectively, the "License Agreements"). Pursuant to the License Agreements, UM granted the Company an exclusive, perpetual license, including, with the prior written consent of UM, not to be unreasonably withheld, the right to sublicense, the intellectual property related to UM 5050 and UM 8930 for all fields of use.

The License Agreements contain certain milestone payments, royalty and sublicensing fees payable by the Company, as defined therein. Each License Agreement provides for an annual maintenance fee of $75,000 payable on the anniversary of the effective date. The Company made upfront payments for UM 5050 and UM 8930 of $100,000 and $200,000, respectively. In addition, in March 2020, the Company was notified by the United States Patent and Trademark Office, that a notice of allowance was issued for SBI-200, under the UM 8930 License Agreement. As a result, the Company was required to pay UM a fee of $200,000. The milestone payments payable for each license are as follows:

i) $100,000 paid within 30 days following the submission of the first Investigational New Drug Application ("NDA") to the Food and Drug Administration or an equivalent application to a regulatory agency anywhere in the world, for a product;

ii) $200,000 paid within 30 days following the first submission of an NDA, or an equivalent application to a regulatory agency anywhere in the world, for each product that is administered in a different route of administration from that of the early submitted product(s); and

iii) $400,000 paid within 30 days following the approval of an NDA, or an equivalent application to a regulatory agency anywhere in the world, for each product that is administered in a different route of administration from that of the early approved product(s).

The royalty percentage due on net sales under each License Agreement is in the mid-single digits. The Company must also pay to UM a portion of all licensing fees received from any sublicensees, subject to a minimum royalty on net sales, and the Company is required to reimburse patent costs incurred by UM related to the licensed products. The royalty obligations apply by country and by licensed product, and end upon the later of the date that no valid claim of a licensed patent covers a licensed product in a given country, or ten years after the first commercial sale of such licensed product in such country.

Each License Agreement continues, unless terminated, until the later of the expiration of the last to expire of the patents or patent applications within the licensed technology or the expiration of the Company's payment obligations under such License Agreement. UM may terminate each License Agreement, by giving written notice of termination, upon the Company's material breach of such License Agreement, including failure to make payments or satisfy covenants, representations or warranties without cure, noncompliance, a bankruptcy event, the Company's dissolution or cessation of operations, the Company's failure to make reasonable efforts to commercialize at least one product or failure to keep at least one product on the market after the first commercial sale for a continuous period of one year, other than for reasons outside the Company's control, or the Company's failure to meet certain pre-established development milestones. The Company may terminate each License Agreement upon 60 days' written notice to UM.

As of December 31, 2021, with the exception of the fee due for the notice of allowance for SBI-200,none of the other milestones under these license agreements have been met.

UM 5070 License Agreement

In January 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, to intellectual property related to a platform of cannabinoid-based molecules ("UM 5070"), to research, develop and commercialize products for the treatment of infectious diseases.

The Company paid UM an upfront license fee of $65,000 under the license agreement. Under the license agreement, the Company is also responsible for annual maintenance fees of $25,000 that will be credited against any royalties incurred, contingent milestone payments upon achievement of development and regulatory milestones, and royalties on net sales of licensed products sold for commercial use. The aggregate milestone payments due under the license agreement if all the milestones are achieved is $700,000 and the royalty percentage due on net sales is in the mid-single digits. The Company must also pay to UM a percentage of all licensing fees we receive from any sublicensees, subject to a minimum royalty on net sales by such sublicensees. The Company's royalty obligations apply on a country by country and licensed product by licensed product basis, and end upon the later of the date that no valid claim of a licensed patent covers a licensed product in a given country, or ten years after first commercial sale of such licensed product in such country.

The license agreement continues, unless terminated, until the later of the expiration of the last to expire of the patents or patent applications within the licensed technology or expiration of the Company's payment obligations under the license. UM may terminate the license agreement, effective with the giving of notice, if: (a) the Company fails to pay any material amount payable to UM under the license agreement and do not cure such failure within 60 days after UM notifies us of such failure, (b) the Company materially breaches any covenant, representation or warranty in the license agreement and do not cure such breach within 60 days after UM notifies the Company of such breach, (c) the Company fails to comply in any material respect with the terms of the license and do not cure such noncompliance within 60 days after UM notifies us of such failure, (d) the Company is subject to a bankruptcy event, (e) the Company dissolves or ceases operations or (f) if after the first commercial sale of a product during the term of the license agreement, the Company materially fails to make reasonable efforts to commercialize at least one product or fail to keep at least one product on the market after the first commercial sale for a continuous period of one year, other than for reasons outside of the Company's control. The Company may terminate the license agreement upon 60 days' written notice to UM.

As of December 31, 2021, none of the milestones under this license agreement had been met. On November 9, 2021, the Company provided its 60 day notice of termination to UM to terminate the UM 5070 license agreement effective January 8, 2022.

11. Related Party Matters

Emerald Health Sciences

In January 2018, the Company entered into a securities purchase agreement with Sciences pursuant to which Sciences purchased a majority of the equity interest in the Company, resulting in a change in control (the "Emerald Financing"). While Sciences no longer maintains a controlling interest in the Company, it holds a significant equity interest as of December 31, 2021 (Note 13) and has provided the Company with financing under the Amended Credit Agreement (Note 4). As of December 31, 2020, the Company had accrued $7,032 in reimbursable expenses due to Sciences. No amounts were due to Sciences as of December 31, 2021.

On December 19, 2019, the Company entered into an Independent Contractor Services Agreement with Dr. Avtar Dhillon, at the time, a member of Sciences Board of Directors and its CEO, pursuant to which Dr. Dhillon provided ongoing corporate finance and strategic business advisory services to the Company. In exchange for his services, Dr. Dhillon received a monthly fee of $10,000, per month for his services. Under the Independent Contractor Agreement, for the years ended December 31, 2021 and 2020, the Company incurred fees of $94,516 and $127,387, respectively. As of December 31, 2020, the Company accrued $10,000 in expense related to the Independent Contractor Services Agreement. On September 14, 2021, Dr. Dhillon provided his notice to terminate the Independent Contractor Services Agreement, with an effective termination date of October 14, 2021. As of October 14, 2021, the Company no longer has any obligations or business relationship with Dr. Dhillon (Note 6).

On August 10, 2020, Sciences, transferred to Dr. Avtar Dhillon 500,000 shares of the Company's common stock at a deemed price of $0.10 in exchange for the cancellation of $50,000 of debt.

On August 10, 2020, Sciences, Inc. extinguished debt of $186,667 by transferring 1,566,666 shares of the Company's common stock at a deemed price of $0.10 per share to certain officers, employees and directors of the Company.

In addition, the Board Observer Agreement in place with Sciences was amended in September 2021 to allow any board member or officer of Sciences to act as a representative of Sciences on a non-voting observer basis in meetings of the Board. On December 14, 2021, the Board Observer Agreement was terminated.

Emerald Health Pharmaceuticals, Inc.

On April 30, 2021, the Company entered into a month-to-month lease agreement with Emerald Health Pharmaceuticals, an affiliate of the Company with a significant common shareholder, as the sublessor and the Company as the sublessee. The Company shared the same office location as Emerald Health Pharmaceuticals in San Diego, California until the termination of the sublease on August 31, 2021. Under the sublease agreement, the Company paid monthly base rent of $4,000 in addition to its share of common area expenses and utilities. For the year ended December 31, 2021, the Company recognized $15,453 in expense under the sublease.

VivaCell Biotechnology España, S.L.U (formerly known as Emerald Health Biotechnology España, S.L.U.)

In January 2021 and April 2021, the Company entered into two separate Collaborative Research Agreements pursuant to a Master Services Agreement with VivaCell Biotechnology España, S.L.U ("VivaCell"), a research and development entity with substantial expertise in cannabinoid science and a subsidiary of Emerald Health Research, Inc. which is 100% owned by Sciences. Under the Collaborative Research Agreements, VivaCell will provide research and development services pursuant to agreed upon project plans for the research and development of SBI-200 and the preclinical development services for novel derivatives. The term of each agreement is initially for a one-year period. The agreements will terminate upon delivery and acceptance of the final deliverables under the project plans or if either party is in breach of the terms of the contract and such breach remains uncured for 45 days. Payment for services are based on the negotiated amounts for the completion of agreed upon objectives as provided in the Collaborative Research Agreements. For the year ended December 31, 2021, the Company incurred $220,418 in expenses under the Collaborative Research Agreements. As of December 31, 2021, the Company has recognized a prepaid asset in the amount of $8,056 to be offset against future research and development costs under the Collaborative Research Agreements.

On October 11, 2021, the Company entered into an Exclusive Sponsored Research Agreement (the “ESRA”) with VivaCell to fund certain research and development programs which are of mutual interest to both the Company and VivaCell. The Company will have the right to use all data, products, and information, including intellectual property which are generated in the performance of the research under each and all projects funded by the Company pursuant to the ESRA, and VivaCell assigns and agrees to assign, to the Company all rights to any intellectual property created or reduced-to-practice under, or as a part of, a project funded by the Company pursuant to the ESRA.

The Company has agreed to pay to VivaCell a royalty based on any and all licensing revenue or other consideration paid to the Company by a third-party licensee, assignee or purchaser of intellectual property rights created under the ESRA. In addition, upon a change of control transaction the Company has agreed to pay an amount equal to the royalty percentage multiplied by the fair value of the intellectual property created under the ESRA. Pursuant to the ESRA, VivaCell will provide a budget to be approved by the Company for each project, and the Company will make payments in accordance with the approved budget and pay an annual retainer to VivaCell of $200,000 per year. For the year ended December 31, 2021, the Company incurred $44,624 in expenses under the ESRA. As of December 31, 2021, the Company has recognized a prepaid asset in the amount of $5,376 to be offset against future research and development costs under the ESRA.

The initial term of the agreement is one year, with automatic renewal for successive one-year terms unless either party terminates upon 60 days' prior written notice to the other party pursuant to the ESRA.

Board Members

As of December 31, 2021, Jim Heppell and Punit Dhillon are board members of the Company and Emerald Health Pharmaceuticals, a subsidiary of Sciences. As of December 31, 2021, Jim Heppell is also a board member of Sciences and VivaCell. The Company’s CEO, Punit Dhillon also served as a board member of Sciences and VivaCell until he tendered his resignation from such boards on August 10, 2020 and September 22, 2021, respectively.

12. Commitments and Contingencies

Office Lease

The Company leases office space for its corporate headquarters, located at 1250 El Camino Real, San Diego, California 92130. The lease is effective from September 1, 2021 through October 31, 2023 and contains a renewal option for a two-year extension after the current expiration date. The Company does not expect that the renewal option will be exercised, and has therefore excluded the option from the calculation of the right of use asset and lease liability. The lease provides for two months of rent abatement and the initial monthly rent is $8,067 per month with annual increases of 3% commencing on November 1, 2022. The lease includes non-lease components (i.e., property management costs) that are paid separately from rent, based on actual costs incurred, and therefore were not included in the right-of-use asset and lease liability but are reflected as an expense in the period incurred. In calculating the present value of the lease payments, the Company has elected to utilize its incremental borrowing rate based on the lease term.

For the year ended December 31, 2021, lease expense comprised of $30,234 in lease cost from the Company's non-cancellable operating lease.

The remaining lease term and discount rate related to the operating lease are presented in the following table:

	December 31, 2021
Weighted-average remaining term – operating lease (in years)	1.83
Weighted-average discount rate – operating lease	12 %

Future minimum lease payments as of December 31, 2021 are presented in the following table:

Year:		
2022	$	97,291
2023		83,093
Total future minimum lease payments:		180,384
Less imputed interest		(19,312)
Total	**$**	**161,072**

Reported as:

Operating lease liability	$	82,372
Operating lease liability, net of current portion		78,700
Total lease liability	**$**	**161,072**

General Litigation and Disputes

From time to time, in the normal course of operations, the Company 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 the Company’s operations or financial position, liquidity or results of operations.

As of December 31, 2021, the Company is party to a legal proceeding with a former employee alleging wrongful termination. While there is a reasonable possibility that a loss may have been incurred, due to the stage of the proceedings as of December 31, 2021, the Company is unable to make an estimate as to the amount of the contingency, as the legal proceeding is in the early stage of discovery. The Company is expensing the legal costs related to this proceeding as incurred.

13. Subsequent Events

Warrant Exercises

On January 20, 2022, 19,666,667 pre-funded warrants with an intrinsic value of $1,178,033 were exercised in exchange for 19,666,667 shares of common stock for gross proceeds of $1,967.

Board Members and Related Party Contractor

On January 10, 2022, the Company's Board member, Jim Heppell, was appointed the CEO of Sciences and tendered his resignation from VivaCell.

On February 28, 2022, the Company entered into a standard consulting agreement with the CEO's brother. Compensation under the agreement is for a rate of approximately $75 per hour. The consulting agreement may be terminated by either party upon providing 15 days of advance notice.

VivaCell

In March 2022, the Company entered into the first project under the ESRA, under which it has committed to a budget of $190,000.

Common Stock Issuance

On March 2, 2022, the Company released 150,000 shares of common stock to a service provider (Note 6).

The following exhibits are filed with this Annual Report on Form 10-K.

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of Registrant, as amended (incorporated by reference to Exhibit 3.1 to our Report on Form 10-K filed on March 2, 2021)
3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to our Report on Form 10-K filed on March 2, 2021)
4.1	Pre 2015 Common Stock Warrants (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on November 3, 2014)
4.2	2015, 2016 and 2017 Form of Common Stock Warrant (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed August 20, 2015)
4.3	2018 Emerald Financing Warrants (incorporated by reference to Exhibit 4.1 and contained in Exhibit 10.1 in exhibit to our Current Report on Form 8-K filed January 22, 2018)
4.4	Emerald Multi-Draw Credit Agreement Warrants (incorporated by reference to Exhibit 4.10 to our Annual Report on Form 10-K filed on March 14, 2019)
4.5	2019 Common Stock Warrants (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on November 21, 2019)
4.6	2020 Common Stock Warrants (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on August 5, 2020)
4.7	July 2021 Letter Agreement - Inducement (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed November 10, 2021)
4.8	2021 Inducement Warrants (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed November 10, 2021)
4.9	September 2021 Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed November 10, 2021)
4.10	September 2021 Lock-up Agreement (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed November 10, 2021)
4.11	2021 Common Stock Warrants (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q filed November 10, 2021)
4.12	2021 Pre-Funded Warrants (incorporated by reference to Exhibit 4.2 to our Quarterly Report on Form 10-Q filed November 10, 2021)
4.13	2021 Common Stock Warrants to Placement Agent (incorporated by reference to Exhibit 4.3 to our Quarterly Report on Form 10-Q filed November 10, 2021)
10.1†	2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on November 3, 2014)
10.2†	Amendment No. 1 to 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on October 12, 2018)
10.3†	Amendment No. 2 to 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on August 12, 2020)
10.4†	Form of Stock Option Agreement under 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on November 3, 2014)
10.5†*	Form of Restricted Stock Unit Agreement under 2014 Omnibus Incentive Plan
10.6†*	Notice of Option Amendment
10.7†	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 12, 2015)
10.8†	Officer Change in Control Severance Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 27, 2015)
10.9†	Employment Agreement, dated August 10, 2020, by and between Emerald Bioscience, Inc. and Punit Dhillon (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on August 12, 2020)
10.10†	Employment Agreement, dated October 4, 2021, by and between Skye Bioscience, Inc. and Kaitlyn Arsenault (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 6, 2021)

10.11**	License Agreement, dated January 10, 2017, between Nemus and the University of Mississippi, School of Pharmacy(UM 5070) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K/A filed on January 20, 2017)
10.12*|**	Restated and Amended License Agreement, dated as of May 24, 2019, by and between the Company and University of Mississippi, School of Pharmacy (UM 5050)
10.13	Restated and Amended License Agreement, dated as of May 24, 2019, by and between the Company and University of Mississippi, School of Pharmacy (UM 8930) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 29, 2019)
10.14	Multi-Draw Credit Agreement, dated October 5, 2018, by and between Nemus Bioscience, Inc. and Emerald Health Sciences, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 12, 2018)
10.15	Amended and Restated Multi-Draw Credit Agreement, dated April 29, 2020, by and between Emerald Bioscience, Inc. and Emerald Health Sciences, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 29, 2020)
10.16	Amendment No. 2 to the Amended and Restated Multi-Draw Credit Agreement, dated March 29, 2021 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed May 7, 2021)
10.17*	Amendment No. 3 to the Amended and Restated Multi-Draw Credit Agreement, datedSeptember 15, 2021
10.18	Collaborative Research Agreement, dated January 2021, by and between Skye Bioscience, Inc. and Emerald Health Biotechnology España, S.L., (incorporated by reference to Exhibit 10.63 toour Annual Report on Form 10-K filed on March 10, 2021)
10.19**	Collaborative Research Agreement, dated April 2021, by and between Skye Bioscience, Inc. and Emerald Health Biotechnology España, S.L., (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 6, 2021)
10.20**	Exclusive Sponsored Research Agreement, dated October 11, 2021, by and between the Company and Emerald Health Biotechnology España, S.L. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 15, 2021)
10.2	Office Lease, dated as of August 25, 2021, by and between ROIC California, LLC and the Company (incorporated by reference to Exhibit99.1 to our Current Report on Form 8-K filed on September 15, 2021)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Independent Registered Public Accounting Firm
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 and Accounting 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 and Accounting 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
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

_____

* Filed Herewith

** 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.

*** Furnished Herewith

† Management contract or compensatory plan or arrangement.

†† In accordance with Regulation S-T, XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended,

and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not otherwise subject to liability under these sections.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Skye Bioscience, Inc.
a Nevada corporation

March 25, 2022

By: */s/ Punit Dhillon*
Punit Dhillon
Its: Chief Executive Officer, Chairman
(Principal Executive Officer)

March 25, 2022

By: */s/ Kaitlyn Arsenault*
Kaitlyn Arsenault
Its: Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: */s/ Punit Dhillon* March 25, 2022
Punit Dhillon
Its: Chief Executive Officer, Chairman
(Principal Executive Officer)

By: */s/ Kaitlyn Arsenault* March 25, 2022
Kaitlyn Arsenault
Its: Chief Financial Officer
(Principal Financial and Accounting Officer)

By: */s/ Margaret Dalesandro* March 25, 2022
Margaret Dalesandro
Its: Director

By: */s/ Jim Heppell* March 25, 2022
Jim Heppell
Its: Director

By: */s/ Praveen Tyle* March 25, 2022
Praveen Tyle
Its: Director

By: */s/ Keith Ward* March 25, 2022
Keith Ward
Its: Director

Skye Bioscience, Inc.
Skye Bioscience, Inc. 2014 Omnibus Incentive Plan, as amended
Restricted Stock Unit Agreement

Skye Bioscience, Inc., a Nevada corporation, (the "***Company***"), hereby grants Restricted Stock ***Units*** (to the individual named below as the Participant, subject to the vesting requirements and other terms and conditions set forth in this Restricted Stock Unit Agreement, including the attached Terms and Conditions and any appendix attached hereto (together, the "***Agreement***"). This grant is subject to the terms and conditions set forth in this Agreement and the Skye Bioscience, Inc. 2014 Omnibus Incentive Plan, as amended (the "***Plan***"). Capitalized terms not defined in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.

Grant Date: _____, 2022 ("***Grant Date***")

Participant: _____

Number of Restricted Stock Units: _____

Vesting Schedule: The Restricted Stock Units shall vest as follows, subject to the terms of this Agreement:

Vesting Date	**% of Restricted Stock Units Vesting**
December 14, 2022	33.33%
December 14, 2023	33.33%
December 14, 2024	33.34%

The cumulative number of Restricted Stock Units vested as of each Vesting Date shall be rounded down the nearest whole number.

Notwithstanding the foregoing, all unvested Restricted Stock Units shall vest upon the earlier of (i) a Change in Control, or (ii) your Termination of Service due to death or Disability (as defined in the Terms and Conditions); provided, that a transaction will not constitute a Change in Control if, to the extent necessary to avoid the imposition of taxes or penalties under Section 409A of the Code, it is not a "change in the ownership or effective control of" the Company or "a change in the ownership of a substantial portion of the assets of" the Company as determined under Treasury Regulation Section 1.409A-3(i)(5).

By accepting this grant (whether by signing this Agreement or accepting the grant electronically via the website of the Company's selected broker or third-party administrator), you agree to the terms and conditions in this Agreement and in the Plan and agree that the Plan will control in the event any provision of this Agreement should appear to be inconsistent unless otherwise stated herein.

The Participant has reviewed the Plan and this Agreement in their entirety and has had an opportunity to obtain the advice of counsel prior to executing this Agreement. The Participant further agrees to notify the Company upon any change in the residence address.

SKYE BIOSCIENCE, INC.:

Participant: _____ By _____
Date: __ Name:_____
Title: _____
Date: _____

Skye Bioscience, Inc.
Skye Bioscience, Inc. 2014 Omnibus Incentive Plan, as amended
Restricted Stock Unit Agreement
Terms and Conditions

Transfer Restriction

Your Restricted Stock Units may not be sold, transferred, disposed, assigned, pledged or hypothecated, whether by operation of Applicable Laws (as defined below) or otherwise, other than by will or by the laws of descent or distribution or court order, nor may the Restricted Stock Units be made subject to execution, attachment or similar process. For purposes of this Agreement, "***Applicable Laws***" means the requirements applicable to the Plan and this Agreement under (i) U.S. or non-U.S. federal, state and local securities, tax and other applicable laws, rules, regulations ordinance or published administrative guidance or position, (ii) the applicable rules of any stock exchange or quotation system on which the Common Stock is listed or quoted, and (iii) generally accepted accounting principles or international financial reporting standards.

Vesting

Subject to the terms of the Plan and this Agreement, the Restricted Stock Units shall be unvested as of the Grant Date and shall vest in installment on the applicable vesting date set forth in the Vesting Schedule (a "**Vesting Date**"). Upon your Termination of Service due to death or Disability, all unvested Restricted Stock Units shall vest immediately. For purposes of this Agreement, a Termination of Service based upon "***Disability***" means a Termination of Service by the Company based upon your entitlement to long-term disability benefits under the Company's long-term disability plan or policy, as the case may be, as in effect on the date of termination; provided, however, that if you are not a participant in the Company's long-term disability plan or policy on the date of termination, your Termination of Service will still be considered based upon Disability if you would have been entitled to benefits under the Company's long-term disability plan or policy had you been a participant on your date of termination. Notwithstanding anything in this Agreement to the contrary, the settlement of your Restricted Stock Units which vest upon your Termination of Service due to Disability may, if necessary to avoid the imposition of taxes or penalties under Section 409A of the Code, continue to be based on the Vesting Dates following your Termination of Service.

Settlement of Vested Restricted Stock Units	Upon vesting of the Restricted Stock Units, the Shares underlying such Restricted Stock Units will be delivered to you as soon as practicable and no later than 30 days following the applicable Vesting Date. Upon issuance of such Shares, the Company shall record the share issuance on the records of the Company or its transfer agents or registrars. The Company may deliver such Shares on your behalf electronically to the Company's designated stock plan administrator or such other broker-dealer as the Company may choose at its sole discretion, or may retain such Shares in uncertificated book-entry form.

Tax Withholding

(a) Ultimate Liability for Tax-Related Items. Regardless of any action the Company or an Affiliate to whom you provide services (your "***Employer***") takes, the ultimate liability for all income tax, payroll tax, social insurance, payment on account, fringe benefits tax, employment tax, stamp tax, any applicable foreign taxes or other tax-related items related to the Restricted Stock Units and/or your participation in the Plan and legally applicable to you ("***Tax-Related Items***")is and remains your responsibility and may exceed the amount, if any, actually withheld by the Company or the Employer.

(b) Tax Withholding. By accepting this award of Restricted Stock Units, you authorize the Company and the Employer, or their respective agents, at their discretion, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from your wages or other cash compensation paid to you by the Company and/or the Employer; (ii) withholding Shares otherwise issuable upon vesting of your Restricted Stock Units; or (iii) authorizing a sell-to-cover transaction, which involves the automatic sale by the broker (as selected by the Board), through one or more block trades, of the number of your Shares with the value necessary to satisfy the tax withholding obligations, the assignment to the Company of the proceeds of the sale for subsequent payment to the relevant tax authorities, and the release or delivery to you of the remaining Shares. Notwithstanding the foregoing, if you are an officer of the Company whom the Board has determined is subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, unless otherwise determined by the Board, the Shares will be delivered net of any Tax-Related Items as the Company determines necessary to satisfy the applicable withholding obligations.

If the obligation for Tax-Related Items is satisfied by withholding in Shares (i.e., the withholding method described in (ii) or (iii)), you may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent in Common Stock.

If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan.

You agree to pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan that cannot be satisfied by the means described in this Section. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares, if you fail to comply with your obligations in connection with the Tax-Related Items.

(c) Disclaimer. You further acknowledge that the Company and your Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant or vesting of the Restricted Stock Units, and the receipt of any dividends and/or any dividend equivalents; and (ii) do not commit to and are under no obligation to structure the terms of the award or any aspect of the Restricted Stock Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result.

(d) Employees Taxed in Multiple Tax Jurisdictions. If you have become subject to Tax-Related Items in more than one jurisdiction, you acknowledge that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.[1]

Code Section 409A

It is intended that the terms of this Agreement will not result in the imposition of any tax liability pursuant to Section 409A of the Code, and this Agreement shall be construed and interpreted consistent with that intent. Payments pursuant to this Agreement are intended to constitute separate payments for purposes of Section 409A of the Code.

[1] Note to Draft: This net settlement method is hardwired in the draft that we received. The current draft limits a hardwired net settlement (with Company-reserved discretion) to Section16 officers to give the company flexibility to settle the RSUs in any of the three method described above. We are happy to discuss approach.

Termination of Service

Upon your Termination of Service for any reason other than death or Disability, except as specifically provided above in the Vesting Section or as may be provided in other agreements between you and the Company, no additional Restricted Stock Units will vest after such Termination of Service and you will forfeit all Restricted Stock Units that have not yet vested as of your last day of service without payment of any consideration.

Leaves of Absence

For purposes of these Restricted Stock Units, you are not treated as having a Termination of Service solely because you go on a bona fide leave of absence approved by the Company, if the terms of your leave provide for continued service crediting, or if continued service crediting is required by Applicable Laws. The Company will determine, in its sole discretion, whether and when a leave of absence constitutes a Termination of Service under the Plan.

Retention Rights

Neither your Restricted Stock Units nor this Agreement give you the right to be retained by the Company, the Employer or any Affiliate in any capacity and your service may be terminated at any time and for any reason.

Shareholder Rights

You have no rights as a shareholder unless and until the Shares relating to the Restricted Stock Units have been issued to you (or an appropriate book entry has been made). If the Company pays a dividend on its Common Stock, you will not be entitled to receive such dividend or dividend equivalent right with regard to the unissued Shares underlying the Restricted Stock Units.

Nature of Grant

In accepting the grant of the Restricted Stock Units, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;

(b) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(c) all decisions with respect to future Restricted Stock Unit grants, if any, will be at the sole discretion of the Company;

(d) your participation in the Plan is voluntary;

(e) the Restricted Stock Units and the Shares underlying the Restricted Stock Units, and the income from and value of such Restricted Stock Units, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits or similar payments;

(f) the Restricted Stock Unit grant and your participation in the Plan will not be interpreted to form or amend a service contract or relationship with the Company or any Affiliate;

(g) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(h) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from your Termination of Service (for any reason whatsoever and whether or not in breach of contract or local employment laws in the country where you reside, even if otherwise applicable to your employment benefits from the Employer, and/or later found to be invalid), and in consideration of the grant of the Restricted Stock Units, you irrevocably agree never to institute any claim against the Company, the Employer or any Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer and any Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by accepting this award of Restricted Stock Units, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims;

(i) in the event of a Termination of Service (whether or not in breach of contract or local employment laws in the country where you reside, even if otherwise applicable to your employment benefits from the Employer, and/or later found to be invalid), your right to vest in the Restricted Stock Units under the Plan, if any, will terminate effective as of the date that you are no longer actively providing services to the Company or any Affiliate as a service provider and will not be extended by any notice period mandated under local law (e.g., active service as a service provider would not include a period of "garden leave"

law (e.g., active service as a service provider would not include a period of "garden leave" or similar period); the Board shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of your Restricted Stock Units grant;

(j) the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement, not otherwise specifically provided for in the Plan or by the Company in its discretion, to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Common Stock (including a Change in Control);

(k) The Restricted Stock Units and the Shares underlying the Restricted Stock Units, and the income from and value of such Restricted Stock Units, are not part of normal or expected compensation or salary for any purpose and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Affiliate; and

(l) You acknowledge and agree that neither the Company, the Employer nor any Affiliate shall be liable for any foreign exchange rate fluctuation between the Employer's local currency and the U.S. dollar that may affect the value of any proceeds from the sale of Shares acquired under the Plan.[2]

[2] Note to Draft: The release provisions have not been reviewed by our employment law colleagues. Please let us know if you would like to do so.

Data Privacy

You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and its Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.

You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address, email address and telephone number, date of birth, social security or social insurance number, passport number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

You understand that Data will be transferred to such stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration, and management of the Plan.

You understand that the recipients of the Data may be located in countries having different data privacy laws and protections than your country.

You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative.

You authorize the Company and any possible recipients which may assist the Company (presently or in the future) with implementing, administering, and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering, and managing your participation in the Plan. You understand that Data will be held only as long as necessary to implement, administer and manage your participation in the Plan.

You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative or the Company's stock administration department. Further, you understand that you are providing the consents herein on a purely voluntary basis.

If you do not consent, or if you later revoke your consent, your employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing your consent is that the Company would not be able to grant Restricted Stock Units or other equity awards to you or administer or maintain such awards.

Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan.

For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative or the Company's stock administration department.

Finally, upon request of the Company or the Employer, you agree to provide an executed data privacy consent form (or any other agreements or consents that may be required by the Company and/or the Employer) that the Company and/or the Employer may deem necessary to obtain from you for the purpose of administering participation in the Plan in compliance with the data privacy laws in your country, either now or in the future. You understand and agree that you will not be able to participate in the Plan if you fail to provide any such consent or agreement requested by the Company and/or the Employer.

No Advice Regarding Grant	The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the Stock underlying your Restricted Stock Units. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.
Applicable Laws and Venue	The Restricted Stock Units and the provisions of this Agreement are governed by, and subject to, the laws of the State of California, without regard to the conflict of law provisions. All claims, disputes and other matters in question arising out of, or relating to, this Agreement or the performance hereof, shall be submitted to, and determined by, arbitration if good faith negotiations among the parties hereto, if any, do not resolve such claim, dispute or other matter. Such arbitration shall proceed in accordance with the then-current rules for arbitration established by Judicial Arbitration Mediation Services, Inc./ENDISPUTE ("JAMS"), unless the parties hereto mutually agree otherwise, and pursuant to the following procedures: (a) the Company on the one hand and you on the other hand shall appoint an arbitrator from the JAMS panel of retired judges, and those party-appointed arbitrators shall appoint a third arbitrator from the JAMS panel of retired judges within ten (10) days; if the party-appointed arbitrators fail to appoint a third arbitrator within the ten (10) days, such third arbitrator shall be appointed by JAMS in accordance with its rules; (b) reasonable discovery shall be allowed in arbitration; (c) all proceedings before the arbitrators shall be held in Orange County, California; (d) the award rendered by the arbitrators shall be final and binding, and judgment may be entered in accordance with applicable law and in any court having jurisdiction thereof; (e) the award rendered by the arbitrators shall include (i) a provision that the prevailing party in such arbitration recover its costs relating to the arbitration and reasonable attorneys' fees from the other party, (ii) the amount of such costs and fees, and (iii) an order that the losing party pay the fees and expenses of the arbitrators. The arbitrator shall by the agreement of the parties expressly be prohibited from awarding punitive damages in connection with any claim being resolved by arbitration hereunder.[3]

[3] Note to Draft: The arbitration clauses have not been reviewed by our employment law colleagues. Please let us know if you would like us to do so.

Electronic Delivery and Acceptance	The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means or request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company, the Company's designated broker, the Company's designated stock plan administrator, or their respective third parties. If you fail to submit a written rejection of this award to the Company's Stock Administration Department prior to the date on which this award initially vests, this award shall be deemed accepted by you and the terms of this award and the Plan shall apply to the same extent as if you had accepted your award electronically via the website of the Company's selected broker or stock plan administrator.
Entire Agreement	This Agreement, together with the Plan, sets forth the entire agreement and understanding of the parties relating to the subject matter herein and supersedes all prior discussions, agreements, commitments, or negotiations between the parties.
Severability	The provisions of this Agreement are severable, and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
Waiver	You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach of this Agreement.
Imposition of Other Requirements	The Company reserves the right to impose other requirements on your participation in the Plan, on the award, on the Restricted Stock Units, and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

This Agreement is not a stock certificate or a negotiable instrument.

Notice of Amendment to Stock Option Award

Dear [___]

Skye Bioscience, Inc. (the "Company") has previously granted to you certain stock options to purchase the Company's Common Stock, as set forth in the Appendix (the "Options") under the Company's 2014 Omnibus Incentive Plan, as amended (the "Plan") and the applicable Notice of Grant of Stock Option Award and the Terms and Conditions of Stock Option Award, pursuant to which the Options were granted (each, an "Agreement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Plan and the Agreement.

Pursuant to Section 11.3 of the Plan, the Company hereby amends the Vesting Schedule in each Agreement by inserting the following provisions at the end of the Vesting Schedule:

> "Notwithstanding anything to the contrary, any unvested Options shall become fully vested and exercisable upon a Termination of Service due to the Optionee's death or Disability. For purposes of this Agreement, a Termination of Service based upon "Disability" means a Termination of Service by the Company based upon the Optionee's entitlement to long-term disability benefits under the Company's long-term disability plan or policy, as the case may be, as in effect on the date of termination; provided, however, that if the Optionee is not a participant in the Company's long-term disability plan or policy on the date of termination, a Termination of Service shall still be considered terminated based upon the Optionee's Disability if he or she would have been entitled to benefits under the Company's long-term disability plan or policy had the Optionee been a participant on the date of termination."

Except as expressly amended or modified by this letter, the terms and conditions of the Agreements shall remain in full force and effect.

Appendix

Name	Number of Options	Grant Date
James Heppell	1,000,000	8/7/2020
James Heppell	150,000	9/14/2021
Kaitlyn Arsenault	400,000	9/15/2021
Kaitlyn Arsenault	1,600,000	10/4/2021
Kaitlyn Arsenault	1,770,000	12/14/2021
Keith Ward	250,000	12/14/2021
Margaret Dalesandro	150,000	9/14/2021
Margaret Dalesandro	250,000	8/7/2020
Praveen Tyle	25,000	9/14/2021
Praveen Tyle	250,000	7/22/2021
Punit Dhillon	200,000	10/10/2018
Punit Dhillon	9,000,000	8/7/2020
Punit Dhillon	3,090,000	12/14/2021
Tu Diep	2,000,000	10/5/2020
Tu Diep	1,770,000	12/14/2021

THE SYMBOL "[****]" DENOTES PLACES WHERE CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH (i) NOT MATERIAL, AND (ii) WOULD LIKELY CAUSE COMPETITIVE HARM TO THE COMPANY IF PUBLICLY DISCLOSED

RESTATED AND AMENDED LICENSE AGREEMENT

THIS RESTATED AND AMENDED LICENSE AGREEMENT ("Agreement") is made as of this May 24, 2019 ("Effective Date") by and between the UNIVERSITY OF MISSISSIPPI, SCHOOL OF PHARMACY, an educational institution with a principal address at University, Mississippi 38677 ("UM"), and EMERALD BIOSCIENCE, INC. f/k/a Nemus Bioscience, Inc., a corporation organized and existing under the laws of Nevada with a principal address at 130 North Marina Drive, Long Beach, CA 90803 ("Licensee").

RECITALS

WHEREAS, UM is the owner of certain patent applications and other technology related to amino acid ester prodrugs of delta-9-tetrahydrocannabinol; hereinafter referred to as UM5050;

WHEREAS, UM and Nemus, a wholly owned subsidiary of Licensee, have executed a binding license agreement ("Original Agreement") with an effective date of September 29, 2014, with respect to UM5050 wherein the permitted Field of Use is for all indications for Products administered via ocular delivery;

WHEREAS, Licensee is in the process of dissolving Nemus,

WHEREAS, Nemus has assigned all of its rights and obligations under the Original Agreement to Licensee pursuant to an Assignment and Assumption Agreement dated as of May 15, 2019 (the "Assignment"), and Licensee is assuming all of Nemus' rights and obligations under the Original Agreement pursuant to the Assignment;

WHEREAS, Licensee is entering into this Agreement as successor in interest to Nemus under the Original Agreement;

WHEREAS, the Parties desire to expand the Patent Rights licensed to LICENSEE in the Original Agreement to include all Fields of use by way of replacing the Original Agreement with this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Unless otherwise provided in this Agreement, the following terms when used with initial capital letters shall have the meanings set forth below:

"Affiliate" means, when used with reference to Licensee, any person directly or indirectly controlling, controlled by or under common control with Licensee.

"Bankruptcy Event" means the person in question becomes insolvent, or voluntary or involuntary proceedings by or against such person are instituted in bankruptcy or under any insolvency law, or a receiver or custodian is appointed for such person, or proceedings are instituted by or against such person for corporate dissolution of such person, which proceedings, if involuntary, shall not have been dismissed within sixty (60) days after the date of filing, or such person makes an assignment for the benefit of

creditors, or substantially all of the assets of such person are seized or attached in an insolvency-related proceeding and not released within sixty (60) days thereafter.

"Calendar Quarter" means each three-month period, or any portion thereof, beginning on January 1, April 1, July 1 and October 1.

"Calendar Year" means each twelve-month period commencing upon January 1.

"Confidential Information" means (i) the Technical Information, (ii) any other information or material in tangible form that is marked as confidential or proprietary by the furnishing party at the time it is delivered to the receiving party, and (iii) information that is furnished orally if the furnishing party identifies such information as confidential or proprietary when it is disclosed and promptly confirms such designation in writing after such disclosure.

"Effective Date" shall have the meaning set forth on page 1 of this Agreement

"Federal Government Interest" means the rights of the United States Government and agencies thereof under Public Laws 96_517, 97_256 and 98_620, codified at 35 U.S.C.§§ 200-212, and any regulations issued thereunder, as such statute or regulations may be amended from time to time hereafter.

"Field" means all fields of use.

"Improvements" means any improvement, modification or other refinement, regardless of the patentability thereof to (a) the subject matter of the Licensed Technology that is within the scope of the Patents, or (b) the development, manufacture, use or sale of which, except for the licenses granted herein, would infringe any of the Patents including for patent applications those claims therein treated as if they were issued).

"Licensed Technology" means UM Know-How, the Patents and Improvements.

"Net Sales" means Licensee's invoice price or fee, less the following for all Products sold for commercial use or commercially used by Licensee or its Affiliates:

(a) any and all normal and customary trade, prompt payment, cash and quantity discounts, customary allowances actually granted to purchasers of a Product for returns and recalled Product (including in connection with Product withdrawals, expired Product and Product recalls), chargeback and reporting fees paid to wholesalers and other distributors, allowances to end users participating in incentive programs, rebates and other credit adjustments based upon shipping discrepancies and order errors;

(b) administrative fees to managed health care organizations;

(c) freight expenses for shipping Product in finished package form (including insurance) to such purchasers, including without limitation the costs of export licenses, shipping, postage and handling charges, if not paid by the purchaser;

(d) commissions or fees paid to independent sales representatives, brokers, dealers, or distributors;

(e) any taxes and tariffs or duties paid, absorbed or allowed that are paid on sales of Product in finished package form, (excluding income taxes);

(f) allocated costs for sales samples of Products, for all Products sold or commercially used by Licensee or its Affiliates; and

(g) Amounts invoiced for Products that are not paid within the required time.

Sales to a Third Party distributor of such Product in any given country shall be considered a sale to a Third Party purchaser for commercial use. Sale or transfer to an Affiliate or sublicensee for re-sale by such Affiliate or sublicensee shall not be considered a sale for the purpose of this provision, but the resale by such Affiliate or sublicensee to a Third Party for commercial use shall be a sale for such purposes.

Notwithstanding the foregoing, in the event a Product is sold in a country in the Territory as a Combination Product, Net Sales of the Combination Product will be calculated as follows:

(i) If the Product (without such Other Component) and the Other Component(s) contained in the Combination Product each are sold separately in such country, Net Sales will be calculated by multiplying the total Net Sales (as described above) of the Combination Product by the fraction A/(A+B), where A is the average gross selling price in such country of the Product (without such Other Component) sold separately in the same formulation and dosage, and B is the sum of the average gross selling prices in such country of such Other Component(s) sold separately in the same formulation and dosage, during the applicable Calendar Year.

(ii) If the Product (without such Other Component) is sold independently of the Other Component(s) contained in the Combination Product in such country, but the average gross selling price of such Other Component(s) in such country cannot be determined, Net Sales will be calculated by multiplying the total Net Sales (as described above) of the Combination Product by the fraction A/C where A is the average gross selling price in such country of such Product (without such Other Component) sold independently and C is the average gross selling price in such country of the entire Combination Product, during the applicable Calendar Year.

(iii) If the Other Component(s) contained in the Combination Product are sold independently of the Product (without such Other Component) in such country, but the average gross selling price of such Product (without such Other Component) in such country cannot be determined, Net Sales will be calculated by multiplying the total Net Sales (as described above) of the Combination Product by the fraction (1-(B/C)), where B is the average gross selling price in such country of such Other Component(s) and C is the average gross selling price in such country of the entire Combination Product, during the applicable Calendar Year.

(iv) If the Product (without such Other Component) contained in the Combination Product and Other Component(s) contained in the Combination Product are not sold separately in such country, or if they are sold separately but the average gross selling price of neither such Product (without such Other Component) nor such Other Component(s) can be determined in such country, Net Sales of the Combination Product in such country will be calculated by mutual agreement of the Parties.

"Other Component" means any therapeutically active pharmaceutical ingredient that is not covered or claimed by, or is not included in, the Licensed Technology, or any proprietary delivery device or other proprietary delivery means.

"Patent(s)" means any patents or patent applications which claim the invention(s) summarized in Appendix

A, including without limitation any United States Letters Patent, and all continuations, continuations-in part, additions, divisions, renewals, extensions, reexaminations and reissues of any of the foregoing, all foreign counterparts of any of the foregoing, and any other patent applications or patents which relate to the Licensed Technology owned or controlled by UM during the term of this Agreement.

"Patent Expenses" means (a) all reasonable fees, expenses, and charges of outside patent counsel related to Patent Rights listed in Exhibit A currently or added by amendment at a future date, incurred by UM in connection with the preparation, filing, prosecution, issuance, re-issuance, re-examination or other post grant proceedings interference, and/or maintenance of applications for patent rights, currently contained or that may be added to Exhibit A; and (b) an administrative fee in the amount of twenty percent (20%) of the amount of future Patent Expenses incurred in the course of activities conducted pursuant to (a), subject to Article 7.

"Person" means an individual, partnership, corporation, joint venture, unincorporated association, or other entity, or a government or department of agency thereof.

"Product(s)" means any article or portion thereof which is made, produced, or used in whole or in material part, by or with the use of the Licensed Technology.

"Route of Administration" means the path by which a drug enters the body as classified in the published United States Food and Drug Administration Data Standards Manual and includes but is not limited to oral administration, buccal administration and rectal administration

"Technical Information" means and includes all technical information, trade secrets, developments, discoveries, know-how, methods, techniques, formulae, processes and other information relating to the Licensed Technology that UM owns or controls on the date hereof or owns or controls in the future, and provides to Licensee pursuant to this Agreement, including by way of illustration and not limitation, designs, data, drawings, documents, models, and other similar information.

"UM Know-How" means all information, technical data, inventions and discoveries of UM disclosed or provided to Licensee by UM relating to the exploitation of any invention described in the Patents.

"Valid Claim" means a claim of an unexpired issued Patent that has not been withdrawn, canceled or disclaimed or held invalid by a court or governmental authority of competent jurisdiction in an unappealed or unappealable decision.

ARTICLE2 GRANT OF LICENSE

2.1 Grant of License. Subject to the terms and conditions contained in this Agreement, UM hereby grants to Licensee an exclusive, perpetual, non-transferrable (except otherwise allowed in this Agreement), worldwide, royalty-bearing right and license to use and practice the Licensed Technology to develop, make, have made, use, sell, offer for sale and import Products in the Field. Notwithstanding the foregoing, UM expressly reserves a non-transferable royalty-free right to use the Licensed Technology in the Field itself, including use by its faculty, staff and researchers, for educational and non-commercial research purposes only.

2.2 Right to Sub-license. Licensee shall not have the right to sub-license to any third party (including any "Affiliate"), in whole or in part, its rights under this Agreement without the prior written permission of UM, such permission will not be unreasonably withheld. As a condition of granting sub-licenses, Licensee will provide UM with full and complete drafts as well as copies of all executed contracts and agreements between it and any sub-licensee (including any amendments,

restatements, modifications or supplements thereto) within twenty (20) business days prior to execution of same and deliver final and fully executed copies and agreements within twenty (20) business days after execution. UM shall provide its approval or disapproval of each applicable draft contract within twenty (20) business days of receipt of the applicable draft contract, and shall not disapprove any such contract unless it is materially inconsistent with the terms set forth in this Agreement. If UM fails to respond to a request for approval within sixty (60) days of the original request from Licensee, and Licensee has made five (5) or more requests to an authorized representative of UM to provide such a response, the applicable contract shall be deemed approved by UM. UM will maintain such copies and their terms in confidence as required in this Agreement. A grant of a sub-license will be invalid if any contract or agreement between Licensee and such sub-licensee prohibits, restricts or conditions Licensee's provision of such copies to UM.

2.3 No Rights by Implication. No rights or licenses with respect to the Licensed Technology are granted or deemed granted hereunder or in connection herewith, other than those rights or licenses expressly granted in this Agreement.

ARTICLE 3 LICENSING FEES

3.1 Upfront, Annual License Maintenance Fee and Milestone Payments. In consideration of the license granted hereunder, Licensee shall pay UM the following non-refundable payments:

(a). One-Time Upfront Payment - One hundred thousand dollars ($100,000) within fifteen (15) days of the Effective Date of this Agreement.

(b) Annual License Maintenance Fee. Seventy five thousand dollars ($75,000) due on the anniversary of the Effective Date. The Annual License Maintenance Fee will be credited against royalties in the current fiscal year.

(c) Milestone Payments.

i. One hundred thousand dollars ($100,000) paid within thirty (30) days following the submission of the first Investigational New Drug Application ("IND") to the Food and Drug Administration ("FDA") or an equivalent application to a regulatory agency anywhere in the world, for a Product.

ii Two hundred thousand dollars ($200,000), paid within thirty (30) days following the first submission of a New Drug Application ("NDA"), or an equivalent application to a regulatory agency anywhere in the world, for each Product including but not limited to a 505b2 application. The Parties agree that such payment obligation for each Product is fully satisfied upon the first such submission, or subsequent supplemental NDA(s) (sNDA) submissions, anywhere in the world. In addition, for sake of clarity, a subsequent payment obligation under this subsection ii. will only be triggered if a subsequent Product is administered by a different Route of Administration from that of the early submitted Product(s).

iii. Four hundred thousand dollars ($400,000) paid within thirty (30) days following the approval of a New Drug Application ("NDA"), or an equivalent application to a regulatory agency anywhere in the world, for each Product, including but not limited to a 505b2 application to the FDA,. The Parties agree that such payment obligation for each Product

is fully satisfied upon the first such approval, or subsequent supplemental NDA(s) (sNDA) approvals, anywhere in the world. In addition, for sake of clarity, a subsequent payment obligation under this subsection iii. will only be triggered if a subsequent Product is administered by a different Route of Administration from that of the early approved Product(s).

3.2 Royalties and Sublicense Licensing Fee Payments.

(a). In further consideration of the rights and licenses granted hereunder, Licensee shall pay UM a royalty of **[****]** of Net Sales of all Products sold by Licensee or its Affiliate for commercial use.

(b). No royalty shall be due on Products used for clinical trial or other research or developmental uses.

(c). In the event Licensed Technology is sub-licensed by Licensee to a permitted third party, Licensee will be obligated to pay UM **[****]** of any and all licensing fees received by Licensee, including but not limited to upfront fees (whether paid in cash, equity of the sub-licensee or other consideration), royalties, and milestone payments, received in consideration of the grant of sub-licenses of the Licensed Technology, however such sub-licenses may be characterized. The percentage payable with respect to sublicensing fees received by Licensee will decrease from **[****]** to the amounts indicated below if Licensee sublicenses the Licensed Technology after completion of the following development milestones:

(i). **[****]** if such sub-license is granted after completion of Phase II clinical trials but prior to the commencement of Phase III clinical trials;

(ii) **[****]**, if such sub-license is granted upon or after the commencement of Phase III clinical trials but prior to receipt of the first regulatory approval of Products;

(iii) **[****]** if the sub-license is granted upon or after the first regulatory approval of Products based on a 505(b)2 New Drug Application ((not a 505(b)l New Drug Application)) filed with the FDA or equivalent thereof; or

(iv) **[****]** if the sub-license is granted upon or after the first regulatory approval of a Product based on a 505(b)l New Drug Application ((not a 505(b)(2) application)) filed with the FDA, or equivalent thereof.

(d). Notwithstanding the foregoing, in the event the foregoing percentages of the amounts received by the Licensee from a permitted sub-licensee in the form of a royalty on net sales of Products sold by or on behalf of the permitted Sub-licensee does not equal a minimum of **[****]** of Net Sales (calculated *mutatis mutandis* as if such Net Sales were made by Licensee), Licensee will be obligated to pay UM a royalty of **[****]** of Net Sales by or on behalf of such permitted Sub-licensee (calculated *mutatis mutandis* as if such Net Sales were made by Licensee), subject to reduction as set forth below.

(e). If, in connection with the manufacture, use, or commercialization of a Product, Licensee or its Affiliate is obligated to make royalty payments to any third parties, then Licensee may offset against the royalty owed to UM for that Product **[****]** of the royalty payable to such third parties, provided that in no event would any such offsets result in reducing royalties due to UM by more than **[****]** of those otherwise payable to UM.

(f). If no Valid Claim covers a Product in a country at the time such Product is sold in such country, then the royalties payable under this Section 3.2 on Net Sales of Products by Licensee or its Affiliates shall be reduced by **[****]**. This reduction in royalties does not apply if a patent application that is part of the Patents licensed under this Agreement is pending in the country and the intention of UM is to obtain a Valid Claim that covers the Product in the country. In no event would the royalty due to UM with respect to Net Sales of Products sold in a given country be reduced by operation of the foregoing offsets and reductions to less than **[****]** of Net Sales of Products in such country.

(g). Royalties and payments due with respect to Product shall be paid pursuant to this Section 3.2 until the later of, on a country by country and Product by Product basis, (i) the date upon which no Valid Claim of a Patent included in the Licensed Technology covers the Product in such country, or (ii) ten (10) years after first commercial sale of such Product in such country.

3.3 Payments. Royalties and other amounts payable under this Agreement shall be paid within forty five (45) days following the last day of the Calendar Quarter in which royalties and other amounts accrue. The last such payment shall be made within forty five (45) days after termination of this Agreement. Payments shall be deemed paid as of the day on which they are received by UM.

3.4 Reimbursement of Patent Expenses. Licensee will reimburse UM's future Patent Expenses incurred after the Effective Date of this Agreement within forty-five (45) days of receipt of an invoice from UM detailing the Patent Expenses incurred by UM.

3.5 Reports. Licensee shall deliver to UM within forty five (45) days after the end of each Calendar Quarter following commercial sale of a Product a report setting forth in reasonable detail the calculation of the royalties and other amounts payable to UM for such Calendar Quarter pursuant to this Article 3, including, without limitation, the Products sold in each country during such Calendar Quarter, the Net Sales thereof, and, within sixty (60) days after the end of each Calendar Quarter, similar reports containing corresponding information relating to royalties payable due to sales by permitted sub-licensees pursuant to Article 3.2. An example of an acceptable royalty report is provided in Appendix D.

3.6 Currency, Place of Payment, Interest.

(a) All dollar amounts referred to in this Agreement are expressed in United States dollars. All payments to UM under this Agreement shall be made in United States dollars (or other legal currency of the United States), as directed by UM, by check payable to the University of Mississippi" or by wire transfer to an account as UM may designate from time to time.

(b) If Licensee receives revenues from sales of Products in a currency other than United States dollars, royalties shall be converted into United States dollars at the applicable conversion rate for the foreign currency as published in the "Exchange Rates" table in the eastern edition of *The Wall Street Journal* as of the last date of the Calendar Quarter.

(c) Amounts that are not paid when due shall accrue interest-from the due date until paid, at an annual rate equal to the "Prime Rate" plus 2% as published in the "Money Rates" table in the eastern edition of *The Wall Street Journal* as of the due date.

3.7 Records. Licensee will maintain complete and accurate books and records that enable the royalties payable hereunder to be verified. Licensee agrees that it shall keep and require all Affiliates and

permitted Sublicensees to keep accurate records in sufficient detail to enable the amounts due to UM hereunder to be completely and accurately determined in all material respects. Licensee shall, and shall require its Affiliates and permitted Sublicensees to, maintain such records for five (5) years after the UM's receipt of each respective royalty report. Upon UM's request, and within twenty (20) business days, Licensee shall permit a certified public accountant ("CPA"), selected by UM and at UM's expense to have access during Licensee's ordinary business hours, no more than once every six (6) months, to Licensee's, Affiliates and Sublicensee's records as may be deemed necessary by the CPA to examine and copy them and determine the completeness and correctness of all reports and/or payments made under the terms and conditions of this Agreement. Such records shall be made available in electronic form to the CPA and in written form to the extent reasonably required by the CPA. If an underpayment exists for the examination period, Licensee agrees to pay the full amount of the underpayment uncovered together with interest. Interest will be due on any late or underpaid amount calculated at the annual rate of 10% through the date ultimately paid, compounded on a monthly basis. If an underpayment exceeds 5% of the amount reported and paid for any given royalty reporting period under examination, Licensee shall bear all fees and expenses of CPA incurred by UM for the examination.

ARTICLE4
CERTAIN OBLIGATIONS OF LICENSEE

4.1 Licensee Efforts; Reporting,

(a) Licensee shall use its commercially reasonable efforts to develop for commercial use and to market Products as soon as practicable, and to continue to market Products as long as commercially viable, all as is consistent with sound and reasonable business practice.

(b) Licensee shall provide UM once per Calendar Year on December 1 with written reports, setting forth in such detail as UM may reasonably request, the progress of the development, evaluation, testing and commercialization of Products. Licensee shall notify UM within thirty (30) days of the end of the first Calendar Quarter in which the first commercial sale of a Product occurs.

4.2 Compliance with Laws. Licensee shall use commercially reasonable efforts to comply in all material respects with all prevailing laws, rules and regulations pertaining to the development, testing, manufacture, marketing and import or export of Products. Without limiting the foregoing, Licensee acknowledges that the transfer of certain commodities and technical data is subject to United States laws and regulations controlling the export of such commodities and technical data, including all Export Administration Regulations of the United States Department of Commerce. These laws and regulations, among other things, prohibit or require a license for the export of certain types of technical data to specified countries. Licensee will comply in all material respects with all United States laws and regulations controlling the export of commodities and technical data.

4.3 Government Approvals. Licensee will be responsible for obtaining, at its cost and expense, all governmental approvals required to commercially market Products.

4.4 Patent Notices. Licensee shall mark or cause to be marked all Products made or sold in the United States with all applicable patent numbers where necessary to preserve the ability to claim damages for infringement, upon advice of counsel. If it is not practical for a Product to be so marked, then

Licensee shall mark or cause to be marked the package for each Product with all applicable patent numbers.

4.1 Bankruptcy or Equivalent. Licensee will provide written notice to UM prior to the filing of a petition in bankruptcy or equivalent if Licensee intends to file a voluntary petition, or, if known by Licensee through statements or letters from a creditor or otherwise, if a third party intends to file an involuntary petition in bankruptcy against Licensee. Notice will be given at least 75 days before the planned filing or, if such notice is not feasible, as soon as Licensee is aware of the planned filing. Licensee's failure to perform this obligation is deemed to be a material pre-petition incurable breach under this Agreement not subject to the 60-day notice requirement of Section 9.2, and UM is deemed to have terminated this Agreement forty-five (45) days prior to the filing of the bankruptcy.

ARTICLES REPRESENTATIONS

5.1 Representations of UM. UM represents to Licensee as follows:

(a) this Agreement, when executed and delivered by UM, will be the legal, valid and binding obligation of UM, enforceable against UM in accordance with its terms;

(b) UM subject to certain rights under 37 CPR 401.14 retained by the federal government in inventions resulting from federally supported work is the owner of all right, title and interest in and to the Licensed Technology, and has not granted rights in or to the Licensed Technology to any person other than Licensee;

(c) UM has not received any written notice that the Licensed Technology infringes the proprietary rights of any third party;

(d) the inventions claimed in the Patents to the knowledge of UM have not been publicly used, offered for sale, or disclosed in a printed publication by employees of UM more than one year prior to the filing of the U.S. application for the Patents.

5.2 Representations and Warranties of Licensee. Licensee represents and warrants to UM as follows:

(a) Licensee is a corporation duly organized, validly existing and in good standing under the laws of Nevada and has all requisite corporate power and authority to execute, deliver and perform this Agreement;

(b) This Agreement, when executed and delivered by Licensee, will be the legal, valid and binding obligation of Licensee, enforceable against Licensee in accordance with its terms;

(c) the execution, delivery and performance of this Agreement by Licensee does not conflict with, or constitute a breach or default under,

(i) the charter documents of Licensee,

(ii) any law, order, judgment or governmental rule or regulation applicable to Licensee, or

(iii) any provision of any agreement, contract, commitment or instrument to which Licensee is a party; and the execution, delivery and performance of this Agreement by Licensee does not require the consent, approval or authorization of, or notice, declaration, filing or registration with, any governmental or regulatory authority.

ARTICLE6
LIABILITY AND INDEMNIFICATION

6.1 No warranties; Limitation on Liability. EXCEPT AS EXPLICITLY SET FORTH IN THIS AGREEMENT, UM MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO: (I) COMMERCIAL UTILITY; OR (II) MERCHANTABILITY OR FITNESS FOR AP ARTICULAR PURPOSE; OR (III) THAT THE USE OF THE LICENSED TECHNOLOGY WILL NOT INFRINGE ANY PATENT, COPYRIGHT OR TRADEMARK OR OTHER PROPRIETARY OR PROPERTY RIGHTS OF OTHERS. UM SHALL NOT BE LIABLE TO LICENSEE, LICENSEE'S SUCCESSORS OR ASSIGNS OR ANY THIRD PARTY WITH RESPECT TO ANY CLAIM ON ACCOUNT OF, OR ARISING FROM, THE USE OF INFORMATION IN CONNECTION WITH THE LICENSED TECHNOLOGY SUPPLIED HEREUNDER OR THE MANUFACTURE, USE OR SALE OF PRODUCTS OR ANY OTHER MATERIAL OR ITEM DERIVED THEREFROM.

6.2 Liability. UM is an agency of the State of Mississippi under the management and control of the Board of Trustees of the State Institutions of Higher Learning (IHL). As authorized by law, IHL maintains a program of self-insurance for purposes of workers' compensation and general liability, pursuant to the Mississippi Tort Claims Act as set forth in Chapter 46, Title 11, Mississippi Code 1972, as amended. Accordingly, any liability of UM for any damages, losses, or costs arising out of or related to acts performed by UM or it employees under this Agreement is governed by the Tort Claims Act.

6.3 Licensee Indemnification. Licensee will indemnify, defend and hold harmless UM, its trustees, officers, agents and employees (collectively, the "Indemnified Parties"), from and against any and all liability, loss, damage, action, claim or expense suffered or incurred by the Indemnified Parties which results from or arises out of third party claims in connection with (individually, a "Liability" and collectively, the "Liabilities"):

(a) breach by Licensee ofany duty, covenant or agreement contained in this Agreement or a lawsuit, action, or claim brought by any third party that includes any allegation which, if proven true, would constitute a breach by Licensee of any duty, covenant or agreement contained in this Agreement;

(b) the development, use, manufacture, promotion, sale, distribution or other disposition of any Products by Licensee, its Affiliates, assignees, vendors or other third parties, for personal injury, including death, or property damage arising from any of the foregoing. The indemnification obligation under Article 6.3 shall not apply to any contributory negligence or product liability of the Indemnified Party which may have occurred prior to the execution of this Agreement. Licensee will indemnify and hold harmless the Indemnified Parties from and against any Liabilities resulting from:

(i) any product liability or other claim of any kind related to the use by a third party of a Product that was manufactured, sold, distributed or otherwise

disposed by Licensee, its Affiliates, assignees, vendors or other third parties;

(ii) clinical trials or studies conducted by or on behalf of Licensee relating to any Products, including, without limitation, any claim by or on behalf of a human subject of any such clinical trial or study, any claim arising from the procedures specified in any protocol used in any such clinical trial or study, any claim of deviation, authorized or unauthorized, from the protocols of any such clinical trial or study, any claim resulting from or arising out of the manufacture or quality control by a third party of any substance administered in any clinical trial or study;

(iii) Licensee's failure to comply with all prevailing laws, rules and regulations pertaining to the development, testing, manufacture, marketing and import or export of Products.

6.4 Procedures. The Indemnified Party shall promptly notify Licensee of any claim or action giving rise to a Liability subject to the provisions of Article 6.3. Licensee shall have the duty to defend any such claim or action, at its cost and expense. Indemnified Party must have the right, however, to approve counsel through the Mississippi Attorney General and through its governing board to represent it, and such approval will not be unreasonably withheld. In the event Licensee or any of its parents, affiliates or subsidiaries is also named in a particular claim, Licensee may choose the same attorneys who defend the Indemnified Parties to defend Licensee unless there arises a conflict of interest between the Licensee and one or more of the Indemnified Parties or among the Indemnified Parties. The indemnification rights of UM or other Indemnified Party contained herein are in addition to all other rights which such Indemnified Party may have at law or in equity or otherwise.

6.5 Product Liability Insurance. Beginning with the commencement of human clinical trials of any Product and continuing for a period of time after Licensee ceases manufacturing and marketing Products that is reasonable based upon industry standards, Licensee shall maintain general liability and product liability insurance that is reasonable based upon industry standards, but not less than
$5 million per incident and $5 million in the aggregate. The insurance amounts specified herein shall not be deemed a limitation on Licensee's indemnification liability under this Agreement. Licensee shall provide UM with copies of such policies, upon request of UM. Licensee shall notify UM at least ten (10) days prior to cancellation of any such coverage.

ARTICLE7
PATENTS AND INFRINGEMENT

7.1 Prosecution of Patents.

(a) Responsibilities for Patent Prosecution and Maintenance.

(i) UM using one of its approved outside patent attorneys is responsible for preparing, filing, and prosecuting any patent applications, maintaining any issued patents, and prosecuting and maintaining any and all continuations, continuations-in-part, divisional, substitutions, reissues, or re-examinations (or the foreign equivalent of these) related to the Patent rights in accordance with the process summarized in Appendix C. Licensee will reimburse UM for Patent Expenses subject to 3.1.c. hereof.

(ii) UM will prepare, file, and prosecute Patent(s), including Improvements in the United States. In the event of Improvements UM may also prepare, file, and prosecute

international applications under the Patent Cooperation Treaty. Licensee will specify in writing to UM the foreign countries in which patent applications for Improvements are to be filed and prosecuted. UM will notify Licensee ninety (90) days in advance of a national stage filing deadline, and Licensee will specify such additional countries no later than thirty (30) days before the national stage filing deadline for the pertinent patent application.

(iii) UM is solely responsible for making decisions, subject to the process summarized in Appendix C, regarding content of U.S. and foreign applications to be filed and prosecution of the applications, continuations, continuations-in-part, divisional, substitutions, reissues, or re-examinations (or the foreign equivalent of these) related thereto.

(iv) Licensee will cooperate with UM in the filing, prosecution, and maintenance of any Patents. UM will advise Licensee promptly as to all material developments with respect to the applications. Copies of all papers received and filed in connection with prosecution of applications in all countries will be provided promptly after receipt or filing to Licensee to enable it to advise UM concerning the applications. Licensee shall not, and shall require its Sublicensees, and/or Affiliates not to, seek or initiate any proceedings in order to invalidate any Patent.

(v) No party shall be liable for any loss, as a whole or in part, of a patent term extension granted by the U.S. Patent and Trademark Office (or its foreign equivalents) on a Patent, even if such loss results from acts or omissions of the prosecuting party or its personnel.

(vi) Each party agrees to promptly forward all written communications from the other party regarding prosecution of Patents to its patent counsel as appropriate, with a written confirmation to the other party that the communications have been forwarded.

7.2 Infringement by Third Party.

(a) Each party will promptly notify the other party of any infringement or possible infringement of any of the Patents or other Licensed Technology of which such party becomes aware. Licensee shall have the right, but not the obligation, to prosecute such infringement at its own expense. In such event, UM shall cooperate with Licensee, at UM's expense. Licensee shall not settle or compromise any such suit in a manner that imposes any obligations or restrictions on UM or grants any rights to the Licensed Technology which are inconsistent with the rights and obligations of Licensee or UM pursuant to this Agreement, without UM's written consent.

(b) If Licensee fails to prosecute or chooses not to prosecute such infringement within one hundred and twenty (120) days after receiving notice thereof, UM shall have the right, but not the obligation, to prosecute such infringement at its own expense. In such event, Licensee shall cooperate with UM, at UM's expense.

(b) Any recovery obtained by the prosecuting party as a result of such proceeding, by settlement or otherwise, shall be applied first to the prosecuting party, an amount equal to two times its costs and expenses of the litigation, with the remainder to be paid 80% to the prosecuting party and 20% to the other party.

ARTICLES CONFIDENTIALITY AND PUBLICATIONS

8.1 Confidentiality. To the extent allowed by law, both parties shall maintain in confidence and shall not disclose to any third party the Confidential Information received pursuant to this Agreement, without the prior written consent of the disclosing party except that the Confidential Information may be disclosed by either party only to those third parties (x) who have a need to know the information in connection with the exercise by either party of its rights under this Agreement and who agreed in writing to keep the information confidential to the same extent as is required of the parties under this Article 8.1, or (y) to whom either party is legally obligated to disclose the information. The foregoing obligation shall not apply to information which:

(a) is, at the time of disclosure, publicly known or available to the public, provided that Information will not be deemed to be within the public domain merely because individual parts of such Information are found separately within the public domain, but only if all the material features comprising such Confidential Information are found in combination in the public domain;

(b) is known to recipient at the time of disclosure of such Confidential Information not under confidentiality provided that recipient promptly notifies disclosing party in writing of this prior knowledge within thirty (30) days of receipt;

(c) is hereafter furnished to recipient by a third party, as a matter of right and without restriction on disclosure, provided that recipient promptly notifies disclosing party in writing of this third party disclosure after receipt thereof;

(d) is made public by disclosing party;

(e) is disclosed with the written approval of either party;

(f) is the subject of a legally binding court order compelling disclosure, provided that recipient must give disclosing party notice of any request for disclosure pursuant to any legal proceeding, within two (2) days of receipt of such request by recipient, and recipient must cooperate with disclosing party in obtaining appropriate protective orders to preserve the confidentiality of the Confidential Information;

(g) must be disclosed to comply with applicable laws, rules, regulations or rules of a securities exchange, provided that the party subject thereto uses reasonable efforts to minimize the scope of disclosure and to seek confidential treatment thereof.

Notwithstanding any provision to the contrary contained herein, it is recognized that UM is a public agency of the State of Mississippi and is subject to the Mississippi Public Records Act, §§25 61 I, et. seq., Miss. Code Ann. If a public records request is made for any Information provided to MISSISSIPPI pursuant to this agreement, UM shall promptly notify LICENSEE of such request. LICENSEE shall promptly institute appropriate legal proceedings to protect its Confidential Information. No Party to this agreement shall be liable to the other Party for disclosures of Confidential Information required by Court order or required by law.

8.2 Publications. Should UM desire to disclose publicly, in writing or by oral presentation, Confidential Information related to the Licensed Technology, UM shall notify Licensee in writing of its intention

at least ninety (90) days before such disclosure. UM shall include with such notice a description of the oral presentation or, in the case of a manuscript or other proposed written disclosure, a current draft of such written disclosure. If Licensee believes that an employee of Licensee that was a contributor to the disclosure should receive attribution, Licensee shall notify UM and Licensee and UM shall determine in good faith the scope and nature of the applicable attribution based on the Good Publication Practice Guidelines. Licensee may request UM, no later than ninety (90) days following the receipt of UM's notice, to file a patent application, copyright or other filing related to such Invention. All such filings shall be subject to the provisions of Article 8.1 of this Agreement. Upon receipt of such request, UM shall arrange for a delay in publication, to permit filing of a patent or other application. Should Licensee reasonably determine that more than ninety
(90) days is required in order to file any such patent information (including additional time required to perform additional research required for adequate patent disclosure), or, if Licensee reasonably determines that such Confidential Information cannot be adequately protected through patenting and such Confidential Information has commercial value as a trade secret, then publication or disclosure shall be postponed until the parties can mutually agree upon a reasonable way to proceed.

8.3 Use of Name; Disclosure of Agreement. Neither Licensee nor UM shall directly or indirectly use the other party's name, seal, logo, trademark, or service mark, or any adaptation of them, or the name of any trustee, officer or employee thereof, without that party's prior written consent, or disclose the terms of this Agreement to third parties except that UM or Licensee may disclose this Agreement to any sublicenses or Affiliate and may disclose an accurate description of the terms of this Agreement to the extent required under federal or state securities, tax, grant administration, or other governmental disclosure laws, rules or regulations or rules of a securities exchange, provided that UM shall take steps to preserve the confidentiality of such information to the extent allowed by law.

ARTICLE9
TERM AND TERMINATION

9.1 Term. This Agreement and the licenses granted herein shall commence on the Effective Date and shall continue, subject to earlier termination under Articles 9.2 or 9.3 hereof, until the later of the expiration of the last to expire of the patents or patent applications within the Licensed Technology, or expiration of Licensee's payment obligations under Section 3.2(g). Upon expiration of the term, Licensee shall have an irrevocable, perpetual, nonexclusive, royalty-free, worldwide license, with the right to grant sublicenses through multiple tiers, under the Licensed Technology, to develop, make, use, sell, offer for sale and import Product in the Field.

9.2 Termination by UM. Upon the occurrence of any of the events set forth below ("Events of Default"), UM shall have the right to terminate this Agreement by giving written notice of termination, such termination effective with the giving of such notice:

(a) nonpayment of any material amount payable to UM that is continuing thirty (30) calendar days after UM gives Licensee written notice of such nonpayment;

(b) any material breach by Licensee of any covenant (other than a payment breach referred to in clause
(a) above or a Development Plan breach referred to in section 9.3 below) or any representation or warranty contained in this Agreement that is continuing sixty (60) calendar days after UM gives Licensee written notice of such breach;

(c) Licensee fails to comply in any material respect with the terms of the license granted under Article 2 hereof and such noncompliance is continuing sixty (60) calendar days after UM gives Licensee notice of such noncompliance;

(d) Licensee becomes subject to a Bankruptcy Event;

(e) the dissolution or cessation of operations by Licensee;

(f) If after the first commercial sale of a Product and during the term of this Agreement, Licensee materially fails to make reasonable efforts to commercialize at least one (1) Product or fails to keep at least one (1) Product on the market after the first commercial sale for a continuous period of one (1) year, other than for reasons outside of Licensee's control (e.g., action by regulatory authorities, or failure of a third party sublicensee to exploit a Product or successfully develop a market for a Product).

9.3 Development Plan. Licensee will provide UM with a Development Plan reasonably acceptable to UM within thirty (30) days of the Effective Date of this Agreement. Such Development Plan will be added to this Agreement as Appendix B, Licensee agrees to use commercially reasonable efforts to perform in accordance to the Development Plan. Subject to the terms set forth in this Section 9.3, including the applicable cure period, UM shall be entitled to terminate this Agreement if Licensee fails to meet the pre-established development milestones that are designated as "Critical Milestones" contained in the Development Plan. The milestones may be changed as agreed upon in advance in writing by both parties. UM shall give written notice of its decision to terminate this Agreement specifying a failure of the Development Plan Critical Milestones. Unless Licensee has remedied such failure or both parties have agreed, in writing, to a revised milestone schedule (which agreement will not be unreasonably withheld) within sixty (60) days after receipt of such notice, this Agreement will be deemed to terminate as of the expiration of such sixty (60) day period.

9.4 Termination by Licensee. Licensee shall have the right to terminate this Agreement, at any time with or without cause, upon sixty (60) days' written notice to the UM.

9.5 Rights and Duties Upon Termination. Within thirty (30) days after termination (but not expiration) of this Agreement, each party shall return to the other party any Confidential Information of the other party. If terminated by Licensee the Licensee also shall return all Licensed Technology which is embodied in physical form to the UM promptly following the termination of this Agreement. In the event of an early termination of this Agreement, Licensee and its sub-licensees shall have the right to use or sell all the Product(s) on hand or in the process of manufacturing at the time of such early termination, provided that Licensee shall be obligated to pay to UM a royalty on such sales as set forth in this Agreement if, at that time there remains in existence any of UM's Patents covering the transfer of such Product(s) and a royalty or other payment is payable pursuant to the terms of this Agreement. Within thirty (30) days after termination of this Agreement by the UM under Article 9.2 or by Licensee without Cause under Article 9.4, Licensee agrees:

(a) to provide UM with copies of all results of research, development and marketing studies pertaining to the Products and Licensed Technology controlled by Licensee, its Affiliates or sublicensees;

(b) to provide UM an electronic and paper copy of any IND, NDA and any other documents and correspondence related to the Licensed Technology and Product(s) between Licensee and the Food and Drug Administration and other domestic and foreign government agencies controlled by Licensee, its Affiliates or sublicensees; and

(c) to provide UM with an electronic and paper copy of any and all patent and trademark documents and correspondence related to the Licensed Technology and Product(s) between Licensee and the U.S. Patent Office and foreign government equivalents to the extent owned by Licensee, its Affiliates, or sublicensees.

(d) UM shall own all right, title and interest in said research, development and marketing results as well as regulatory and intellectual property related applications submitted to all government agencies that is related to the Licensed Technology, Improvements, Patents, and Products owned by Licensee, its Affiliates, or sub-licensees. Licensee, its Affiliates or sub-licensees shall assign all such patents owned by Licensee, its Affiliates or sub-licensees in which UM is not an inventor to UM.

(e) to perform all acts deemed necessary or desirable by UM in its reasonable discretion to permit and assist it, at UM's expense, in evidencing, perfecting, obtaining, maintaining, defending and enforcing UM's ownership rights and/or any assignment with respect to inventions and patents to be assigned to UM pursuant to this Section 9.5 in any and all countries. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings. Upon termination, Licensee, its Affiliates and sub-licensees hereby irrevocably designates and appoints UM and its duly authorized officers and agents, as its agents and attorneys-in-fact to act for and in its behalf and instead of Licensee, its Affiliates and sub-licensees, to execute and file any documents and to do all other lawfully permitted acts to further the foregoing purposes with the same legal force and effect as if executed by Licensee, its Affiliates and sub-licensees.

9.6 Provisions Surviving Termination. Licensee's obligation to pay any royalties accrued but unpaid prior to termination of this Agreement shall survive such termination. Licensee shall owe UM royalties on sales when Licensee has received payments from a sub-licensee or Affiliate. In addition, all provisions required to interpret the rights and obligations of the parties arising prior to the termination date shall survive expiration or termination of this Agreement.

ARTICLE 10 MISCELLANEOUS

10.1 Assignment. This Agreement and the rights and benefits conferred upon Licensee hereunder may not be transferred or assigned to any Person, directly or by merger, by sale or assignment of membership interests in Licensee, or by other operation of law, without the express written permission of UM, which permission will not be unreasonably withheld. Notwithstanding the requirement set forth in the preceding sentence, Licensee may assign or transfer its interests in this Agreement without written permission from UM in the following circumstances: an assignment in connection with the sale or transfer of all or substantially all of Licensee's assets which relate to the development or use of the Licensed Technology or a Product(s) provided that the buyer or transferee can demonstrate to UM, in its reasonable discretion, that it is at least as financially stable as Licensee and following the sale or transfer would be as capable of performing its obligations under this Agreement as Licensee would be.

Any prohibited assignment of this Agreement or the rights hereunder shall be null and void. No assignment shall relieve Licensee of responsibility for the performance of any accrued obligations

which it has prior to such assignment. This Agreement shall inure to the benefit of permitted assigns of Licensee.

10.2 No Waiver. A waiver by either party of a breach or violation of any provision of this Agreement will not constitute or be construed as a waiver of any subsequent breach or violation of that provision or as a waiver of any breach or violation of any other provision of this Agreement.

10.3 Independent Contractor. Nothing herein shall be deemed to establish a relationship of principal and agent between UM and Licensee, nor any of their agents or employees for any purpose whatsoever. This Agreement shall not be construed as constituting UM and Licensee as partners, or as creating any other form of legal association or arrangement which could impose liability upon one party for the act or failure to act of the other party. No employees or staff of UM shall be entitled to any benefits applicable to employees of Licensee. Neither party shall be bound by the acts or conduct of the other party.

10.4 Notices. Any notice under this Agreement shall be sufficiently given if sent in writing by prepaid, first class, certified or registered mail, return receipt requested, addressed as follows:

to UM, to:

University of Mississippi
P.O. Box 1848 100 Barr Hall
University, MS 38677 Attention: Allyson Best

Director, Office of Technology Commercialization

if to Licensee, to:
Emerald Bioscience, Inc. 130 North Marina Drive Long Beach, CA 90803 Attention:
Brian Murphy CEO

or to such other addresses as may be designated from time to time by notice given in accordance with the terms of this Article.

10.5 Entire Agreement. This Agreement, together with the attachments hereto, embodies the entire understanding between the parties relating to the subject matter hereof and supersedes all prior understandings and agreements, whether written or oral. This Agreement may not be modified or varied except by a written document signed by duly authorized representatives of both parties.

10.6 Severability. In the event that any provision of this Agreement shall be held to be unenforceable, invalid or in contravention of applicable law, such provision shall be of no effect, the remaining portions of this Agreement shall continue in full force and effect, and the parties shall negotiate in good faith to replace such provision with a provision which effects to the extent possible the original intent of such provision.

10.7 Force Majeure. In the event that either party's performance of its obligations under this Agreement shall be prevented by any cause beyond its reasonable control, including without limitation acts of

God, acts of government, shortage of material, accident, fire, delay or other disaster, provided that the effected party shall have used its reasonable best efforts to avoid or remove the cause of such nonperformance and to minimize the duration and negative affect of such nonperformance, then such effected party's performance shall be excused and the time for performance shall be extended for the period of delay or inability to perform due to such occurrence. The affected party shall continue performance under this Agreement using its best efforts as soon as such cause is removed.

10.1 Headings. Any headings and captions used in this Agreement are for convenience of reference only and shall not affect its construction or interpretation.

10.2 No Third Party Benefits. Nothing in this Agreement, express or implied, is intended to confer on any person other than the parties hereto or their permitted assigns, any benefits, rights or remedies.

10.3 Governing Law. This Agreement shall be construed in accordance with and governed by the internal laws of the State of Mississippi, excluding such state's rules relating to conflicts of laws, and its form, execution, validity, construction and effect shall be determined in accordance with such internal laws.

10.4 Counterparts. This Agreement shall become binding when any one or more counterparts hereof, individually or taken together, shall bear the signatures of each of the parties hereto. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against the party whose signature appears thereon, but all of which taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by e-mail shall be effective as delivery of a manually executed counterpart of this Agreement.

10.5 Resolution of Disputes. In the event of any dispute, controversy or claim arising out of or relating to this Agreement, or to any breach hereof, the parties shall attempt first to resolve the dispute by good faith negotiation. If the parties are unable to reach agreement by negotiating in good faith within sixty (60) days of written assertion of a claim, they agree to try to settle the dispute by nonbinding mediation in accordance with the mediation rules of the American Arbitration Association ("AAA"). Such nonbinding mediation shall be undertaken on a confidential basis and shall take place in Oxford, Mississippi, unless the parties agree to an alternative location.

10.6 Official Capacity. LICENSEE acknowledges that the individual executing this Agreement on behalf of the University of Mississippi is doing so only in his/her official capacity only, and to the extent that any provision contained in this Agreement exceeds his/her authority, LICENSEE agrees that it will not look to that individual in his/her personal capacity or otherwise seek to hold him/her individually liable for exceeding such authority

UNIVERSITY OF MISSISSIPPI

5/24/19

Allyson Best
Office of Technol

IN WITNESS WlrIER£0F, the partiies hereto have duly executed this Amemded amd Restated Agreement as of the Effective Date.

Date
logy Commercialization, Office of Research & Sponsored Piiogiiams

Acknowledged by:

5/23/19

Mahmoud A. ElSohly, Ph.D.
Research Professor, National Center for Nat

Date

Research Prnfesso , NationaL Center fOL' Natural Prnducts Research

5/24/2019

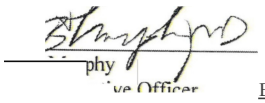
Date

David D. Allen, Ph.D.
Executiv. e Director, Research Instituue of Pharmace1Utical Sciences

EMERALD BIOSCIENCE, INC.

May 23, 2019

Date



phy
ive Officer Brian Murphy .

Chief Executive Officer

Blank

APPENDIX A PATENTS

UM 5050 *Compositions Containing Delta-9-THC Amino Acid Esters and Process of Preparation*

Issued:	US Patent# 8,809,261
	US CIP
	Patent#
	9,630,941 GB
	09 8

24226.6

DK 09 824226.6

FI 09 824226.6

FR 09 824226.6

DE 09 824226.6

ES 09 824226.6

IT 09 824226.6

CH 09 824226.6

SE 09 824226.6

PL 09 824226.6

CZ 09 824226.6

NO 09 824226.6

GR 09 824226.6

NL 09 824226.6

AU 2009308665

AT 11113006.2

HK 11113006.2

HUE 09824226

JP 2011 534860

Pending: CA 2,741,862 (notice of allowance)

APPENDIXB DEVELOPMENT PLAN

APPENDIXC
UM RESPONSIBILITIES FOR KEEPING LICENSEE INFORMED

The Office of Technology Commercialization ("OTC") at UM is responsible for managing the patent prosecution process for the Licensed Technology. The following procedure will be followed:

1. Outside Patent Counsel ("OPC") will be chosen by OTC; however, Licensee shall have an opportunity to recommend patent counsel, which OTC agrees to consider. OPC will notify OTC when an office action is received from the United States Patent and Trademark Office "USPTO") or foreign counterpart and send a copy to OTC. If the office action is straightforward (e.g. very similar to a previously submitted response in another country, procedural formalities, or minor claim changes to be consistent with a country's laws or preferred claim structure), OTC will ask patent counsel to draft a response/amendment for review by OTC and Licensee. OTC will send a copy of the office action to Licensee and to the Principal Investigator(s) at UM. If the office action requires a strategic discussion, OTC will offer a conference call between Licensee (and Licensee's counsel if desired), OTC, the PI(s) and OPC. At any time, regardless of the complexity of the office action, Licensee may request a conference call to discuss the pending office action and OTC will set one up. The same procedures are used when dealing with prosecution timelines and deadlines (including but not limited to 30/31 month national entries on PCT applications and claim amendments following Search Reports).
2. OPC will send a "final" draft version of the response/amendment to OTC for review/approval. OTC will forward it to the PI(s), and ask for comments. This generally requires a quick turnaround time (e.g. 24 to 48 hours) depending on how many drafts have been exchanged.
3. OPC will file the response/amendment and send OTC a copy of the filed document, OTC will forward the document to the PI(s).
4. Improvements to the patented pending technology will be documented in accordance with UM's Patent and Invention Policy by researchers using OTCs Research Disclosure Form. OTC will send a copy of the Research Disclosure Form to Licensee. The disclosure will be sent to OPC for review and a conference call will be set up with OTC, Licensee (and Licensee's counsel if desired), the PI(s) (and other researchers as appropriate) and the OPC to discuss strategies of incorporating Improvements.
5. When OPC receives a notice of allowance for the pending claims, OPC will send the notice to OTC. OTC will forward the notice to the PI(s). OTC will ask Licensee and the PI(s) ifthere are any Improvements that need to be considered for incorporation before the patent issues (typically 3 to 6 weeks). OTC will ask Licensee and the PI if the issue fee should be paid or if the claims should be further amended.
6. OTC will send Licensee a monthly IP report, usually the first week of every month, detailing known information on all issued and pending patents. If applicable, the report will include a status item for every docket, as well as timelines for any pending deadlines with a country's patent office. Estimates for each action item will be included if they are available from OPC.

In all of the above, final prosecution decisions rest with OTC, however the wishes of Licensee and the PI(s) will be given serious consideration. In addition, Licensee is advised that on occasion the OPC (no matter which OPC OTC uses) will fail to provide OTC with timely notice of actions needed during

prosecution negating some of the above steps. In such cases OTCwill notify Licensee and the Pis of the situation and will respond as quickly as needed to meet required deadlines.

APPENDIXD

Example Sales and Royalty Report

Licensee:____ UM Agreement ID:____ Period Covered:__through____

Prepared by:__ Date:__

(Company Representative)

Approved by:__ Date:__

(Company Representative)

If license agreement covers several major product lines, please prepare a separate report for each line. Then combine all product lines into a summary report.

Report Type: ☐ Single Product or Process Line Report:__

(product name)

D Multiproduct Summary Report, Page __ of __

Other Compensation: D Annual Payments, milestones, or other fees & compensation

Details:__ Amount Due:____

D No Compensation of Royalty Due this Period

Reason:__

Country	Quantity Produced	Quantity Sold	Gross Sales($)	*Net Sales($)	Royalty Rate	Con.version Rate (if applicable)	Royalty Due this Period
USA							
Canada							
Japan							
Other:							
TOTAL:							

* To calculate net sales, use the following space to list separately the specific types of allowed deductions under the license agreement and the corresponding amounts:__

Then calculate the final Net Sales amount by subtracting these amounts from Gross Sales, and note in the column above"

AMENDMENT NO. 3
MULTI DRAW CREDIT AGREEMENT

This Amendment (this "Amendment") is made and entered into as of September 15, 2021, by and between Skye Bioscience, Inc., a corporation incorporated under the laws of the state of Nevada (the "Company"), and Emerald Health Sciences Inc., a corporation incorporated under the laws of British Columbia (the "Lender"). The above parties are referred to collectively herein as the "Parties," and individually as a "Party."

Recitals

A. The Parties are parties to that certain Amended and Restated Multi Draw Credit Agreement, dated as of April 1, 2020, as amended (the "Agreement").

B. The Company and the Lender desire to amend the Agreement on the terms and conditions set forth herein.

Agreement

NOW THEREFORE, in consideration of the promises, terms and conditions contained herein and such other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Lender hereby agree as follows:

A. Defined Terms and Recitals. Except as otherwise defined herein, all capitalized terms used herein but not otherwise defined herein shall have the meanings set forth in the Agreement.

B. Modification to the Agreement. The Parties agree that from and after the date of this Amendment, no Advances shall be made, disbursed or funded by the Lender to the Company pursuant to the Agreement.

C. No Further Modification. Except as set forth herein, the Agreement remains unmodified and in full force and effect. In the event of any inconsistency between the provisions of the Agreement and this Amendment, the terms of this Amendment shall control.

D. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the state of California without reference to such state's principles of conflicts of law.

E. Counterparts and Facsimile. This Amendment may be executed in two or more counterparts, which when taken together shall constitute one and the same instrument. The Parties contemplate that they may be executing counterparts of this Amendment transmitted by facsimile or email in PDF format and agree and intend that a signature by either facsimile machine or email in PDF format shall bind the Party so signing with the same effect as though the signature were an original signature.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed as of the day and year first written above.

COMPANY:

SKYE BIOSCIENCE, INC.

By:
Name:
Title:

LENDER:

EMERALD HEALTH SCIENCES INC.

By:
Name:
Title:

Subsidiaries of the Registrant

Name of Entity	Formation Date	Jurisdiction of Incorporation	Holder of Stock
Nemus	July 17, 2012	California, USA	Skye Bioscience, Inc.
Skye Bioscience Pty Ltd.	August 9, 2019	Australia	Skye Bioscience, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Form S-3 (No. 333-258243) and Form S-8 (Nos. 333-245177, 333-227860 and 333-223439) of Skye Bioscience, Inc., formerly known as Emerald Bioscience, Inc. ("Company") of our report dated March 25, 2022, (which includes an explanatory paragraph relating to the uncertainty of the Company's ability to continue as a going concern) on our audit of the consolidated financial statements of the Company as of December 31, 2021 and 2020 and for each of the two years in the period ended December 31, 2021, which report is included in this Annual Report on Form 10-K.

/s/ Mayer Hoffman McCann P.C.

Irvine, California
March 25, 2022

EXHIBIT 31.1

Certification of Principal Executive Officer
Required By Rule 13a-14(A) of the Securities Exchange Act of 1934, As Amended,
As Adopted Pursuant To Section 302 of the Sarbanes--Oxley Act of 2002

I, Punit Dhillon, certify that:

1. I have reviewed this annual report on Form 10-K of Skye Bioscience, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Ru1es 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Ru1es 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particu1arly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2022

/s/ Punit Dhillon

Punit Dhillon, Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Principal Financial and Accounting Officer
Required By Rule 13a-14(A) of the Securities Exchange Act of 1934, As Amended,
As Adopted Pursuant To Section 302 of the Sarbanes--Oxley Act of 2002

I, Kaitlyn Arsenault, certify that:

1. I have reviewed this annual report on Form 10-K of Skye Bioscience, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Ru1es 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Ru1es 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particu1arly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2022

/s/ Kaitlyn Arsenault
Kaitlyn Arsenault
(Principal Financial and Accounting Officer)

EXHIBIT 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

In connection with the Annual Report of Skye Bioscience, Inc., a Nevada corporation (the "Company") on Form 10-K for the year ending December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Punit Dhillon, Chief Executive Officer of the Company, hereby certify, that, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to§ 906 of the Sarbanes-Oxley Act of 2002:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Skye Bioscience, Inc., and will be retained by Skye Bioscience, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Punit Dhillon

Punit Dhillon
Chief Executive Officer
(Principal Executive Officer)

March 25, 2022

EXHIBIT 32.2

Certification of Principal Financial and Accounting Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Skye Bioscience, Inc., a Nevada corporation (the "Company") on Form 10-K for the year ending December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kaitlyn Arsenault, Chief Financial Officer of the Company, hereby certify, that, to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to§ 906 of the Sarbanes-Oxley Act of 2002:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Skye Bioscience, Inc., and will be retained by Skye Bioscience, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Kaitlyn Arsenault

Kaitlyn Arsenault
Chief Financial Officer
(Principal Financial and Accounting Officer)

March 25, 2022