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

FORM 10-Q

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

For the quarterly period ended March 31, 2022

or

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

For the transition period from _____ to _____

Commission File Number: **000-55136**

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)

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

5910 Pacific Blvd, San Diego, CA 92121
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001	SKYE	OTCQB

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 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

As of May 5, 2022, there were 495,925,112 shares of the issuer's $0.001 par value common stock issued and outstanding.

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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q 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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2022 (Unaudited)	December 31, 2021 (Note 2)
ASSETS		
Current assets		
Cash	$ 6,006,869	$ 8,983,007
Restricted cash	4,572	4,571
Prepaid expenses	822,541	554,217
Prepaid expenses - related party	48,908	13,432
Other current assets	109,750	56,870
Total current assets	6,992,640	9,612,097
Property and equipment, net	80,768	87,710
Operating lease right-of-use asset	128,935	146,972
Other asset	8,309	8,309
Total assets	$ 7,210,652	$ 9,855,088
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 878,720	$ 897,880
Accounts payable - related parties	24,026	2,130
Accrued interest - related party	218,039	174,911
Accrued payroll liabilities	237,037	344,450
Insurance premium loan payable	214,307	—
Other current liabilities	378,106	375,842
Derivative liability	16,077	59,732
Multi-draw credit agreement - related party	450,000	450,000
Convertible multi-draw credit agreement - related party, net of discount	1,679,741	1,524,905
Operating lease liability, current portion	85,601	82,372
Total current liabilities	4,181,654	3,912,222
Non-current liabilities		
Operating lease liability, net of current portion	55,906	78,700
Total liabilities	4,237,560	3,990,922

Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, $0.001 par value; 50,000,000 shares authorized at March 31, 2022 and December 31, 2021;no shares issued and outstanding at March 31, 2022 and December 31, 2021	—	—
Common stock, $0.001 par value; 5,000,000,000 shares authorized at March 31, 2022 and December 31, 2021;495,925,112 and 476,108,445 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	495,925	476,108
Additional paid-in-capital	52,776,729	52,644,221
Accumulated deficit	(50,299,562)	(47,256,163)
Total stockholders' equity	2,973,092	5,864,166
Total liabilities and stockholders' equity	$ 7,210,652	$ 9,855,088

See accompanying notes to the condensed consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2022	**2021**
Operating expenses		
Research and development	$ 1,265,653	$ 609,656
General and administrative	1,622,368	1,127,606
Total operating expenses	2,888,021	1,737,262
Operating loss	(2,888,021)	(1,737,262)
Other expense (income)		
Change in fair value of derivative liabilities	(43,655)	238,350
Interest expense	199,033	184,905
Total other expense, net	155,378	423,255
Loss before income taxes	(3,043,399)	(2,160,517)
Net loss and comprehensive loss	$ (3,043,399)	$ (2,160,517)
Loss per common share:		
Basic	$ (0.01)	$ (0.01)
Diluted	$ (0.01)	$ (0.01)
Weighted average shares of common stock outstanding used to compute earnings per share:		
Basic	495,823,445	336,883,489
Diluted	495,823,445	336,883,489

See accompanying notes to the condensed consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (3,043,399)	$ (2,160,517)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26,978	938
Stock-based compensation expense	137,358	146,580
Change in fair value of derivative liabilities	(43,655)	238,350
Amortization of debt discount	154,836	141,490
Changes in assets and liabilities:		
Prepaid expenses	7,213	(34,199)
Prepaid expenses - related party	(35,476)	—
Other current asset	(52,880)	—
Accounts payable	(19,160)	135,514
Accounts payable - related parties	21,896	(7,032)
Accrued interest - related party	43,128	(958)
Accrued payroll liabilities	(107,413)	70,448
Operating lease liability	(19,565)	—
Other current liabilities	15,264	121,298
Net cash used in operating activities	(2,914,875)	(1,348,088)
Cash flows from investing activities:		
Purchase of property and equipment	(1,999)	(10,696)
Net cash used in investing activities	(1,999)	(10,696)
Cash flows from financing activities:		
Proceeds from common stock warrant exercises	—	4,030,000
Proceeds from pre-funded warrant exercises	1,967	11,800
Repayment of insurance premium loan payable	(61,230)	—
Net cash (used in) provided by financing activities	(59,263)	4,041,800
Net (decrease) increase in cash and restricted cash	(2,976,137)	2,683,016
Cash and restricted cash, beginning of period	$ 8,987,578	$ 2,473,976
Cash and restricted cash, end of period	$ 6,011,441	$ 5,156,992
Supplemental disclosures of cash-flow information:		
Reconciliation of cash and restricted cash:		
Cash	$ 6,006,869	$ 5,152,425
Restricted cash	4,572	4,567
Total cash and restricted cash shown in the consolidated statements of cash flows	$ 6,011,441	$ 5,156,992
Cash paid during the period for:		
Interest	$ —	$ 44,087
Supplemental disclosures of non-cash financing activities:		
Financing of insurance premium	$ 275,537	$ —
Release of share liability to additional paid-in-capital	13,000	—

See accompanying notes to the condensed consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amounts			
Balance, January 1, 2022	**476,108,445**	**$ 476,108**	**$ 52,644,221**	**$ (47,256,163)**	**$ 5,864,166**
Stock-based compensation expense	150,000	150	150,208	—	150,358
Exercise of pre-funded warrants	19,666,667	19,667	(17,700)	—	1,967
Net loss for the three months ended March 31, 2022	—	—	—	(3,043,399)	(3,043,399)
Balance, March 31, 2022	**495,925,112**	**$ 495,925**	**$ 52,776,729**	**$ (50,299,562)**	**$ 2,973,092**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amounts			
Balance, Balance, January 1, 2021	**288,074,415**	**$ 288,074**	**$ 38,896,693**	**$ (38,733,981)**	**$ 450,786**
Stock-based compensation expense	600,000	600	145,980	—	146,580
Exercise of common stock warrants	67,166,667	67,167	3,962,833	—	4,030,000
Exercise of pre-funded warrants	11,800,000	11,800	—	—	11,800
Net loss for the three months ended March 31, 2021	—	—	—	(2,160,517)	(2,160,517)
Balance, March 31, 2021	**367,641,082**	**$ 367,641**	**$ 43,005,506**	**$ (40,894,498)**	**$ 2,478,649**

See accompanying notes to the condensed consolidated financial statements.

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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, 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 March 31, 2022, 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 March 31, 2022, had an accumulated deficit of $30,299,562. As of March 31, 2022, the Company had unrestricted cash in the amount of $6,006,869. For the three months ended March 31, 2022 and 2021, the Company incurred losses from operations of $2,888,021 and $1,737,262, respectively. For the three months ended March 31, 2022 and 2021, the Company incurred net losses of $3,043,399 and $2,160,517, respectively. The Company expects to continue to incur significant losses through 2022 and expects to incur significant losses and negative cash flows from operations in the 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 in the second quarter of 2022, it has increased research and development spending, resulting in an increase in 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 (Note 8). On April 29, 2020, the Company entered into an Amended and Restated Multi-Draw Credit Agreement (the "Amended Credit Agreement") with Sciences. As of March 31, 2022, 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 judgements and financial projections include travel bans, restrictions, government assistance and potential sources of replacement financing, financial health of service providers 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 site is in Australia and since the COVID-19 outbreak in that country, multiple cities have experienced health emergency lockdowns which have had a negative impact on the conduct and timelines of the 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 Condensed 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

In the opinion of management, the accompanying Unaudited Interim Condensed Consolidated Financial Statements have been prepared on a consistent basis with the Company's Audited Consolidated Financial Statements as of and for the year ended December 31, 2021, and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth herein. The Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and therefore, omit certain information and footnote disclosures necessary to present the financial statements in accordance with generally accepted accounting principles in the United States ("GAAP").

The results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or any future periods. The Condensed Consolidated Balance Sheet as of December 31, 2021 was derived from the Company's audited financial statements as of December 31, 2021, which are included in the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2022. The Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, which includes a broader discussion of the Company's business and the risks inherent therein.

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 Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of 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 judgements 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.

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, 2021, the Company estimated that the fair value of the Amended Credit Agreement, including the non-convertible advances was $2,484,768. As of March 31, 2022, the Company estimated that the fair value of the Amended Credit Agreement, including the non-convertible advances was $2,559,549. As of March 31, 2022 and December 31, 2021, the carrying value of the Amended Credit Agreement was $2,129,741 and $1,974,905, 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).

Convertible Instruments

The Company accounts for hybrid contracts with embedded conversion features in accordance with 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 generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

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 Condensed 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 Condensed 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. None of the costs associated with the use of licensed technologies have 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.

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. 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.

The computations of basic and diluted loss per common share are as follows:

	Three Months Ended March 31, (Unaudited)	
	2022	**2021**
Basic and diluted loss per share:		
Net loss	$ (3,043,399)	$ (2,160,517)
Weighted average common shares outstanding – basic and diluted	495,823,445	336,883,489
Loss per share - basic and diluted	**$ (0.01)**	**$ (0.01)**

The following outstanding shares of common stock equivalents were excluded from the computation of diluted loss per share of common stock for the periods presented because including them would have been anti-dilutive:

	Three Months Ended March 31, (Unaudited)	
	2022	**2021**
Stock options	34,365,000	21,560,000
Common shares underlying convertible debt	5,124,384	5,124,384
Warrants	134,187,225	78,546,668
Unvested restricted stock units	4,000,000	—

Recent Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 2020-06 will 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 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 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 impacts the disclosures related to the rebates that the Company receives from the Australian Taxation Office ("ATO") against research and development activities for its Phase 1 clinical trials in Australia. The Company adopted the provisions of this ASU on the effective date using a prospective adoption method as rebates from the ATO in prior periods were not material to the Company's financial statements.

3. Warrants and Derivative Liabilities

There are significant judgements and estimates inherent in the determination of the fair value of the Company's warrants and derivative liabilities. These judgements 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

Warrants vested and outstanding as of March 31, 2022 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
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	5	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 Common Stock Warrants to Placement Agent	0.11	5	5,444,445
Total warrants vested and outstanding as of March 31, 2022			**134,187,225**

Derivative Liabilities

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

	Three Months Ended March 31, 2022				
	December 31, 2021 Fair Value of Derivative Liability	Fair Value of Derivative Liability	Change in Fair Value of Derivative Liability	Reclassification of Derivative to Equity	March 31, 2022 Fair Value of Derivative Liability
Emerald Financing - warrant liability[(1)]	$ 59,732	$ —	$ (43,655)	$ —	$ 16,077
Current balance of derivative liabilities	**$ 59,732**	**$ —**	**$ (43,655)**	**$ —**	**$ 16,077**

	Three Months Ended March 31, 2021				
	December 31, 2020 Fair Value of Derivative Liability	Fair Value of Derivative Liability	Change in Fair Value of Derivative Liability	Reclassification of Derivative to Equity	March 31, 2021 Fair Value of Derivative Liability
Emerald Financing - warrant liability[(1)]	$ 38,567	$ —	$ 238,350	$ —	$ 276,917
Total derivative liabilities	**$ 38,567**	**$ —**	**$ 238,350**	**$ —**	**$ 276,917**

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 certain 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 liability is valued at the balance sheet dates using the following assumptions:

	March 31, 2022	December 31, 2021
Dividend yield	— %	— %
Volatility factor	103.3 %	126.5 %
Risk-free interest rate	1.49 %	0.43 %
Expected term (years)	0.88	1.13
Underlying common stock price	$ 0.04	$ 0.05

4. Debt

Multi-Draw Credit Agreement- Related Party

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

	Conversion Price	As of March 31, 2022	As of December 31, 2021
Total principal value of convertible debt—related party	$ 0.40	$ 2,014,500	$ 2,014,500
Unamortized debt discount		(333,260)	(487,668)
Unamortized debt issuance costs		(1,499)	(1,927)
Carrying value of total convertible debt - related party		**1,679,741**	**1,524,905**
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		**$ 2,129,741**	**$ 1,974,905**

On October 5, 2018, the Company entered into the Credit Agreement with Sciences, a related party (See Note 8). 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. 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 applicable 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, including accrued interest, 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 has 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 and are immediately exercisable upon issuance. Under the Amended Credit Agreement, Sciences may issue notice that no warrants will be granted at the time of the advance request. The warrants issued under the Credit Agreement have an exercise price of $0.50 per share. The exercise prices are 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).

As of March 31, 2022, the unamortized debt discount on the convertible advances will be amortized over a remaining period of approximately 0.52 years. As of March 31, 2022, the fair value of the shares underlying the convertible advances under the Amended Credit Agreement was $ 191,378. As of March 31, 2022, the if-converted value did not exceed the principal balance.

Insurance premium loan payable

On February 28, 2022, the Company entered into an annual financing arrangement for a portion of its Directors and Officers Insurance Policy (the "D&O Insurance") with Marsh & McLennan in an amount of $275,537. The loan is payable in equal monthly installments of $31,149, matures on October 28, 2022 and bears interest at a rate 4.17% per annum. As of March 31, 2022, a total of $287,017 and $214,307, remains financed in prepaid expenses and loans payable, respectively.

Interest Expense

The Company's interest expense consists of the following:

	Three Months Ended March 31,	
	2022	**2021**
Related party interest expense – stated rate	$ 43,128	$ 43,129
Insurance premium loan payable - stated rate	1,069	—
PPP loan interest expense – stated rate	—	286
Non-cash interest expense:		
Amortization of debt discount	154,406	141,097
Amortization of transaction costs	430	393
	$ 199,033	**$ 184,905**

5. Stockholders' Equity and Capitalization

Warrant Exercises

During the three months ended March 31, 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.

Common Stock Issuance

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

6. Stock-Based Compensation

Stock Incentive Plan

On October 31, 2014, after the closing of the Merger, the Board of Directors approved the Company's 2014 Omnibus Incentive Plan (the "2014 Plan"). The share reserve under the 2014 Plan equals 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 March 31, 2022, the Company had 17,154,595 shares available for future grant under the 2014 Plan.

Stock Options

The following is a summary of option activities under the Company's 2014 Plan for the three months ended March 31, 2022:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2021	**35,405,000**	**$ 0.07**	**9.08**	**$ 134,750**
Granted	—	—		
Exercised	—	—		
Cancelled	(215,000)	0.07		
Forfeited	(825,000)	0.10		
Outstanding, March 31, 2022	**34,365,000**	**$ 0.07**	**8.82**	**$ —**
Exercisable, March 31, 2022	**11,331,250**	**$ 0.08**	**8.82**	**$ —**
Exercisable, Vested and expected to vest, March 31, 2022	**34,365,000**	**$ 0.07**	**8.82**	**$ —**

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. As of March 31, 2022,4,000,000 RSUs with a weighted average grant date fair value of $0.06 per share remain unvested.

Awards Granted Outside the 2014 Plan

The following is a summary of restricted stock activity outside of the Company's 2014 Plan during the three months ended March 31, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, December 31, 2021	**150,000**	**$ 0.13**
Released	(150,000)	0.13
Unvested, March 31, 2022	—	**$ —**

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 Condensed Consolidated Statements of Comprehensive Loss as follows:

	Three Months Ended March 31,	
	2022	**2021**
Research and development	$ 18,585	$ 74,429
General and administrative	118,773	72,151
	$ 137,358	**$ 146,580**

The total amount of unrecognized compensation cost was $1,428,815 as of March 31, 2022. This amount will be recognized over a weighted average period of 3.00 years.

7. 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 the proprietary analog of cannabidiol, CBDVHS, under the UM 8930 License Agreement. As a result, the Company paid 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 (“IND”) application 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 a New Drug Application (“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 earlier 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, and 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 March 31, 2022, with the exception of the fee due for the notice of patent allowance for CBDVHS,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 it receives 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, and ten years after first commercial sale of such licensed product in such country.

As of March 31, 2022, none of the milestones under this license agreement have been met and the agreement was terminated effective January 8, 2022 pursuant to a termination notice provided to UM by the Company on November 9, 2021.

8. 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 March 31, 2022 and has provided the Company with financing under the Amended Credit Agreement (Note 4).

On December 19, 2019, the Company entered into an Independent Contractor Services Agreement with Dr. Avtar Dhillon, 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.

No expenses were incurred under this agreement during the three months ended March 31, 2022. Under this agreement, for the three months ended March 31, 2021, the Company incurred fees of $30,000. 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.

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 three months ended March 31, 2022 and 2021, the Company incurred $39,018 and $69,600, respectively, in expenses under the Collaborative Research Agreements. As of March 31, 2022 and December 31, 2021, the Company has recognized prepaid asset in the amount of $48,908 and $8,056, respectively, 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 three months ended March 31, 2022, the Company incurred $50,000 in research and development expenses related to the retainer under the ESRA. As of March 31, 2022 and December 31, 2021, the Company has recognized a prepaid expense in the amount of $0 and $5,376, respectively, related to the retainer 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.

On March 1, 2022, the Company entered into a research project with VivaCell under the ESRA Agreement for the screening platform for anteroposterior ocular diseases. The project budget is $190,500. For the three months ended March 31, 2022, the Company incurred $16,086 of research and development expenses under the ESRA.

Board Members

As of March 31, 2022, Jim Heppell and Punit Dhillon are board members of the Company and Emerald Health Pharmaceuticals, Inc., a subsidiary of Sciences. Sciences owns 23% and 48% of the Company and Emerald Health Pharmaceuticals, Inc., respectively. As of March 31, 2022, Jim Heppell is also a board member and the CEO of Sciences. Jim Heppell also served on VivaCell's board until he tendered his resignation on January 10, 2022. 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.

Related Party Contractor

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 $78 per hour. The consulting agreement may be terminated by either party upon providing 15 days of advance notice. For the three months ended March 31, 2022, the Company incurred $8,595 of consulting expenses in general and administrative expenses under this agreement.

9. Commitments and Contingencies

Office Lease

The Company leases office space for its corporate headquarters, located at 11250 El Camino Real, Suite 100 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 three months ended March 31, 2022, lease expense comprised of $22,675 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:

	March 31, 2022
Weighted-average remaining term – operating lease (in years)	1.58
Weighted-average discount rate – operating lease	12 %

Future minimum lease payments as of March 31, 2022 are presented in the following table:

Year:	
2022 (remaining nine months)	73,089
2023	83,093
Total future minimum lease payments:	156,182
Less imputed interest	(14,675)
Total	**$ 141,507**

Reported as:

Operating lease liability	$	85,601
Operating lease liability, net of current portion		55,906
Total lease liability	**$**	**141,507**

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 March 31, 2022, 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 March 31, 2022, 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.

10. Subsequent Events

Warrants granted to a service provider

On April 1, 2022, the Company granted 2,000,000 warrants to a service provider at an exercise price of $0.04 per share. The warrants vest ratably over one year and expire on April 1, 2024.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements for the three months ended March 31, 2022 and 2021 (unaudited) and the year ended December 31, 2021 together with the notes thereto. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited, to those set forth under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.
Unless otherwise provided in this Quarterly Report, references to "we," "us," "our" and "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. (formerly known as "EMBI Australia Pty Ltd."), an Australian proprietary limited company.

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 January 19, 2021, we changed our name from Emerald Bioscience, Inc. 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

We hold license agreements with University of Mississippi ("UM") for UM 5050 and UM 8930 for "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.

We are 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 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 continues to be of particular focus in 2022 and 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 potential 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 losses for the three months ended March 31, 2022 were $3,043,399 as compared to net losses of $2,160,517 for the three months ended March 31, 2021. As of March 31, 2022, we had an accumulated deficit of $50,299,562 and negative cash flows from operations of $2,914,875. As of March 31, 2022, we had unrestricted cash of $6,006,869 as compared to $8,983,007 December 31, 2021.

Critical Accounting Policies and Estimates

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

Management assessed the critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 and determined that there were no changes to our critical accounting policies and estimates during the three months ended March 31, 2022.

Recently Issued and Adopted Accounting Pronouncements

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

Results of Operations

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.

Three months ended March 31, 2022 and 2021

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 three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Research and development expenses	$ 1,265,653	$ 609,656	$ 655,997	108 %

Research and development expenses for the three months ended March 31, 2022 increased by $655,997 as compared to the three months ended March 31, 2021. The increase in research and development expenses was primarily due to an increase in contract research and development activities of approximately $292,000, an increase in our use of specialized consultants of approximately $159,000 and an increase in compensation cost of approximately $234,000 due to bonus expense, and additional headcount from the addition of regulatory and development personnel.

General and Administrative Expenses

Below is a summary of general and administrative expenses for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
General and administrative expenses	$ 1,622,368	$ 1,127,606	$ 494,762	44 %

General and administrative expenses for the three months ended March 31, 2022 increased by $494,762 as compared to the three months ended March 31, 2021. The increase in general and administrative expenses was primarily due to an increase in employee wages of approximately $134,000 related to the hiring of our chief financial officer, an increase in professional fees of approximately $387,000 related to finance and legal expenses, an increase in software expense of approximately $32,000, an increase in facilities and rent expense of approximately $34,000, and an increase in travel expenses of approximately $23,000. The aggregate increase was offset by decreases of approximately $91,000 and $39,000 in investor relations expenses and consulting expenses, respectively.

Other Expense (Income)

Below is a summary of other expense (income) during the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Change in fair value of derivative liabilities	$ (43,655)	$ 238,350	$ (282,005)	(118) %
Interest expense	199,033	184,905	14,128	8 %
Total other expense	**$ 155,378**	**$ 423,255**	**$ (267,877)**	**(63) %**

For the three months ended March 31, 2022, we had net other expense of $155,378 related to interest expense and a gain from the change in fair value of derivative liabilities. The primary reason for the decrease in other expense was the increase in the gain from the change in fair value of our derivative liabilities during the period from a loss in the prior period. Gains and losses from the change in fair value of our derivative liabilities are due primarily to fluctuations in our stock price and our volatility during each period. The increase in interest expense was due to a higher average outstanding principal balance on our Amended Credit Agreement for the period ended March 31, 2022, as compared to the period ended March 31, 2021.

For the three months ended March 31, 2021, we had other expense of $423,255 related primarily to interest expense of $184,905 and an increase in the fair value of our derivative liabilities of $238,350.

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.

As of March 31, 2022, we had an accumulated deficit of $50,299,562, stockholders' equity of $2,973,092 and working capital of $2,810,986. We had unrestricted cash of $6,006,869 as of March 31, 2022, as compared to $8,983,007 as of December 31, 2021. The decrease was attributable to operating cash burn during the three months ended March 31, 2022. 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 Condensed 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 Condensed Consolidated Financial Statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they become due. The outcome of these matters cannot be predicted with any certainty at this time and raise substantial doubt that we will be able to continue as a going concern. Our Condensed Consolidated Financial Statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

Cash Flows

The following is a summary of our cash flows for the periods indicated and has been derived from our Condensed Consolidated Financial Statements which are included elsewhere in this Form 10-Q:

	Three Months Ended March 31,	
	2022	**2021**
Net cash used in operating activities	$ (2,914,875)	$ (1,348,088)
Net cash used in investing activities	(1,999)	(10,696)
Net cash (used in) provided by financing activities	(59,263)	4,041,800

Cash Flows from Operating Activities

The primary use of cash for our operating activities during the period 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 depreciation and amortization.

Cash used in operating activities of $2,914,875 during the three months ended March 31, 2022, reflected a net loss of $3,043,399, partially offset by aggregate non-cash charges of $275,517 and included a $146,993 net increase in our operating assets and liabilities. Non-cash charges included $137,358 for stock-based compensation expense, $154,836 non-cash interest expense from the amortization of the debt discount on the multi-draw credit facility – related party, a $43,655 gain from the decrease in fair value of our warrant liability and a $26,978 in depreciation and amortization. The net change in our operating assets and liabilities included a $49,021 decrease in our accrued expense and other current liabilities.

Cash used in operating activities of $1,348,088 during the three months ended March 31, 2021, reflected a net loss of $2,160,517, partially offset by aggregate non-cash charges of $527,358 and included a $285,071 net change in our operating assets and liabilities. Non-cash charges included $146,580 for stock-based compensation expense, $141,490 non-cash interest expense from the amortization of the debt discount on the multi-draw credit facility – related party, and a $238,350 loss from the change in fair value of our derivative liabilities. The net change in our operating assets and liabilities included a $135,514 increase in accounts payable and a $121,298 increase in 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 three months ended March 31, 2022 and 2021, the Company purchased $1,999 and $10,696 in machinery office equipment, respectively.

Cash Flows from Financing Activities

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

During the three months ended March 31, 2022, cash used in financing activities included $1,967 in proceeds received in connection with the exercise of pre-funded warrants and a $61,230 repayment on the our insurance premium loan payable.

During the three months ended March 31, 2021, cash provided by financing activities was due to $4,041,800 in proceeds received in connection with the exercise of warrants.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

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

We conducted an evaluation, under the supervision and with the participation of our principal executive and financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2022. Based upon their evaluation and subject to the foregoing, the principal executive and financial officers have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective at a reasonable assurance level.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There have been no other material developments with respect to previously reported legal proceedings discussed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2021 includes a detailed discussion of our risk factors under the heading "Part I, Item 1A-Risk Factors." There are no changes from the risk factors previously disclosed in our Annual Report on Form 10-K. You should carefully consider the risk factors discussed in our Annual Report on Form 10-K, as well as the other information in this report before deciding whether to invest in shares of our common stock. The occurrence of any of the risks discussed in the Annual Report on Form 10-K could harm our business, financial condition, results of operations or growth prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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)
31.1*	Certification of Principal Executive Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934
31.2*	Certification of Principal Financial Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934
32.1*	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Skye Biosciences, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Balance Sheets (Unaudited), (ii) Condensed Consolidated Statements of Comprehensive Loss (Unaudited), (iii) Condensed Consolidated Statements of Cash Flows (Unaudited), (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited), and (v) related Notes to the Unaudited Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(*) Filed herewith.

SIGNATURES

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

Skye Bioscience, Inc.,
a Nevada corporation

May 6, 2022

By: */s/ Punit Dhillon*
Punit Dhillon
Its: Chief Executive Officer, Secretary, Chairman of the Board, and Director
(Principal Executive Officer)

May 6, 2022

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

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 quarterly report on Form 10-Q of Skye Bioscience, Inc. for the quarter ended March 31, 2022;

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 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 Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 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, particularly 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 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; and

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.

/s/ Punit Dhillon
Punit Dhillon
Chief Executive Officer, Chairman of the Board, and Director

Date: May 6, 2022

EXHIBIT 31.2

Certification of Principal Financial 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 quarterly report on Form 10-Q of Skye Bioscience, Inc. for the quarter ended March 31, 2022;

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 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 Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 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, particularly 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 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; and

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.

/s/ Kaitlyn Arsenault
Kaitlyn Arsenault
Chief Financial Officer
(Principal Accounting Officer)

Date: May 6, 2022

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 Quarterly Report of Skye Bioscience, Inc. a Nevada corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Punit Dhillon, Chief Executive Officer, Chairman of the Board, and Director of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Punit Dhillon

Punit Dhillon

Chief Executive Officer, Chairman of the Board, and Director

Date: May 6, 2022

EXHIBIT 32.2

Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Skye Bioscience, Inc. a Nevada corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kaitlyn Arsenault, Chief Financial Officer of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Kaitlyn Arsenault
Kaitlyn Arsenault
Chief Financial Officer
(Principal Accounting Officer)

Date: May 6, 2022