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 June 30, 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 August 12, 2022, there were 495,925,112 shares of the issuer's $0.001 par value common stock issued and outstanding.

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PART II - OTHER INFORMATION

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;
- regulatory developments in the United States and foreign countries;
- expectations regarding whether the transactions contemplated by the Arrangement Agreement (as defined below) will be consummated, including whether conditions to the consummation of such transactions will be satisfied, or the anticipated timing or closing of the Acquisition (as defined below); and
- any other strategic and financial benefits in connection with the Arrangement Agreement (as defined below), including any anticipated future results and pro-forma financial information relating to the resulting issuer.

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, including the impacts of the COVID-19 outbreak and associated business disruptions and 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

	June 30, 2022 (Unaudited)	December 31, 2021 (Note 2)
ASSETS		
Current assets		
Cash	$ 2,929,895	$ 8,983,007
Restricted cash	4,573	4,571
Prepaid expenses	871,428	554,217
Prepaid expenses - related party	—	13,432
Deferred asset acquisition costs	842,193	—
Other current assets	113,187	56,870
Other current assets - related party	12,655	—
Total current assets	4,773,931	9,612,097
Property and equipment, net	74,929	87,710
Operating lease right-of-use asset	110,304	146,972
Other asset	8,309	8,309
Total assets	$ 4,967,473	$ 9,855,088
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	$ 1,443,043	$ 897,880
Accounts payable - related parties	107,237	2,130
Accrued interest - related party	261,647	174,911
Accrued payroll liabilities	350,248	344,450
Insurance premium loan payable	122,461	—
Other current liabilities	511,257	375,842
Other current liabilities - related party	55,668	—
Derivative liability	6,554	59,732
Multi-draw credit agreement - related party	450,000	450,000
Convertible multi-draw credit agreement - related party, net of discount	1,839,830	1,524,905
Operating lease liability, current portion	88,928	82,372
Total current liabilities	5,236,873	3,912,222

Non-current liabilities		
Operating lease liability, net of current portion	32,422	78,700
Total liabilities	5,269,295	3,990,922
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, $0.001 par value; 50,000,000 shares authorized at June 30, 2022 and December 31, 2021;no shares issued and outstanding at June 30, 2022 and December 31, 2021	—	—
Common stock, $0.001 par value; 5,000,000,000 shares authorized at June 30, 2022 and December 31, 2021;495,925,112 and 476,108,445 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	495,925	476,108
Additional paid-in-capital	52,921,093	52,644,221
Accumulated deficit	(53,718,840)	(47,256,163)
Total stockholders' (deficit) equity	(301,822)	5,864,166
Total liabilities and stockholders' equity	$ 4,967,473	$ 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 June 30,		For the Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Operating expenses				
Research and development	$ 1,427,154	$ 880,672	$ 2,692,807	$ 1,490,328
General and administrative	1,791,206	949,002	3,413,575	2,076,608
Total operating expenses	3,218,360	1,829,674	6,106,382	3,566,936
Operating loss	(3,218,360)	(1,829,674)	(6,106,382)	(3,566,936)
Other expense (income)				
Change in fair value of derivative liability	(9,523)	120,648	(53,178)	358,998
Interest expense	205,300	190,058	404,332	374,963
Gain on forgiveness of PPP loan	—	(117,953)	—	(117,953)
Total other expense, net	195,777	192,753	351,154	616,008
Loss before income taxes	(3,414,137)	(2,022,427)	(6,457,536)	(4,182,944)
Provision for income taxes	5,141	1,600	5,141	1,600
Net loss and comprehensive loss	$ (3,419,278)	$ (2,024,027)	$ (6,462,677)	$ (4,184,544)
Loss per common share:				
Basic	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average shares of common stock outstanding used to compute earnings per share:				
Basic	495,925,112	378,427,575	495,874,560	357,770,295
Diluted	495,925,112	378,427,575	495,874,560	357,770,295

See accompanying notes to the condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (6,462,677)	$ (4,184,544)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	54,661	1,948
Stock-based compensation expense	281,722	258,279
Change in fair value of derivative liabilities	(53,178)	358,998
Amortization of debt discount	314,925	287,781
Gain on forgiveness of PPP loan	—	(117,953)
Changes in assets and liabilities:		
Prepaid expenses	(41,674)	(72,427)
Prepaid expenses - related party	13,432	(14,805)
Other current asset	(56,317)	—
Other current assets - related party	(12,655)	—
Other assets - related party	—	(4,000)
Accounts payable	(34,022)	17,799
Accounts payable - related parties	105,107	(1,994)
Accrued interest - related party	86,736	42,650
Accrued payroll liabilities	5,798	50,960
Operating lease liability	(39,722)	—
Other current liabilities	(33,764)	357,819
Other current liabilities - related party	55,668	—
Net cash used in operating activities	(5,815,960)	(3,019,489)
Cash flows from investing activities:		
Asset acquisition costs	(80,830)	—
Purchase of property and equipment	(5,212)	(10,170)
Net cash used in investing activities	(86,042)	(10,170)
Cash flows from financing activities:		
Proceeds from common stock warrant exercises	—	5,730,000
Proceeds from pre-funded warrant exercises	1,967	11,800
Proceeds from stock option exercises	—	4,783
Repayment of insurance premium loan payable	(153,076)	—
Net cash (used in) provided by financing activities	(151,109)	5,746,583
Net (decrease) increase in cash and restricted cash	(6,053,110)	2,716,924
Cash and restricted cash, beginning of period	$ 8,987,578	$ 2,473,976
Cash and restricted cash, end of period	$ 2,934,468	$ 5,190,900

Supplemental disclosures of cash-flow information:		
Reconciliation of cash and restricted cash:		
Cash	$ 2,929,895	$ 5,186,331
Restricted cash	4,573	4,569
Total cash and restricted cash shown in the consolidated statements of cash flows	$ 2,934,468	$ 5,190,900
Cash paid during the period for:		
Interest	$ 2,669	$ 44,087
Income taxes	5,141	1,600
Supplemental disclosures of non-cash financing activities:		
Asset acquisition costs in other current liabilities and accounts payable	$ 761,364	$ —
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 (DEFICIT)
(UNAUDITED)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	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**
Stock-based compensation expense	—	—	144,364	—	144,364
Net loss for the three months ended June 30, 2022	—	—	—	(3,419,278)	(3,419,278)
Balance, June 30, 2022	**495,925,112**	**$ 495,925**	**$ 52,921,093**	**$ (53,718,840)**	**$ (301,822)**

	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**
Stock-based compensation expense	—	—	111,699	—	111,699
Exercise of common stock options	106,250	107	4,676	—	4,783
Exercise of common stock warrants	28,333,334	28,333	1,671,667	—	1,700,000
Net loss for the three months ended June 30, 2021	—	—	—	(2,024,027)	(2,024,027)
Balance, June 30, 2021	**396,080,666**	**$ 396,081**	**$ 44,793,548**	**$ (42,918,525)**	**$ 2,271,104**

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 preclinical 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").

On May 11, 2022, the Company entered into an Arrangement Agreement, as amended on June 14, 2022 and July 15, 2022, (the "Arrangement Agreement") with Emerald Health Therapeutics, Inc., a corporation existing under the laws of the Province of British Columbia, Canada ("EHT"), pursuant to a plan of arrangement under the Business Corporations Act (British Columbia) (the "Acquisition") (Note 3). Subject to the terms and conditions set forth in the Arrangement Agreement, each share of EHT common stock outstanding immediately prior to the effective time of the Arrangement (other than the shares held by EHT dissenting shareholders) shall be transferred to the Company in exchange for 1.95 shares of Company common stock (the "Exchange Ratio").

As of June 30, 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 June 30, 2022, had a working capital deficit of $462,942 and an accumulated deficit of $53,718,840. As of June 30, 2022, the Company had unrestricted cash in the amount of $2,929,895. For the three and six months ended June 30, 2022 and 2021, the Company incurred losses from operations of $3,218,360 and $1,829,674, and 6,106,382 and 3,566,936, respectively. For the three and six months ended June 30, 2022 and 2021, the Company incurred net losses of $3,419,278 and $2,024,027, and $6,462,677 and $4,184,544, respectively. The Company expects to continue to incur significant losses through the end of 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. During the quarter ended June 30, 2022, the Company expended significant resources on the acquisition of EHT and as it approaches the initiation of its first clinical trial in late 2022 has increased research and development spending. These two factors, among others, have resulted in an overall increase in cash used in operating activities. Based on the Company's expected cash requirements, without obtaining additional funding by the end of 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.

The Company is pursuing the acquisition of EHT due to the cash and real estate that it expects to acquire as a result of the Acquisition (Note 3). Management expects that the Acquisition will provide funding for the Company into at least the second quarter of 2023, which management expects will allow Skye to complete its Phase 1 clinical trial and commence Phase 2 clinical trial. However, the Acquisition is expected to close no earlier than October 15, 2022. Therefore, in order to satisfy the Company's cash flow requirements through the closing of the Acquisition, the Company is exploring interim financing solutions to bridge the Company's operational funding requirements during the pre-closing period, is managing the timing of its vendor payments and has continued to consider other interim funding alternatives. 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.

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 9). On April 29, 2020, the Company entered into an Amended and Restated Multi-Draw Credit Agreement (the “Amended Credit Agreement”) with Sciences. As of June 30, 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 5).

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 plans to conduct its clinical studies. The effects of COVID-19 could continue to 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.

During the second quarter of 2022, the Company was indirectly impacted by a cyberattack on the contract manufacturer for its Phase 1 clinical trial material. This disruption delayed the Company's production timeline and the anticipated initiation of enrollment in the Company's Phase 1 clinical study for SBI-100 Ophthalmic Emulsion ("SBI-100 OE") to the fourth quarter of 2022. The overall potential delay in the Company's drug product research and development from these types of incidents is unknown, but the Company's 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 and other global conditions.

It is possible that the Company may encounter other similar issues relating COVID-19 or the cyberattack that will need to be managed 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 OE 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 or manufacturing process, 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.

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 and six months ended June 30, 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 transactions 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, estimates related to the Company's estimation of the percentage of completion under its research and development contracts 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), risks related to operating primarily in a virtual environment, 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 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 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.

The Company accounts for liability-classified stock option awards ("liability options") under ASC 718 -*Compensation - Stock Compensation* ("ASC 718"), under which the Company accounts for its awards containing other conditions as liability classified instruments. Liability options are initially recognized at fair value in stock-compensation expense and subsequently

re-measured to their fair values at each reporting date with changes in the fair value recognized in share-based compensation expense or additional paid-in capital upon settlement or cancellation.

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 June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	**2021**	**2022**	**2021**
Basic and diluted loss per share:				
Net loss	$ (3,419,278)	$ (2,024,027)	$ (6,462,677)	$ (4,184,544)
Weighted average common shares outstanding – basic and diluted	495,925,112	378,427,575	495,874,560	357,770,295
Loss per share - basic and diluted	**$ (0.01)**	**$ (0.01)**	**$ (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 June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	**2021**	**2022**	**2021**
Stock options	37,755,000	21,850,000	37,755,000	21,850,000
Common shares underlying convertible debt	5,570,932	5,213,498	5,570,932	5,213,498
Warrants	136,187,225	50,213,334	136,187,225	50,213,334
Unvested restricted stock units	4,000,000	—	4,000,000	—

Asset Acquisition

The Company evaluates acquisitions of assets and other similar transactions to assess whether or not the transaction should be accounted for as a business combination or asset acquisition by first applying a screen test to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the screen is met, the transaction is accounted for as an asset acquisition. If the screen is not met, further determination is required as to whether or not the Company has acquired inputs and processes that have the ability to create outputs which would meet the definition of a business. Significant judgment is required in the application of the screen test to determine whether an acquisition is a business combination or an acquisition of assets.

For asset acquisitions, a cost accumulation model is used to determine the cost of an asset acquisition. Common stock issued as consideration in an asset acquisition is generally measured based on the acquisition date fair value of the equity interests issued. Direct transaction costs are recognized as part of the cost of an asset acquisition. The Company also evaluates which elements of a transaction should be accounted for as a part of an asset acquisition and which should be accounted for separately. Consideration deposited into escrow accounts are evaluated to determine whether it should be included as part of the cost of an asset acquisition or accounted for as contingent consideration. Amounts held in escrow where we have legal title to such balances but where such accounts are not held in the Company's name, are recorded on a gross basis as an asset with a corresponding liability in our condensed consolidated balance sheet.

The cost of an asset acquisition, including transaction costs, are allocated to identifiable assets acquired and liabilities assumed based on a relative fair value basis. Goodwill is not recognized in an asset acquisition. Any difference between the cost of an asset acquisition and the fair value of the net assets acquired is allocated to the non-monetary identifiable assets based on their relative fair values. However, as of the date of acquisition, if certain assets are carried at fair value under other applicable GAAP the consideration is first allocated to those assets with the remainder allocated to the non-monetary identifiable assets based on relative fair value basis.

Government Assistance

The Company early adopted ASU 2021-10 *Government Assistance* on January 1, 2022. The Company accounts for the tax rebates received from the Australian Taxation Office ("ATO") under such guidance. The Company accounts for the rebates that it receives under the AusIndustry research and development tax incentive program under the income recognition model of IAS 20. Under this model, when there is reasonable assurance that the rebate will be received, the Company recognizes the income from the tax rebate as an offset to research and development expense during the period which the benefit applies to the research and development costs incurred. As of June 30, 2022 and December 31, 2021, the Company has recognized $110,882 and $44,616, respectively, in other current assets in its Condensed Consolidated Balance Sheets.

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.

3. Acquisition of Emerald Health Therapeutics, Inc.

On May 11, 2022, the Company and EHT entered into an Arrangement Agreement, as subsequently amended on June 14, 2022 and July 15, 2022, pursuant to which Skye will acquire all of the issued and outstanding shares of EHT pursuant to a plan of arrangement under the Business Corporations Act of British Columbia. As of June 30, 2022, EHT was a related party of the Company due to the investments by Sciences in both Skye and EHT (Notes 9 & 11).

Under the Arrangement Agreement, the Company will issue each EHT shareholder (other than the shares held by EHT dissenting shareholders)1.95 shares of Skye common stock, for each share of EHT common stock outstanding as of the closing date of the Acquisition. As of June 30, 2022, it is expected that the Company will issue 416,270,585 shares of stock as consideration in the Acquisition and no fractional shares of Skye Common Stock will be issued. It is expected that, for U.S. and Canadian federal income tax purposes, the Acquisition shall constitute a taxable exchange by the EHT shareholders of EHT Shares for Skye Common Stock. In addition, all outstanding stock options and warrants of EHT will be exchanged for replacement options and warrants of Skye on identical terms, as adjusted in accordance with the Exchange Ratio.

The obligations of Skye and EHT to consummate the Arrangement are subject to certain conditions, including, but not limited to the following:

a. obtaining the required approvals of Skye's and EHT's shareholders;
b. obtaining an interim order and final order from the Supreme Court of British Columbia approving the Acquisition;
c. the absence of any injunction or similar restraint prohibiting or making illegal the consummation of the Acquisition or any of the other transactions contemplated by the Arrangement Agreement;
d. no material adverse effect having occurred;
e. subject to certain materiality exceptions, the accuracy of the representations and warranties of each party;
f. the performance in all material respects by each party of its obligations under the Arrangement Agreement;
g. the conditional approval by the Canadian Stock Exchange ("CSE") of the listing of Skye Common Stock and the common stock, options or warrants to be issued to in connection with the Arrangement; and
h. the EHT shareholders shall not have exercised dissent rights in respect of more than 5% of the outstanding EHT shares.

The Company is currently evaluating the expected accounting for the transaction and expects that the Acquisition will be accounted for as an asset acquisition due to the wind-down state of EHT (Note 1). The primary purpose of the Acquisition is to utilize EHT's remaining cash and cash equivalents and liquidate the primary real estate asset owned by EHT in order to fund the Company's operations. In addition, EHT owns a vacant laboratory facility that is fully-licensed to handle controlled substances under Canadian regulations, which the Company is currently evaluating for research and development activities and to support certain manufacturing capabilities. In negotiating the Exchange Ratio, the Company performed a review of EHT's assets and the costs expected to wind down operations. However, there is inherent risk and uncertainty around what the ultimate liquidation value of EHT will be.

The Acquisition is anticipated to close in the fourth quarter of 2022. As of June 30, 2022, the Company has deferred $842,193 in asset acquisition costs.

4. 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 June 30, 2022 are summarized as follows:

Source	Exercise Price	Term (Years)	Number of Warrants 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
2022 Common Stock Warrants to Service Provider	0.04	2	2,000,000
Total warrants outstanding as of June 30, 2022			**136,187,225**

As of June 30, 2022, all of the Company's warrants are fully vested with the exception of the *"2022 Common Stock Warrants to Service Provider."*

2022 Common Stock Warrants Issued to a Service Provider

On April 1, 2022, the Company granted 2,000,000 equity classified warrants with a fair value of $35,688 to a service provider at an exercise price of $0.04 per share. The warrants vest monthly over one year and expire on April 1, 2024. Refer to Note 7 for the summary of stock-based compensation expense.

As of the date of grant, the Company valued the warrants with a Black-Scholes valuation method using the following assumptions:

	April 1, 2022 Date of Issuance
Dividend yield	— %
Volatility factor	118.5 %
Risk-free interest rate	1.92 %
Expected term (years)	1.27
Underlying common stock price	$ 0.04

Derivative Liability

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

	Six Months Ended June 30, 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	June 30, 2022 Fair Value of Derivative Liability
Emerald Financing - warrant liability	$ 59,732	$ —	$ (53,178)	$ —	$ 6,554
Current balance of derivative liability	**$ 59,732**	**$ —**	**$ (53,178)**	**$ —**	**$ 6,554**

	Six Months Ended June 30, 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	June 30, 2021 Fair Value of Derivative Liability
Emerald Financing - warrant liability	$ 38,567	$ —	$ 358,998	$ —	$ 397,565
Total derivative liability	**$ 38,567**	**$ —**	**$ 358,998**	**$ —**	**$ 397,565**

Emerald Financing Warrant Liability

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:

	June 30, 2022	December 31, 2021
Dividend yield	— %	— %
Volatility factor	99.0 %	126.5 %
Risk-free interest rate	2.59 %	0.43 %
Expected term (years)	0.63	1.13
Underlying common stock price	$ 0.04	$ 0.05

5. Debt

Multi-Draw Credit Agreement- Related Party

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

	Conversion Price	As of June 30, 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		(173,616)	(487,668)
Unamortized debt issuance costs		(1,054)	(1,927)
Carrying value of total convertible debt - related party		**1,839,830**	**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		**$ 2,289,830**	**$ 1,974,905**

On October 5, 2018, the Company entered into the Credit Agreement with Sciences, a related party (See Note 9). 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 4).

As of June 30, 2022, the unamortized debt discount on the convertible advances will be amortized over a remaining period of approximately 0.27 years. As of June 30, 2022, the fair value of the shares underlying the convertible advances under the Amended Credit Agreement was $176,269. As of June 30, 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 June 30, 2022, a total of $200,912 and $122,461, remains financed in prepaid expenses and loans payable, respectively.

Interest Expense

The Company's interest expense consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Related party interest expense – stated rate	$ 43,608	$ 43,608	$ 86,737	$ 86,737
Insurance premium loan payable - stated rate	1,603	159	2,669	445
Non-cash interest expense:				
Amortization of debt discount	159,645	145,885	314,052	286,982
Amortization of transaction costs	444	406	874	799
	$ 205,300	**$ 190,058**	**$ 404,332**	**$ 374,963**

6. Stockholders' Equity and Capitalization

Warrant Exercises

During the six months ended June 30, 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 7).

7. Stock-Based Compensation

Stock Incentive Plan

On October 31, 2014, 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. On June 14, 2022, in connection with the Acquisition, the 2014 Plan was further amended to comply with Canadian securities rules and is subject to shareholder approval. 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 June 30, 2022, the Company had 13,764,595 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 six months ended June 30, 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	4,350,000	0.04		
Exercised	—	—		
Cancelled	(321,250)	0.06		
Forfeited	(1,678,750)	0.08		
Outstanding, June 30, 2022	**37,755,000**	**$ 0.07**	**8.7**	**$ —**
Exercisable, June 30, 2022	**12,066,250**	**$ 0.08**	**8.02**	**$ —**

The weighted-average grant-date fair value of stock options granted during the three and six months ended June 30, 2022 was $0.04.

The fair value of the Company's stock option grants were estimated on the date of grant using the Black-Scholes option-pricing model under the following assumptions:

	Six Months Ended June 30, 2022
Dividend yield	— %
Volatility factor	126.3 - 132.6%
Risk-free interest rate	2.89 - 3.60%
Expected term (years)	5.00 - 6.08

Stock Option Awards with Performance and Other Conditions

During the three and six months ended June 30, 2022, the Company granted4,000,000 stock options with an exercise price of $0.04 which include a combination of performance vesting conditions and other vesting conditions pursuant to a consulting agreement entered with Mr. Jim Heppell, a former director of Skye and related party of the Company (Note 9). The vesting conditions of the stock option award provide that 50% of the options are vested upon grant and the remaining 50% will vest upon the sale of a real estate asset held by EHT at an amount greater than or equal to an amount specified in the agreement. None of the options are exercisable until the Acquisition is consummated, which is not deemed probable as of June 30, 2022, (Note 3). The conditions related to the sale of EHT's real estate are considered other conditions and the condition related to the closing of the Acquisition is considered a performance condition. When a performance condition is deemed to be probable of achievement, time-based vesting and recognition of stock-based compensation expense commences.

As a result, no share-based compensation expense will be recognized for these stock options until the performance condition is considered to be probable. As of June 30, 2022, the Company has determined that the closing of the Acquisition is not deemed probable, as the consummation of the Acquisition is not solely within the control of the Company.

As of June 30, 2022, the Company has included $73,368 related to the first tranche of these awards in total unrecognized stock-based compensation expense below. The Company has evaluated the second tranche and has determined that due to the other conditions contained in these awards that they will be recorded as liability options once the Acquisition is deemed probable and will be remeasured through their settlement date or cancellation.

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 June 30, 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 six months ended June 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, December 31, 2021	**150,000**	**$ 0.13**
Released	(150,000)	0.13
Unvested, June 30, 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 warrants with vesting provisions issued to a service provider (Note 4), and the RSUs discussed above, in its Condensed Consolidated Statements of Comprehensive Loss as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Research and development	$ 21,955	$ 13,612	$ 40,541	$ 19,363
General and administrative	122,409	98,087	241,181	238,916
	$ 144,364	**$ 111,699**	**$ 281,722**	**$ 258,279**

The total amount of unrecognized compensation cost was $1,381,837 as of June 30, 2022. This amount will be recognized over a weighted average period of 2.73 years.

2022 Employee Stock Purchase Plan

In June 2022, the Company's board of directors approved the 2022 Employee Stock Purchase Plan (the "ESPP"). Under which the Company will offer eligible employees the option to purchase common stock at a 15% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of the ESPP. Total individual purchases in any year are limited to 15% of compensation. The ESPP is currently awaiting shareholder approval.

8. 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 molecule 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 June 30, 2022, the Company has paid the fee due for the notice of patent allowance for the proprietary molecule under the UM 8930 License Agreement. As of June 30, 2022, none of the other milestones under these license agreements have been met (Note 11).

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 June 30, 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.

9. 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 June 30, 2022 and has provided the Company with financing under the Amended Credit Agreement (Note 5).

On December 19, 2019, the Company entered into an Independent Contractor Services Agreement with Dr. Avtar Dhillon, at the time a member of Sciences Board of Directors and its CEO, pursuant to which Dr. Dhillon provided ongoing corporate finance and strategic business advisory services to the Company. In exchange for his services, Dr. Dhillon received a fee of $10,000 per month for his services.

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. No expenses were incurred under this agreement during the three months and six months ended June 30, 2022. Under this agreement, for the three and six months ended June 30, 2021, the Company incurred fees of $30,000 and $60,000, respectively.

On May 18, 2022, Jim Heppell resigned from the Company's board of directors and concurrently entered into a consulting agreement with the Company pursuant to which Mr. Heppell will provide services mutually agreed upon by the Company. The consulting agreement has an initial minimum term of one-year and will be automatically renewed for a one-year period on the anniversary of the contract unless terminated with 60 days' notice. Under the consulting agreement, Mr. Heppell is entitled to a monthly fee of $6,300, which will be increased to $16,600 per month upon the closing of the Acquisition. The consulting agreement provides Mr. Heppell with a termination payment in an amount equal to the monthly fees through the then-remaining term of the agreement if Mr. Heppell's engagement is terminated by the Company without cause. In addition, Mr. Heppell was awarded 4,000,000 stock options which are subject to certain performance and other conditions (Note 7). The Company has accounted for the consulting contract as an in-substance severance arrangement and recognized $75,600 in severance expense during the three and six months ended June 30, 2022. The accrual for Mr. Heppell's severance will be adjusted to include the increased fee payments when the Company determines that the closing of the Acquisition is probable. As of June 30, 2022, the Company recognized $6,300, in accounts payable under this consulting agreement.

As of June 30, 2022, Mr. Heppell is a board member of Emerald Health Pharmaceuticals, Inc. and EHT (Note 3). As of June 30, 2022, Sciences owns 23%, 48%, and 18% of the Company, Emerald Health Pharmaceuticals, Inc. and EHT, respectively. As of June 30, 2022, Mr. Heppell is also a board member and the CEO of Sciences. Mr. Heppell also served on VivaCell's board until he tendered his resignation on January 10, 2022.

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 June 30, 2022 and 2021, the Company incurred $48,908 and $73,678, respectively, in expenses under the Collaborative Research Agreements. For the six months ended June 30, 2022 and 2021, the Company incurred $87,926 and $143,278, respectively, in expenses under the Collaborative Research Agreements. As of June 30, 2022 and December 31, 2021, the Company has recognized prepaid asset in the amount of $0 and $8,056, respectively.

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 and six months ended June 30, 2022, the Company incurred $50,000 and $100,000, respectively, in research and development expenses related to the retainer under the ESRA. As of June 30, 2022 and December 31, 2021, the Company has recognized $50,000 and $5,376 in accounts payable and prepaid expense, 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 development of a screening platform for anteroposterior ocular diseases. The project budget is $190,500. For the three and six months ended June 30, 2022, the Company incurred $103,913 and $120,000, respectively of research and development expenses under the ESRA. As of June 30, 2022, the Company recognized $55,668, in accrued expense related to the first research project. As of June 30, 2022, the Company recognized $48,249, in accounts payable under this agreement.

Management conflicts

As of June 30, 2022, the Company's CEO Punit Dhillon, is a board member of the Company, Emerald Health Pharmaceuticals, Inc. and EHT (Note 3). Mr. 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.

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 and six months ended June 30, 2022, the Company incurred $10,779 and $19,374, respectively, of consulting expenses in general and administrative expenses under this agreement. As of June 30, 2022, the Company recognized $2,688, in accounts payable under this consulting agreement.

10. 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 and six months ended June 30, 2022, lease expense comprised of $22,675 and $45,350, respectively, 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:

	June 30, 2022
Weighted-average remaining term – operating lease (in years)	1.33
Weighted-average discount rate – operating lease	12 %

Future minimum lease payments as of June 30, 2022 are presented in the following table:

Year:	
2022 (remaining six months)	48,888
2023	83,093
Total future minimum lease payments:	131,981
Less imputed interest	(10,631)
Total	**$ 121,350**

Reported as:

Operating lease liability	$	88,928
Operating lease liability, net of current portion		32,422
Total lease liability	**$**	**121,350**

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 June 30, 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 June 30, 2022, the Company is unable to make an estimate as to the amount of the contingency, as the legal proceeding remains in the discovery phase. The Company is expensing the legal costs related to this proceeding as incurred.

11. Subsequent Events

Related Party Matters

On July 8, 2022, Sciences distributed its shareholdings in EHT to the individual shareholders of Sciences in the form of a return of capital. As a result, there is no longer a common ownership interest by Sciences in both Skye and EHT (Note 3).

On July 11, 2022, the Company and EHT entered into a consulting agreement pursuant to which representatives of the Company will provide administrative assistance to EHT to assist EHT in satisfying its financial reporting, operational and regulatory obligations. EHT will pay the Company $150 for each hour of services provided by the Company. The term of the consulting agreement ends on the date of the closing or termination of the Arrangement Agreement, and both EHT and the Company can terminate such agreement upon thirty (30) days' notice. The consulting agreement has an effective date of May 12, 2022 and as of June 30, 2022, the Company has recorded a receivable of $12,655 in other current assets - related party in the Condensed Consolidated Balance Sheets.

On July 15, 2022, the Company and EHT entered into the second amendment to the Arrangement Agreement to extend the outside date of the closing of the acquisition to November 15, 2022 in the event that the parties encounter regulatory delays.

Significant Contracts

In July 2022, we triggered the first $100,000 milestone payment under our UM 5050 license agreement upon submission of our application for authorization to conduct the Company's Phase 1 trial of SBI-100 OE to the Therapeutic Goods Administration in Australia.

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 Condensed Consolidated Financial Statements (unaudited) for the three and six months ended June 30, 2022 and 2021 (unaudited) and the consolidated financial statements and the related notes thereto included in our Annual Report on Form 10-K for 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. We have retained Novotech as our contract research organization "CRO" and expect to commence Phase 1 trial in the fourth quarter of 2022.

On May 11, 2022, we entered into an Arrangement Agreement (the "Arrangement Agreement") with Emerald Health Therapeutics, Inc., a corporation existing under the laws of the Province of British Columbia, Canada ("EHT"), pursuant to which we will acquire all of the issued and outstanding common shares of EHT on a basis of 1.95 shares of our common stock per outstanding share of EHT common stock (the "Acquisition"). EHT is currently undergoing a realization process to wind down all prior operations and liquidate substantially all of its remaining assets. We expect this strategic opportunity to be a pivotal financing event for our business allowing us to extend our cash runway into at least the second quarter of 2023 and obtain meaningful clinical data. In addition, EHT has a lab facility which we are currently evaluating to determine whether it is practical to bring certain aspects of our research and development activities in house.

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 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 no restrictions on use of the underlying inventions, including developing UM 5050 and UM 8930 to treat any disease through any form of delivery under the License Agreements.

The exclusive license for our lead compound, SBI-100 Ophthalmic Emulsion ("SBI-100 OE"), 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 OE. Independent in vitro and in vivo studies have demonstrated the potential use of SBI-100 OE 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 OE 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, gastrointestinal tract, endocrine/metabolic system, reproductive system, or as yet unrecognized opportunities. We have developed strategic collaborations to identify and advance these applications.

SBI-100 Ophthalmic Emulsion (SBI-100 OE)

Our lead compound, SBI-100 OE, is initially being developed to treat ocular disease. The first-in-human Phase 1 trial are expected to be conducted in healthy volunteers in Australia to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of SBI-100 OE. 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 supply for our first-in-human Phase 1 clinical trial, and completing validation of a pharmacokinetic assay for human samples to support our clinical studies. The manufacturing of SBI-100 OE is conducted in the United States. Formulation of the eye drop for testing is also performed in the United States but we rely on 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 OE 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 OE is safe and well-tolerated, and whether intraocular pressure is markedly different between patients treated with SBI-100 OE and the 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 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 early 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 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;

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.

During the second quarter of 2022, we were indirectly impacted by a cyberattack on our Phase 1 clinical supply contract manufacturer. This disruption delayed our production timeline and the anticipated initiation of enrollment in our Phase 1 clinical studies for SBI-100 Ophthalmic Emulsion ("SBI-100 OE") to the fourth quarter of 2022. The overall potential delay in our drug product research and development from these types of incidents 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 and other global conditions. It is possible that we may encounter other similar issues relating to the current situation that will need to be managed 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.

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.

We have incurred operating losses and negative cash flows from operations since inception and as of June 30, 2022, had a working capital deficit of $462,942 and an accumulated deficit of $53,718,840. As of June 30, 2022, we had unrestricted cash in the amount of $2,929,895. For the three and six months ended June 30, 2022 and 2021, we incurred losses from operations of $3,218,360 and $1,829,674, and 6,106,382 and 3,566,936, respectively. For the three and six months ended June 30, 2022 and 2021, we incurred net losses of $3,419,278 and $2,024,027, and $6,462,677 and $4,184,544, respectively. We expect to continue to incur significant losses through 2022 and expects to incur significant losses and negative cash flows from operations in the future.

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, the percentage of completion as it relates to our clinical accruals, financing operations, 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, clinical accruals 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 included a new "*Asset Acquisition*" policy note and made updates to its "*Stock-based Compensation*" policy note which are critical to its accounting policies and estimates during the six months ended June 30, 2022 (Note 2).

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 June 30, 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. Our application to administer our lead drug candidate, SBI-100 OE, in human subjects has been submitted and approval was obtained by Belberry Limited, an Australian Human Research Ethics Committee (HREC) during the quarter ended June 30, 2022. We have received authorization from the Australian Therapeutics Goods Administration to commence clinical trials and are awaiting the manufacture and delivery of our drug to our CRO in Australia to do so. We expect to initiate enrollment in our first-in-human study during the fourth quarter of 2022.

Below is a summary of our research and development expenses during the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Research and development expenses	$ 1,427,154	$ 880,672	$ 546,482	62 %

Research and development expenses for the three months ended June 30, 2022 increased by $546,482 as compared to the three months ended June 30, 2021. The increase in research and development expenses was primarily due to an increase in contract research and development activities, including amounts paid to our contract research organization, of approximately $237,000, increases in lab supplies and materials of $28,000 and an increase in compensation cost of approximately $240,000 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 June 30, 2022 and 2021:

	Three Months Ended June 30,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
General and administrative expenses	$ 1,791,206	$ 949,002	$ 842,204	89 %

General and administrative expenses for the three months ended June 30, 2022 increased by $842,204 as compared to the three months ended June 30, 2021. The increase in general and administrative expenses was primarily due to an increase in employee wages and board fees of approximately $439,000 related to the hiring of our chief financial officer, Acquisition related bonus payments and the addition of two board members, an increase in professional fees of approximately $425,000 related primarily to costs associated with general legal fees, an increase in software expense of approximately $26,000, and an increase in facilities and rent expense of approximately $27,000. The aggregate increase was offset by decreases of approximately $42,000 and $59,000 in investor relations expenses and consulting expenses, respectively.

Other Expense (Income)

Below is a summary of other expense (income) during the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Change in fair value of derivative liabilities	$ (9,523)	$ 120,648	$ (130,171)	(108) %
Interest expense	205,300	190,058	15,242	8 %
Gain on forgiveness of PPP loan	—	(117,953)	117,953	100 %
Total other expense	**$ 195,777**	**$ 192,753**	**$ 3,024**	**2 %**

For the three months ended June 30, 2022, we had net other expense of $195,777 related to interest expense and a gain from the change in fair value of our warrant liability. When comparing the three months ended June 30, 2022 and 2021, total other expense remained relatively constant. However, during the three months ended June 30, 2021, we recognized a gain from the forgiveness of our PPP loan which was offset by a loss from the increase in value of our derivative liabilities. 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 slight increase in interest expense was due to an increase in the amortization of the debt discount on our Amended Credit Agreement for the period ended June 30, 2022, as compared to the period ended June 30, 2021.

Six months ended June 30, 2022 and 2021

Below is a summary of our research and development expenses during the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Research and development expenses	$ 2,692,807	$ 1,490,328	$ 1,202,479	81 %

Research and development expenses for the six months ended June 30, 2022 increased by $1,202,479 as compared to the six months ended June 30, 2021. The increase in research and development expenses was primarily due to an increase in contract research and development activities, including amounts paid to our contract research organization of approximately $479,000, an increase in the use of specialized consultants of approximately $170,413, increases in lab supplies and materials of

approximately $36,000 and an increase in compensation cost of approximately $476,000 due to bonus expense and additional headcount from the addition of regulatory and development personnel.

General and Administrative Expenses

Total general and administrative expenses for the six months ended June 30, 2022 and 2021, were as follows:

	Six Months Ended June 30,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
General and administrative expenses	$ 3,413,575	$ 2,076,608	$ 1,336,967	64 %

General and administrative expenses for the six months ended June 30, 2022 increased by $1,336,967 as compared to the six months ended June 30, 2021. The increase in general and administrative expenses was primarily due to an increase in employee wages and board fees of approximately $589,000 related to the hiring of our chief financial officer and the addition of two board members, an increase in professional fees of approximately $815,000 related primarily to preliminary diligence costs associated with the EHT Acquisition which were expensed as incurred during the first quarter, increases in general legal fees, an increase in software expense of approximately $58,000, and an increase in facilities and rent expense of approximately $61,000. The aggregate increase was offset by decreases of approximately $134,000 and $98,000 in investor relations expenses and consulting expenses, respectively.

Other Expense (Income)

Total other expense (income) for the six months ended June 30, 2022 and 2021, was as follows:

	Six Months Ended June 30,			
	2022	2021	$ Change 2022 vs. 2021	% Change 2022 vs. 2021
Change in fair value of derivative liabilities	$ (53,178)	$ 358,998	$ (412,176)	(115) %
Interest expense	404,332	374,963	29,369	8 %
Gain on forgiveness of PPP loan	—	(117,953)	117,953	100 %
Total other expense	**$ 351,154**	**$ 616,008**	**$ (264,854)**	**(43) %**

For the six months ended June 30, 2022, we had net other expense of $351,154 related to interest expense, offset in part by a gain from the change in fair value of derivative liabilities. The primary reason for the gain on the change in fair value of our derivative liabilities was due to the decrease in our stock price and volatility, for the period ended June 30, 2022 as compared to the period ended June 30, 2021. The increase in interest expense was due to an in increase in the amortization of the debt discount on our Amended Credit Agreement for the period ended June 30, 2022, as compared to the period ended June 30, 2021.

For the six months ended June 30, 2021, we had net other expense of $616,008 related to interest expense and a loss from the change in fair value of derivative liabilities. The primary reason for the loss on the change in fair value of our derivative liabilities was due to a increase in our stock price and volatility, for the period ended June 30, 2021, Other expenses during the period were offset by the gain on debt forgiveness realized from the PPP Loan.

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 in preclinical and clinical

development activities and support our corporate infrastructure, which includes the costs associated with being a public company and raising capital. Historically, we have funded our operations primarily through the issuance of equity securities and borrowings from Sciences.

During the latter part of 2022 and in 2023, we expect to fund our operations through the strategic Acquisition of EHT and subsequent liquidation of EHT's assets. Management expects that this funding opportunity will finance the Company at least through the second quarter of 2023 which will allow Skye to complete its Phase 1 trial and commence Phase 2 trial. However, the Acquisition is expected to close no earlier than October 15, 2022. Therefore, in order to satisfy our cash flow requirements through the Acquisition date, we are exploring interim financing solutions to bridge our operational funding requirements during the pre-close period, are managing the timing of our vendor payments and have continued to consider other interim funding alternatives. However, we cannot provide any assurances that such additional funds will be available on reasonable terms, or at all. If we raise additional funds by issuing equity securities, dilution to existing stockholders would result.

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 June 30, 2022, we had an accumulated deficit of $53,718,840, stockholders' deficit of $301,822 and a working capital deficit of $462,942. We had unrestricted cash of $2,929,895 as of June 30, 2022, as compared to $8,983,007 as of December 31, 2021. The decrease was attributable to operating cash burn during the six months ended June 30, 2022, which was accelerated due to Acquisition related costs and increases in our research and development expenses as we approach our Phase 1 clinical study. Without additional funding, management believes that we will not have enough funds to meet our obligations and continue our preclinical 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:

	Six Months Ended June 30,	
	2022	**2021**
Net cash used in operating activities	$ (5,815,960)	$ (3,019,489)
Net cash used in investing activities	(86,042)	(10,170)
Net cash (used in) provided by financing activities	(151,109)	5,746,583

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 preclinical 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 $5,815,960 during the six months ended June 30, 2022, reflected a net loss of $6,462,677, partially offset by aggregate non-cash charges of $598,130 and included a $48,587 net change in our operating assets and liabilities.

Non-cash charges included $281,722 for stock-based compensation expense, $314,925 non-cash interest expense from the amortization of the debt discount on the multi-draw credit facility – related party, a $53,178 gain from the decrease in fair value of our warrant liability and $54,661 in depreciation and amortization. The net change in our operating assets and liabilities included a $114,438 increase in our accrued expense and other current liabilities and a $71,085 increase in our accounts payable.

Cash used in operating activities of $3,019,489 during the six months ended June 30, 2021, reflected a net loss of $4,184,544, partially offset by aggregate non-cash charges of $789,053 and included a $376,002 net change in our operating assets and liabilities. Non-cash charges included $258,279 for stock-based compensation expense, $287,781 non-cash interest expense from the amortization of the debt discount on the multi-draw credit facility – related party, a $358,998 loss from the increase in fair value of our warrant liability and a $117,953 gain from the forgiveness of the PPP Loan. The net change in our operating assets and liabilities included a $72,427 increase in our prepaid expense and other current assets, and a $451,429 increase in our accrued expense and other current liabilities.

Cash Flows from Investing Activities

Our investing activities consist of our capital expenditures in relation to the purchase of property plant and equipment and costs incurred in connection with the acquisition of EHT. During the six months ended June 30, 2022 and 2021, the Company purchased $5,212 and $10,170 in machinery office equipment, respectively. During the six months ended June 30, 2022, the Company made $80,830 in payments for acquisition transaction costs.

Cash Flows from Financing Activities

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

During the six months ended June 30, 2022, cash used in financing activities included $1,967 in proceeds received in connection with the exercise of pre-funded warrants and a $153,076 repayment on the our insurance premium loan payable.

During the six months ended June 30, 2021, cash provided by financing activities included $5,741,800 in proceeds received in connection with the exercise of warrants and $4,783 received from employee stock option exercises.

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 Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2022. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures were effective at a the 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.

Not required because we are a smaller reporting company.

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.

2.1	Arrangement Agreement, dated May 11, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on May 11, 2022)
2.2	Amendment No. 1 to the Arrangement Agreement, dated June 14, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 17, 2022)
2.3	Amendment No. 2 to the Arrangement Agreement, dated July 15, 2022, by and between the Company and EHT (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 21, 2022)
3.1	Articles of Incorporation of Registrant, as amended (incorporated by reference to Exhibit 3.1 to our Report on Form 10-K filed on March 2, 2021)
3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to our Report on Form 10-K filed on March 2, 2021)
4.1*	2022 Common Stock Warrant issued to Bear Creek Capital
10.1	Form of Support Agreement by and between the Company and certain EHT shareholders (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 11, 2022)
10.2	Form of Support Agreement by and between EHT and certain Company shareholders (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 11, 2022)
10.3	Support Agreement, dated May 18, 2022, by and between the Company and Emerald Health Sciences, Inc. (“EHS”) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 23, 2022)
10.4	Support Agreement, dated May 18, 2022, by and between EHT and EHS (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 23, 2022)
10.5*	Form of Stock Option Agreement under 2014 Omnibus Incentive Plan (NQSO)
10.6*	Form of Stock Option Agreement under 2014 Omnibus Incentive Plan (ISO)
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

August 15, 2022

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

August 15, 2022

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

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SUCH ACT.

FORM OF COMMON STOCK PURCHASE WARRANT

SKYE BIOSCIENCE, INC.

Warrant No.: _2022-01_____
Warrant Shares: 2,000,000 Initial Exercise Date: _____, 2013

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, Bear Creek Capital LLC or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after April 1, 2022 (the "Initial Exercise Date") and on or prior to the close of business on the two year anniversary of the Initial Exercise Date (the "Expiration Date") but not thereafter, to subscribe for and purchase from Skye Bioscience, Inc., a Nevada corporation (the "Company"), up to 2,000,000 shares (as subject to adjustment hereunder, the "Warrant Shares") of Common Stock, subject to the vesting schedule set forth in Section 2 hereof. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 3. Capitalized terms used but not defined herein shall have the meaning ascribed to such term in that certain Investor Relations Agreement, dated April 1, 2022, by and between Bear Creek Capital LLC ("Bear Creek") and the Company (the "Investor Relations Agreement").

1. Exercise of Warrant. Subject to the vesting schedule below, exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Expiration Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed copy of the Notice of Exercise form annexed hereto to together with Exercise Price for the shares specified in the applicable Notice of Exercise by wire transfer or cashier's check drawn on a United States bank unless the cashless exercise procedure specified in Section 4(b) below is specified in the applicable Notice of Exercise.

2. Vesting. The Warrant shall only be exercisable in whole or in part, according to the following vesting schedule:
166,666 Warrants exercisable within 30 days of the Initial Exercise Date and every monthly anniversary thereafter. The Warrant will be fully vested on April 1, 2023.

If the Investor Relations Agreement is terminated by either Bear Creek or the Company pursuant to Section 3(b) of the Investor Relations Agreement, the vesting of the Warrants in accordance with the schedule set forth above shall stop and all unvested Warrants shall become immediately non-exercisable.

3. Exercise Price. The exercise price for Common Stock subject to the Warrant shall be $0.04 per share (the "Exercise Price"), subject to the adjustments set forth herein.

4. Expiration of Warrant. The unexercised portion of the Warrant shall automatically and without notice terminate and become null and void on the Expiration Date.

5. Method of Exercising Warrant.

(a) The Warrant may be exercised by delivering to the Company the Notice of Exercise form annexed hereto. Such notice shall state that Holder elects to purchase Common Stock under the Warrant and the amount of Common Stock for which the Warrant is being exercised, and shall be signed by Holder. Unless Holder is exercising the conversion right set forth in paragraph (b) below), such notice shall be accompanied by payment of the full purchase price for the Common Stock being acquired (i) in cash; or (ii) by certified or cashier's check.

(b) In lieu of exercising this Warrant as specified in paragraph (a) above, Holder may from time to time convert this Warrant, in whole or in part, into a number of shares of Common Stock determined by dividing (a) the aggregate fair market value of the shares of Common Stock otherwise issuable upon exercise of this Warrant (or lesser number of shares in the case of a partial exercise) minus the aggregate Exercise Price of such shares by (b)

the fair market value of one share of Common Stock. The fair market value of the Common Stock Shares shall be determined pursuant to paragraph (c) below.

(c) If the Company's Common Stock is traded in a public market, the fair market value of each share shall be the closing price of a share reported for the business day immediately before Holder delivers its notice of exercise to the Company (or in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company's initial public offering, the "price to public" per share price specified in the final prospectus relating to such offering). If the Company's common stock is not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

(d) If the Warrant is exercised by a person other than Holder, payment shall be accompanied by appropriate proof of the authority of such person to exercise the Warrant.

(e) The Company shall cause a certificate or certificates representing the Common Stock purchased under the Warrant to be issued as soon as practicable after receipt of the notice of exercise and, in the case of paragraph (a) above, full payment. The certificate or certificates for such Common Stock shall be registered in the name of the person exercising the Warrant. All share certificates shall be delivered to or upon the written order of the person exercising the Warrant.

6. Issuance of Common Stock.

(a) The Company shall at all times during the term of the Warrant reserve and keep available the amount of Common Stock as will be sufficient to satisfy the requirements of the Warrant, shall pay all original issue and transfer taxes, if any, with respect to the issue and transfer of the Common Stock pursuant hereto and all other fees and expenses necessarily incurred by the Company in connection therewith.

(b) As a condition of any sale or issuance of Common Stock upon exercise of the Warrant, the Company may require such agreements or undertakings, if any, as it may deem necessary or advisable to assure compliance with any law or regulation including, but not limited to, the following:

(i) a representation and warranty by Holder, at any time the Warrant is exercised, that it is acquiring the Common Stock to be issued to it for investment and not with a view to, or for sale in connection with, the distribution of any such Common Stock; and

(ii) a representation, warranty and/or agreement to be bound by any legends that are, in the opinion of the Company, necessary or appropriate to comply with the provisions of any securities law deemed to be applicable to the issuance of the Common Stock and are endorsed upon the certificates representing the Common Stock.

7. Adjustment in Number of Shares Issuable Upon Exercise of Warrant and Exercise Price.

(a) Adjustment for Stock Dividends, Stock Splits and Combinations. If the Company declares or pays a dividend on the Common Stock payable in shares of Common Stock, or other securities, then upon exercise of this Warrant, for each share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned such shares of record as of the date the dividend occurred. If the Company shall at any time or from time to time after the date hereof effect a subdivision of the outstanding Common Stock, the number of shares of Common Stock issuable upon exercise of this Warrant shall be proportionately increased and the Exercise Price in effect immediately before that subdivision shall be proportionately decreased. Conversely, if the Company shall at any time or from time to time after date hereof combine the outstanding shares of Common Stock into a smaller number of shares, the number of shares of Common Stock issuable upon exercise of this Warrant shall be proportionately decreased and the Exercise Price in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 6 shall become effective at the close of business on the date the subdivision or combination becomes effective.

(b) Reclassification, Exchange, Combinations or Substitution. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant, Holder shall be entitled to receive, upon exercise or conversion of this

Warrant, the number and kind of securities and property that Holder would have received if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event.

(c) Reorganization. Upon the closing of any acquisition of the Company as a result of a merger, reorganization, sale of stock or a sale of all or substantially all of the assets of the Company or similar transaction ("Acquisition"), if the fair market value of one share of Common Stock would be greater than the applicable Exercise Price in effect on the date immediately prior to the closing of such Acquisition, and Holder has not cashless exercised this Warrant, then this Warrant shall automatically be deemed to be cashless exercised pursuant to the terms of this Warrant effective immediately prior to and contingent upon the consummation of the Acquisition. In connection with such cashless exercise, Holder shall be deemed to have restated each of the representations and warranties in Section 6 of the Investor Relations Agreement. In the event of an Acquisition where the fair market value of one share of Common Stock, would be less than the applicable Exercise Price in effect immediately prior to such Acquisition, then this Warrant will expire immediately prior to the consummation of such Acquisition.

(d) Certificate of Adjustment. In each case of an adjustment or readjustment of the Exercise Price or the number of shares of Common Stock issuable upon exercise of this Warrant, the Company, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate to Holder in accordance with the notice provisions of Section 7 of this Warrant. The certificate shall set forth such adjustment or readjustment and indicate the number of shares of Common Stock and the Exercise Price in effect after such adjustment or readjustment. The provisions of this Section 6 shall apply to successive splits, dividends, combinations, reclassifications, exchanges, substitutions, or other events that result in an adjustment to the shares or securities then underlying this Warrant.

(e) No Fractional Shares. No fractional shares of Common Stock shall be issued upon exercise of this Warrant. All shares of Common Stock (including fractions thereof) issuable upon exercise of this Warrant shall be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Company shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Common Stock's fair market value (as determined by the Board of Directors) on the date of exercise.

8. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Investor Relations Agreement.

9. Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

10. Modifications. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

11. No Stockholder Rights. Nothing contained in this Warrant shall be construed as conferring upon Holder or any other person the right to vote or to consent or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company.

12. Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

13. Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

14. Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this

Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

15. Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

16. Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Investor Relations Agreement.

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

SKYE BIOSCIENCE, INC

By: /s/ Punit Dhillon
Authorized Signatory

NOTICE OF EXERCISE

TO: Skye Bioscience, Inc.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States; or

[ ] [if permitted] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

_____

_____

_____

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____
Signature of Authorized Signatory of Investing Entity: _____
Name of Authorized Signatory: _____
Title of Authorized Signatory: _____
Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute
this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

_____

Date: _____, _____

Holder's Signature: _____

Holder's Address: _____

_____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

NOTICE OF GRANT OF NON-QUALIFIED STOCK OPTION AWARD – FOR US OPTIONEES

SKYE BIOSCIENCE, INC.
AMENDED AND RESTATED 2014 OMNIBUS INCENTIVE PLAN

FOR GOOD AND VALUABLE CONSIDERATION, Skye Bioscience, Inc. (the "Company") hereby grants, pursuant to the provisions of the Company's Amended and Restated 2014 Omnibus Incentive Plan, as amended from time to time (the "Plan"), to the Participant designated in this Notice of Grant of Non-Qualified Stock Option Award (the "Notice") an option to purchase the number of shares of the common stock of the Company set forth in the Notice (the "Shares"), subject to certain restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Stock Option Award (collectively, the "Agreement"). Also enclosed is a copy of the Plan.

Optionee: **[ ]**

Date of Grant:	**Type of Option**: Non-Qualified Stock Option
Exercise Price per Share: $	**Expiration Date**:
Total Number of Shares Granted:	**Total Exercise Price**: $
Vesting Start Date:	**Vesting End Date:**
Vesting Schedule:	
Exercise After Termination of Service: **Termination of Service for any reason: any non-vested portion of the Option expires immediately;** **Termination of Service due to death or Disability: vested portion of the Option is exercisable by the Optionee (or, in the event of the Optionee's death, the Optionee's Beneficiary) for twelve (12) months after the Optionee's Termination;** **Termination of Service for any reason other than death or Disability (except for termination for cause as defined by applicable law): vested portion of the Option is exercisable for a period of three (3) months following the Optionee's Termination.** **For purposes of this agreement, a "Termination of Service" will have occurred on the date that the Company and the Optionee reasonably expect that the amount of services to be provided to the Company by the Optionee, as an employee or an independent contractor, after such date will permanently decrease to no more than 25% of average level of services performed by the Optionee for the Company over the preceding 36-month period (or if shorter, the Optionee's full period of service with the Company.** **In no event may this Option be exercised after the Expiration Date as provided above.**	

By signing below, the Optionee agrees that this Non-Qualified Stock Option Award is granted under and governed by the terms and conditions of the Plan and the attached Terms and Conditions.

Participant: [ ]

Skye Bioscience, Inc.

By: _____

Title: _____

Date: _____

Date: _____

CONSENT OF SPOUSE

In consideration of the Company's execution of this Option Agreement, the undersigned spouse of the Participant agrees to be bound by all of the terms and provisions hereof and of the Plan.

Spouse’s Signature: _____

Date: _____

TERMS AND CONDITIONS OF STOCK OPTION AWARD

1. Grant of Option. The Option granted to the Optionee and described in the Notice of Grant is subject to the terms and conditions of the Plan, which is incorporated by reference in its entirety into these Terms and Conditions of Stock Option Award.

The Board of Directors of the Company has authorized and approved the Amended and Restated 2014 Omnibus Incentive Plan, as amended from time to time (the "Plan"). The Committee has approved an award to the Optionee of a number of shares of the Company's common stock, conditioned upon the Participant's acceptance of the provisions set forth in the Notice and these Terms and Conditions within 60 days after the Notice and these Terms and Conditions are presented to the Optionee for review. For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that the Option fails to meet the requirements of an ISO under Section 422 of the Code, this Option shall be treated as a Non-Qualified Stock Option ("NSO").

The Company intends that this Option not be considered to provide for the deferral of compensation under Section 409A of the Code and that this Agreement shall be so administered and construed. Further, the Company may modify the Plan and this Award to the extent necessary to fulfill this intent.

(a) Exercise of Option. This Option shall be exercisable, in whole or in part, during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement. No Shares shall be issued pursuant to the exercise of an Option unless the issuance and exercise comply with applicable laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares. The Committee may, in its discretion, (i) accelerate vesting of the Option, or (ii) extend the applicable exercise period to the extent permitted under Section 6.03 of the Plan.

(b) Method of Exercise. The Optionee may exercise the Option by delivering an exercise notice in a form approved by the Company (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Shares exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

(c) Acceleration of Vesting on Change in Control. Unless otherwise specified in the Notice of Grant, in the event of a Change in Control, no accelerated vesting of any Options outstanding on the date of such Change in Control shall occur.

2. Method of Payment. If the Optionee elects to exercise the Option by submitting an Exercise Notice under Section 2(b) of this Agreement, the aggregate Exercise Price (as well as any applicable withholding or other taxes) shall be paid by cash or check; *provided, however*, that the Committee may consent, in its discretion, to payment in any of the following forms, or a combination of them:

(a) cash or check;

(b) a "net exercise" (as described in the Plan or such other consideration received by the Company under a cashless exercise program approved by the Company in connection with the Plan;

(c) surrender of other Shares owned by the Optionee which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares and any applicable withholding; or

(d) any other consideration that the Committee deems appropriate and in compliance with applicable law.

3. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the stockholders of the Company, or if the issuance of the Shares upon exercise or the method of payment of consideration for those shares would constitute a violation of any applicable law or regulation.

4. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee; provided, however, that the Optionee may transfer the Options (i) pursuant to a qualified domestic relations order (as defined by the Code or the rules thereunder) or (ii) to any member of the Optionee's Immediate Family or to a trust, limited liability company, family limited partnership or other equivalent vehicle, established for the exclusive benefit of one or more members of his Immediate Family by delivering to the Company a Notice of Assignment in a form acceptable to the Company. No transfer or assignment of the Option to or on behalf of an Immediate Family member under this Section 4 shall be effective until the Company has acknowledged such transfer or assignment in writing. "Immediate Family" means the Optionee's parents, spouse, children, siblings, and grandchildren. Following transfer, the Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. In the event an Option is transferred as contemplated in this Section 4, such Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Optionee with respect to the Option Award.

(b) The Optionee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 11.05 of the Plan.

(c) Subject to any rules prescribed by the Committee, the Optionee shall have the right to elect to meet any withholding requirement (i) by having withheld from this Award at the appropriate time that number of whole shares of common stock whose fair market value is equal to the amount of any taxes required to be withheld with respect to such Award, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award or (iii) by a combination of shares and cash.

7. Defined Terms. Capitalized terms used but not defined in the Notice and these Terms and Conditions shall have the meanings set forth in the Plan, unless such term is defined in any Employment Agreement between the Optionee and the Company or an Affiliate. Any terms used in the Notice and these Terms and Conditions, but defined in the Optionee's Employment Agreement are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of the Employment Agreement.

8. Optionee Representations. The Optionee hereby represents to the Company that the Optionee has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Optionee's decision to participate in the Plan is completely voluntary. Further, the Optionee acknowledges that the Optionee is relying solely on his or her own advisors with respect to the tax consequences of this stock option award.

9. Regulatory Limitations on Exercises. Notwithstanding the other provisions of this Option Agreement, no option exercise or issuance of shares of Common Stock pursuant to this Option Agreement shall be effective if (i) the shares reserved under the Plan are not subject to an effective registration statement at the time of such exercise or issuance, or otherwise eligible for an exemption from registration, or (ii) the Company determines in good faith that such exercise or issuance would violate any applicable securities or other law or regulation.

10. Miscellaneous.

(a) Notices. All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under these Terms and Conditions shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.

(b) Waiver. The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.

(c) Entire Agreement. These Terms and Conditions, the Notice and the Plan constitute the entire agreement between the parties with respect to the subject matter hereof.

(d) Binding Effect; Successors. These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

(e) Governing Law. The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of Nevada.

(f) Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.

(g) Conflicts; Amendment. The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of these Terms and Conditions and the Plan, the provisions of the Plan shall control. The Agreement may be amended at any time by written agreement of the parties hereto.

(h) No Right to Continued Employment. Nothing in the Notice or these Terms and Conditions shall confer upon the Optionee any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Optionee's employment or service at any time.

(i) Further Assurances. The Optionee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

NOTICE OF GRANT OF INCENTIVE STOCK OPTION AWARD – FOR US OPTIONEES

SKYE BIOSCIENCE, INC.
AMENDED AND RESTATED 2014 OMNIBUS INCENTIVE PLAN

FOR GOOD AND VALUABLE CONSIDERATION, Skye Bioscience, Inc. (the "Company") hereby grants, pursuant to the provisions of the Company's Amended and Restated 2014 Omnibus Incentive Plan, as amended from time to time (the "Plan"), to the Participant designated in this Notice of Grant of Incentive Stock Option Award (the "Notice") an option to purchase the number of shares of the common stock of the Company set forth in the Notice (the "Shares"), subject to certain restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Stock Option Award (collectively, the "Agreement"). Also enclosed is a copy of the Plan.

Optionee:

Date of Grant:	**Type of Option**: Incentive Stock Option
Exercise Price per Share: $	**Expiration Date**:
Total Number of Shares Granted:	**Total Exercise Price**: $
Vesting Start Date:	**Vesting End Date:**
Vesting Schedule:	
Exercise After Termination of Service: *Termination of Service for any reason*: any non-vested portion of the Option expires immediately; *Termination of Service due to death or Disability*: vested portion of the Option is exercisable by the Optionee (or, in the event of the Optionee's death, the Optionee's Beneficiary) for twelve (12) months after the Optionee's Termination; *Termination of Service for any reason other than death or Disability (except for termination for cause as defined by applicable law)*: vested portion of the Option is exercisable for a period of three (3) months following the Optionee's Termination. **In no event may this Option be exercised after the Expiration Date as provided above**	

By signing below, the Optionee agrees that this Incentive Stock Option Award is granted under and governed by the terms and conditions of the Plan and the attached Terms and Conditions.

Participant:	Skye Bioscience, Inc.
_____	By: _____
	Title: _____
Date: _____	Date: _____

CONSENT OF SPOUSE

In consideration of the Company's execution of this Option Agreement, the undersigned spouse of the Participant agrees to be bound by all of the terms and provisions hereof and of the Plan.

Spouse's Signature: _____

Date: _____

TERMS AND CONDITIONS OF STOCK OPTION AWARD

Grant of Option. The Option granted to the Optionee and described in the Notice of Grant is subject to the terms and conditions of the Plan, which is incorporated by reference in its entirety into these Terms and Conditions of Stock Option Award.

The Board of Directors of the Company has authorized and approved the Amended and Restated 2014 Omnibus Incentive Plan, as amended from time to time (the "Plan"). The Committee has approved an award to the Optionee of a number of shares of the Company's common stock, conditioned upon the Participant's acceptance of the provisions set forth in the Notice and these Terms and Conditions within 60 days after the Notice and these Terms and Conditions are presented to the Optionee for review. For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that the Option fails to meet the requirements of an ISO under Section 422 of the Code, this Option shall be treated as a Non-Qualified Stock Option ("NSO").

The Company intends that this Option not be considered to provide for the deferral of compensation under Section 409A of the Code and that this Agreement shall be so administered and construed. Further, the Company may modify the Plan and this Award to the extent necessary to fulfill this intent.

(a) Exercise of Option. This Option shall be exercisable, in whole or in part, during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement. No Shares shall be issued pursuant to the exercise of an Option unless the issuance and exercise comply with applicable laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares. The Committee may, in its discretion, (i) accelerate vesting of the Option, or (ii) extend the applicable exercise period to the extent permitted under Section 6.03 of the Plan.

(b) Method of Exercise. The Optionee may exercise the Option by delivering an exercise notice in a form approved by the Company (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Shares exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

(c) Acceleration of Vesting on Change in Control. Unless otherwise specified in the Notice of Grant, in the event of a Change in Control, no accelerated vesting of any Options outstanding on the date of such Change in Control shall occur.

2. Method of Payment. If the Optionee elects to exercise the Option by submitting an Exercise Notice under Section 2(b) of this Agreement, the aggregate Exercise Price (as well as any applicable withholding or other taxes) shall be paid by cash or check; *provided, however*, that the Committee may consent, in its discretion, to payment in any of the following forms, or a combination of them:

(a) cash or check;

(b) a "net exercise" (as described in the Plan or such other consideration received by the Company under a cashless exercise program approved by the Company in connection with the Plan;

(c) surrender of other Shares owned by the Optionee which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares and any applicable withholding; or

(d) any other consideration that the Committee deems appropriate and in compliance with applicable law.

3. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the stockholders of the Company, or if the issuance of the Shares upon exercise or the method of payment of consideration for those shares would constitute a violation of any applicable law or regulation.

4. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee. The

terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Optionee with respect to the Option Award.

(b) The Optionee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 11.05 of the Plan.

(c) Subject to any rules prescribed by the Committee, the Optionee shall have the right to elect to meet any withholding requirement (i) by having withheld from this Award at the appropriate time that number of whole shares of common stock whose fair market value is equal to the amount of any taxes required to be withheld with respect to such Award, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award or (iii) by a combination of shares and cash.

7. Defined Terms. Capitalized terms used but not defined in the Notice and these Terms and Conditions shall have the meanings set forth in the Plan, unless such term is defined in any Employment Agreement between the Optionee and the Company or an Affiliate. Any terms used in the Notice and these Terms and Conditions, but defined in the Optionee's Employment Agreement are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of the Employment Agreement.

8. Optionee Representations. The Optionee hereby represents to the Company that the Optionee has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Optionee's decision to participate in the Plan is completely voluntary. Further, the Optionee acknowledges that the Optionee is relying solely on his or her own advisors with respect to the tax consequences of this stock option award.

9. Regulatory Limitations on Exercises. Notwithstanding the other provisions of this Option Agreement, no option exercise or issuance of shares of Common Stock pursuant to this Option Agreement shall be effective if (i) the shares reserved under the Plan are not subject to an effective registration statement at the time of such exercise or issuance, or otherwise eligible for an exemption from registration, or (ii) the Company determines in good faith that such exercise or issuance would violate any applicable securities or other law or regulation.

10. Miscellaneous.

(a) Notices. All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under these Terms and Conditions shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.

(b) Waiver. The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.

(c) Entire Agreement. These Terms and Conditions, the Notice and the Plan constitute the entire agreement between the parties with respect to the subject matter hereof.

(d) Binding Effect; Successors. These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

(e) Governing Law. The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of Nevada.

(f) Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.

(g) Conflicts; Amendment. The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of these Terms and Conditions and the Plan, the provisions of the Plan shall control. The Agreement may be amended at any time by written agreement of the parties hereto.

(h) No Right to Continued Employment. Nothing in the Notice or these Terms and Conditions shall confer upon the Optionee any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Optionee's employment or service at any time.

(i) Further Assurances. The Optionee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

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 June 30, 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: August 15, 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 June 30, 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: August 15, 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 June 30, 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: August 15, 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 June 30, 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: August 15, 2022