

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, 2024

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

(State or other jurisdiction
of incorporation or organization)

45-0692882

(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)

N/A

(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
Common Stock, par value \$0.001	SKYE	Nasdaq Global Market

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 8, 2024, there were 30,338,290 shares of the issuer's \$0.001 par value common stock issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SKYE BIOSCIENCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2024 (Unaudited)	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 74,120,854	\$ 1,256,453
Restricted cash	9,080,202	9,080,202
Prepaid expenses	1,096,039	194,259
Other current assets	2,707,368	1,119,929
Total current assets	87,004,463	11,650,843
Property and equipment, net	45,772	43,276
Operating lease right-of-use asset	202,987	237,983
Other assets	8,309	8,309
Total assets	<u>\$ 87,261,531</u>	<u>\$ 11,940,411</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$ 1,079,493	\$ 1,155,785
Accrued interest - related party	124,658	126,027
Accrued payroll liabilities	556,573	888,381
Accrued interest - legal contingency	384,896	234,750
Other current liabilities	1,184,795	998,552
Estimate for legal contingency	6,053,468	6,053,468
Convertible note - related party, net of discount	4,859,525	4,371,998
Operating lease liability, current portion	79,165	72,038
Total current liabilities	14,322,573	13,900,999
Non-current liabilities		
Operating lease liability, net of current portion	129,907	171,230
Total liabilities	<u>14,452,480</u>	<u>14,072,229</u>
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit)		
Preferred stock, \$0.001 par value; 200,000 shares authorized at June 30, 2024 and December 31, 2023; no shares issued and outstanding at June 30, 2024 and December 31, 2023	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized at June 30, 2024 and December 31, 2023; 28,067,907 and 12,349,243 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	28,068	12,349
Additional paid-in-capital	190,085,879	102,238,382
Accumulated deficit	(117,304,896)	(104,382,549)
Total stockholders' equity (deficit)	72,809,051	(2,131,818)
Total liabilities and stockholders' equity (deficit)	<u>\$ 87,261,531</u>	<u>\$ 11,940,411</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Operating expenses				
Research and development	\$ 4,078,751	\$ 1,788,434	\$ 6,025,201	\$ 2,973,314
General and administrative	4,326,820	1,206,405	8,532,620	3,121,683
Estimated legal contingency	—	(151,842)	—	(151,842)
Total operating expenses	8,405,571	2,842,997	14,557,821	5,943,155
Operating loss	(8,405,571)	(2,842,997)	(14,557,821)	(5,943,155)
Other (income) expense				
Interest expense	450,052	186,429	886,988	204,828
Interest income	(961,237)	(8,598)	(1,388,791)	(33,112)
(Gain) loss from asset sales	—	—	(1,145,141)	307,086
Debt conversion inducement expense	—	—	—	1,383,285
Wind-down costs	—	87,072	—	470,181
Other expense (income)	359	—	1,399	(3)
Total other (income) expense, net	(510,826)	264,903	(1,645,545)	2,332,265
Loss before income taxes	(7,894,745)	(3,107,900)	(12,912,276)	(8,275,420)
Provision for income taxes	8,071	3,600	10,071	3,600
Net loss	\$ (7,902,816)	\$ (3,111,500)	\$ (12,922,347)	\$ (8,279,020)
Loss per common share:				
Basic	\$ (0.20)	\$ (0.80)	\$ (0.39)	\$ (2.16)
Diluted	\$ (0.20)	\$ (0.80)	\$ (0.39)	\$ (2.16)
Weighted average shares of common stock outstanding used to compute earnings per share:				
Basic	38,669,330	3,886,198	33,334,616	3,827,216
Diluted	38,669,330	3,886,198	33,334,616	3,827,216

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (12,922,347)	\$ (8,279,020)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	57,350	67,091
Stock-based compensation expense	4,306,653	234,450
Amortization of debt discount	487,527	—
Write-down of vendor deposits	246,000	—
Estimate for legal contingency	—	30,329
(Gain) loss from divestiture of assets	(1,145,141)	307,086
Loss from disposal of assets	10,794	—
Debt conversion inducement expense	—	1,383,285
Accrued interest conversion expense	—	15,952
Foreign currency remeasurement gain	—	(45,350)
Changes in assets and liabilities:		
Prepaid expenses	(901,780)	714,152
Other current assets	(1,833,439)	(432,975)
Accounts payable	(76,292)	(118,487)
Accounts payable - related parties	—	(16,600)
Accrued interest - related party	(1,369)	—
Accrued interest - legal contingency	150,146	—
Accrued payroll liabilities	(331,808)	256,195
Operating lease liability	(34,196)	(45,794)
Other current liabilities	186,243	(28,995)
Other current liabilities - related parties	—	(94,078)
Net cash used in operating activities	<u>(11,801,659)</u>	<u>(6,052,759)</u>
Cash flows from investing activities:		
Proceeds from the sale of assets, net of sales costs	1,145,141	5,532,266
Purchase of property and equipment	(35,644)	(1,860)
Net cash provided by investing activities	<u>1,109,497</u>	<u>5,530,406</u>
Cash flows from financing activities:		
Proceeds from the issuance of common stock and warrants, net of equity issuance costs of \$6,434,447	83,556,563	—
Repayment of insurance premium loan payable	—	(168,720)
Net cash provided by (used in) financing activities	<u>83,556,563</u>	<u>(168,720)</u>
Net increase (decrease) in cash and restricted cash	72,864,401	(691,073)
Cash, cash equivalents and restricted cash, beginning of period	\$ 10,336,655	\$ 1,249,107
Cash, cash equivalents and restricted cash, end of period	\$ 83,201,056	\$ 558,034
<i>Supplemental disclosures of cash-flow information:</i>		
Reconciliation of cash, cash equivalents and restricted cash:		
Cash, and cash equivalents	\$ 74,120,854	\$ 553,443
Restricted cash	9,080,202	4,591
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 83,201,056</u>	<u>\$ 558,034</u>

Supplemental disclosures of non-cash financing activities:

Common stock warrant exercises	\$	—	\$	282,905
Conversion of multi-draw credit agreement		—		1,565,470
Conversion of accrued interest due to related party		—		31,766
Financing of insurance premium		—		203,884
Release of share liability to additional paid-in-capital		—		241,134

See accompanying notes to the unaudited 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, 2024	12,349,243	\$ 12,349	\$ 102,238,382	\$ (104,382,549)	\$ (2,131,818)
Stock-based compensation expense	—	—	2,478,179	—	2,478,179
Issuance of common stock and warrants, net of issuance costs of \$6,434,447	15,713,664	15,714	83,540,849	—	83,556,563
Net loss	—	—	—	(5,019,531)	(5,019,531)
Balance, March 31, 2024	28,062,907	\$ 28,063	\$ 188,257,410	\$ (109,402,080)	\$ 78,883,393
Stock-based compensation expense	5,000	5	1,828,469	—	1,828,474
Net loss	—	—	—	(7,902,816)	(7,902,816)
Balance, June 30, 2024	28,067,907	\$ 28,068	\$ 190,085,879	\$ (117,304,896)	\$ 72,809,051

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity/ (Deficit)
	Shares	Amounts			
Balance, January 1, 2023	3,654,119	\$ 3,654	\$ 63,726,057	\$ (66,737,765)	\$ (3,008,054)
Stock-based compensation expense	—	—	131,579	—	131,579
Exercise of pre-funded warrants	66,566	66	282,839	—	282,905
Conversion of multi-draw credit agreement - related party and accrued interest	165,517	166	2,980,355	—	2,980,521
Net loss	—	—	—	(5,167,520)	(5,167,520)
Balance, March 31, 2023	3,886,202	\$ 3,886	\$ 67,120,830	\$ (71,905,285)	\$ (4,780,569)
Stock-based compensation expense	—	—	102,871	—	102,871
Net loss	—	—	—	(3,111,500)	(3,111,500)
Balance, June 30, 2023	3,886,202	\$ 3,886	\$ 67,223,701	\$ (75,016,785)	\$ (7,789,198)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

1. Organization, Basis of Presentation and Significant Accounting Policies

Nature of Operations

Skye Bioscience, Inc. (the “Company” or “Skye”) was incorporated in Nevada on March 16, 2011. The Company is a clinical stage biopharmaceutical company developing next-generation molecules that modulate G protein-coupled receptors to treat obesity and metabolic diseases.

As of June 30, 2024, the Company has devoted substantially all its efforts to securing its product pipeline, carrying out its own research and development, preparing for and conducting clinical trials, 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.

Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year, or any future periods.

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, 2023, from which the prior year balance sheet information herein was derived.

Certain reclassifications have been made to the amounts in prior periods to conform to the current period’s presentation, primarily the separate classification of prepaid expenses and other current assets on the Company’s condensed balance sheet, and condensed statement of cash flows and change in fair value of derivative liability and interest expense on the condensed statement of operations. Such reclassifications did not have a material impact on the Unaudited Condensed Consolidated Financial Statements.

During the six months ended June 30, 2024, there were no changes to the Company’s significant accounting policies as described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Pronouncements Implemented

In November 2023, the Financial Account Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments in this ASU require disclosures, on an annual and interim basis, of significant segment expenses that are regularly provided to the chief operating decision maker (“CODM”), as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. This ASU requires that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. This ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, with early adoption permitted. The amendments in this ASU should be applied retrospectively to all prior periods presented in the financial statements. The Company early adopted the ASU as of January 1, 2024, and determined that its adoption did not have a material impact on the Company’s consolidated financial statements and related disclosures. As defined in the ASU, operating segments are components of an enterprise about which discrete financial information is available that is evaluated regularly by the CODM in making decisions on how to allocate resources and assess performance for the organization. The Company operates and manages its business as one reportable and operating segment — pharmaceutical development. The Company’s CODM is the Chief Executive Officer. The Company’s CODM reviews consolidated operating results to make decisions about allocating resources and assessing performance for the entire Company.

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. The new standard reduces the number of accounting models for convertible debt instruments, amends the accounting for certain contracts in an entity's own equity, and modifies how certain convertible instruments and contracts that may be settled in cash or shares impact the calculation of diluted earnings per share. Specifically, the guidance removes certain accounting models that separate the embedded conversion features from the host contract for convertible instruments and requires the use of the if-converted method to calculate diluted earnings per share. This standard was effective for fiscal years beginning after December 15, 2023 and interim periods within those fiscal years. The Company adopted this standard as of January 1, 2024 and the adoption of this standard did not have an impact on the Company's Unaudited Condensed Consolidated Financial Statements or related disclosures.

Recent Accounting Pronouncements Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*. This ASU requires greater disaggregation of information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. This ASU applies to all entities subject to income taxes and is intended to help investors better understand an entity's exposure to potential changes in jurisdictional tax legislation and assess income tax information that affects cash flow forecasts and capital allocation decisions. This ASU is effective for annual periods beginning after December 15, 2024, with early adoption permitted. This ASU should be applied on a prospective basis although retrospective application is permitted. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements and related disclosures.

2. Asset Dispositions

Sale of real estate

The wind down of Emerald Health Therapeutics, Inc. ("EHT's") operations included the disposition of real estate held by AVI (the "AVI building"). At the time of the Company's acquisition of EHT on November 10, 2022 (the "EHT Acquisition"), none of the purchase consideration was allocated to the fair value of the AVI building. As a result of the sale of the AVI building, for the six months ended June 30, 2024, the Company recorded a gain of \$1,145,141 in other (income) expense, net of sales costs.

Divestiture of VDL

On February 9, 2023, the Company sold Verdélite Sciences, Inc. ("VDL"). For the six months ended June 30, 2023, the Company has recorded a loss on sale of asset of \$307,086 in other (income) expense based on the difference between the carrying amount of the assets sold and the net cash proceeds. See Note 10.

3. Prepaid Expenses, Other Current Assets and Liabilities

Prepaid expenses consist of the following:

	As of June 30, 2024	As of December 31, 2023
Clinical expenses	\$ 74,866	\$ 61,352
Financial advisory service agreement	568,340	—
Other prepaid expenses	452,833	132,907
	\$ 1,096,039	\$ 194,259

Other current assets consist of the following:

	As of June 30, 2024	As of December 31, 2023
AusIndustry incentive	\$ 548,646	\$ 540,604
Vendor deposits	2,158,702	403,439
Excise tax bonds	—	125,784
Other tax receivables	20	32,458
Other current assets	—	17,644
	\$ 2,707,368	\$ 1,119,929

Other current liabilities consist of the following:

	As of June 30, 2024	As of December 31, 2023
Research and development costs	\$ 750,049	\$ 467,784
Legal fees	233,282	258,213
EHT Acquisition related liabilities	—	180,897
Travel and entertainment expenses	25,479	—
Consulting Fees	23,756	—
Professional and consulting fees	141,100	69,468
Other accrued liabilities	11,129	22,190
	\$ 1,184,795	\$ 998,552

4. Warrants

There are significant judgements and estimates inherent in the determination of the fair value of the Company's warrants. These judgements and estimates include assumptions regarding the Company's future operating performance and the determination of the appropriate valuation methods.

Warrants

Warrants vested and outstanding as of June 30, 2024 are summarized as follows:

Source	Exercise Price	Weighted Average Remaining Contractual Term (Years)	Number of Warrants Outstanding
2015 Common Stock Warrants	\$ 1,250.00	0.82	400
2016 Common Stock Warrants to Service Providers	287.50	2.34	160
2019 Common Stock Warrants	87.50	0.39	32,000
2020 Common Stock Warrants to Placement Agent	20.00	1.08	32,668
2021 Inducement Warrants	37.50	2.07	84,667
2021 Inducement Warrants to Placement Agent	47.00	2.07	5,927
2021 Common Stock Warrants	22.50	2.25	311,113
2021 Common Stock Warrants to Placement Agent	27.50	2.25	21,778
November 2019 EHT Common Stock Warrants	72.25	0.42	34,213
December 2019 EHT Common Stock Warrants	37.25	0.50	3,783
February 2020 EHT Common Stock Warrants	37.25	0.62	80,694
August 2023 Convertible Note Common Stock Warrants	5.16	9.14	340,000
August 2023 PIPE Financing Common Stock Warrants	5.16	9.14	2,325,537
January 2024 Pre-Funded Warrants Common Stock	0.001	Indefinite	9,978,739
Total warrants outstanding as of June 30, 2024			13,251,679

As of June 30, 2024, all of the Company's warrants are fully vested

January 2024 Pre-Funded Warrants

In connection with the January 2024 PIPE Financing (as defined below), the Company issued the Pre-Funded Warrants (as defined below) (See Note 6). The Pre-Funded Warrants have an exercise price of \$0.001 per share, and were exercisable immediately upon issuance until exercised in full. The gross proceeds from the issuance of these Pre-Funded Warrants was \$22,991,015. The Company determined that the Pre-Funded Warrants are freestanding instruments that do not meet the definition of a liability or derivative. The Pre-Funded Warrants are indexed to the Company's common stock and meets all other conditions for equity classification. Accordingly, the Pre-Funded Warrants are classified as equity and are accounted for as a component of additional paid-in capital at the time issued. The Company also determined that the Pre-Funded Warrants should be included in the determination of basic and diluted earnings per share.

5. Debt

The Company's convertible debt consists of the following:

	As of June 30, 2024	As of December 31, 2023
Total principal value of convertible note - related party, net of discount	\$ 5,000,000	\$ 5,000,000
Unamortized debt discount	(136,616)	(610,749)
Unamortized debt issuance costs	(3,859)	(17,253)
Carrying value of total convertible debt - related party	\$ 4,859,525	\$ 4,371,998

Convertible Note - Related Party

On August 15, 2023, the Company entered into a Secured Note and Warrant Purchase Agreement with MFDI, LLC ("MFDI"), pursuant to which the Company issued to MFDI a \$5,000,000 secured convertible promissory note (the "Convertible Note") and a warrant to purchase 340,000 shares of common stock on August 18, 2023 (the "Convertible Note Financing") (See Note 4). The Convertible Note bears interest at a rate of 10% per annum and matures on August 18, 2024, unless earlier repurchased or converted. MFDI can elect to convert the Convertible Note at any time and the conversion price is fixed at \$5.16. Accrued interest is payable quarterly within 30 days of the last day of each calendar quarter. The Company may prepay the principal or interest outstanding under the Convertible Note at any time without penalty. The debt discounts related to the warrants, and debt issuance costs, are being amortized over the term of the Convertible Note using the effective interest rate method. Amortization of the debt discount is recognized as non-cash interest expense in Other (income) expense within the Consolidated Statements of Operations. As of June 30, 2024, the fair value of the Convertible Note approximates its intrinsic value which is equal to \$2,761,474. The intrinsic value of the Convertible Note was calculated as the excess fair value of the underlying conversion shares over the principal value of the Convertible Note. The Convertible Note is classified as Level 2 of the fair value hierarchy model based on market prices that can be corroborated with observable market data for the Company's common stock.

For the three and six months ended June 30, 2024, the effective interest rate on the Convertible Note was 1.39%.

Subsequent to June 30, 2024, the conversion option on the Convertible Note was exercised (See Note 10).

Interest Expense

The Company's interest expense consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Related party interest expense – stated rate	\$ 124,658	\$ —	\$ 249,315	\$ 15,952
Legal judgment interest expense	75,189	182,171	150,146	182,171
Other interest expense	—	4,258	—	6,705
Non-cash interest expense:				
Amortization of debt discount	243,331	—	474,133	—
Amortization of transaction costs	6,874	—	13,394	—
	\$ 450,052	\$ 186,429	\$ 886,988	\$ 204,828

6. Stockholders' Equity and Capitalization

PIPE Financings

January 2024 PIPE Financing

On January 29, 2024, the Company entered into a Securities Purchase Agreement with certain institutional investors, pursuant to which on January 31, 2024, the Company issued an aggregate of 11,713,664 shares of common stock and 9,978,739 pre-funded warrants (the "Pre-Funded Warrants") to purchase up to 9,978,739 shares of common stock (the "January 2024 PIPE Financing") for an aggregate purchase price of \$49,991,010. The January 2024 PIPE Financing was priced at \$2.31 per common share and \$2.30 per Pre-Funded Warrant based on the 5-day average share price preceding January 29, 2024. The Pre-Funded Warrants are exercisable at any time for an exercise price of \$0.001.

In connection with the January 2024 PIPE Financing, the Company incurred \$3,823,752 in direct equity issuance costs for net proceeds of \$46,167,258.

March 2024 PIPE Financing

On March 11, 2024, the Company entered into a Securities Purchase Agreement with certain institutional investors, pursuant to which on March 13, 2024, the Company issued an aggregate of 4,000,000 shares of common stock (the "March 2024 PIPE Financing") for an aggregate purchase price of \$40,000,000. The March 2024 PIPE Financing was priced at \$10.00 per common share.

In connection with the March 2024 PIPE Financing, the Company incurred \$2,610,695 in direct equity issuance costs for net proceeds of approximately \$37,389,305.

7. Stock-Based Compensation

Stock Incentive Plan

On October 31, 2014, the Board of Directors ("Board") approved the Company's 2014 Omnibus Incentive Plan. On June 14, 2022, the Board approved the 2014 Amended and Restated Omnibus Incentive Plan (the "2014 Amended and Restated Plan") which replaced the 2014 Omnibus Incentive Plan in its entirety.

On September 29, 2023, the Board and holders of the voting power of the outstanding capital stock of the Company adopted and approved Amendment No. 1 to the 2014 Amended and Restated Plan. Amendment No. 1 to the 2014 Amended and the Restated Plan became effective on November 6, 2023. As of June 30, 2024, 2,464,345 shares were authorized for the issuance under the 2014 Amended and Restated Plan.

The Company has reserved shares for issuance under 2014 Amended and Restated Plan upon share option exercise. As of June 30, 2024, the Company had 137,833 shares available for future grant under the 2014 Amended and Restated Plan.

Stock Options

The following is a summary of option activities under the Company's 2014 Amended and Restated Plan for the six months ended June 30, 2024:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding, December 31, 2023	498,298	\$ 8.96	7.24	\$ 20,441
Granted	768,100	14.40		
Cancelled	(2,926)	400.00		
Forfeited	(72,873)	8.32		
Outstanding, June 30, 2024	1,190,599	\$ 11.54	9.14	\$ 1,532,218
Exercisable, June 30, 2024	345,887	\$ 11.08	8.23	\$ 591,698

*The aggregate intrinsic value is the sum of the amounts by which the quoted market price of the Company's stock exceeded the exercise price of the stock options at June 30, 2024 for those stock options for which the quoted market price was in excess of the exercise price ("in-the-money options").

The weighted-average grant-date fair value of stock options granted during the six months ended June 30, 2024, was \$11.42.

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, 2024
Dividend yield	0.00%
Volatility factor	99.58% - 99.96%
Risk-free interest rate	4.26% - 4.48%
Expected term (years)	5.27 - 6.08

Restricted Stock Units

On February 29, 2024, the Company granted restricted stock units ("RSUs") to its executive management team and to certain members of the Board with market-based vesting conditions. The RSUs are eligible to vest subject to the achievement and attainment of certain market capitalization target goals and share price targets (market-based vesting conditions). The Company used the Monte Carlo Simulation model to evaluate the derived service period and fair value of awards with market and performance conditions, including assumptions of historical volatility and risk-free interest rate commensurate with the vesting term.

The fair value of the Company's market-based RSUs were estimated on the date of grant under the following assumptions:

	Six Months Ended June 30, 2024
Dividend yield	0.00%
Volatility factor	93.71%
Risk-free interest rate	4.16%
Derived service periods (years)	1.27 - 2.48

The following is a summary of RSU activity during the period ended June 30, 2024:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, December 31, 2023	847,777	\$ 3.66
Granted	275,000	14.21
Unvested, June 30, 2024	1,122,777	\$ 6.24

Common Stock Issued for Services

Additionally, during the three months ended June 30, 2024, the Company issued 5,000 shares of common stock to a service provider as compensation for services provided. Such shares were issued in a private placement outside of the 2014 Amended and Restated Plan.

Stock-Based Compensation Expense

The Company recognizes stock-based compensation expense using the straight-line method over the requisite service period or derived service period. The Company recognized stock-based compensation expense for the stock options and the RSUs discussed above, in its Unaudited Condensed Consolidated Statements of Operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Research and development	\$ 303,081	\$ 12,533	\$ 695,719	\$ 57,001
General and administrative	1,525,388	90,338	3,610,934	177,449
	\$ 1,828,469	\$ 102,871	\$ 4,306,653	\$ 234,450

During the three and six months ended June 30, 2024, the first three market based vesting conditions of the RSUs granted in August 2023 were met.

The total amount of unrecognized compensation cost was \$11,848,634 as of June 30, 2024. This amount will be recognized over a weighted average period of 2.92 years.

8. Loss Per Share of Common Stock

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

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2024	2023	2024	2023
Basic EPS and diluted EPS:				
Loss (Numerator)				
Net loss	\$ (7,902,816)	\$ (3,111,500)	\$ (12,922,347)	\$ (8,279,020)
Shares (Denominator)				
Weighted average common shares outstanding (1)	38,669,330	3,886,198	33,334,616	3,827,216
Per-Share Amount	\$ (0.20)	\$ (0.80)	\$ (0.39)	\$ (2.16)

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

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2024	2023 (1)	2024	2023 (1)
Stock options	1,190,599	151,903	1,190,599	151,903
Warrants	3,272,940	615,392	3,272,940	615,392
Unvested restricted stock units	503,446	10,667	503,446	10,667
Convertible Debt	968,973	—	968,973	—

(1) Previously reported outstanding shares of common stock equivalents were adjusted for the effects of the reverse stock split at a ratio of one-for-two hundred and fifty (1-for-250). The reverse stock split was transacted on September 6, 2023.

9. Contingencies

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.

Wendy Cuning vs Skye Bioscience, Inc.

The Company is a party to a legal proceeding with a former employee alleging, among other things, wrongful termination, violation of whistleblower protections under the Sarbanes-Oxley Act of 2002, and retaliation under California law against the Company relating to certain actions and events that occurred with the Company's former management during the employee's employment term from March 2018 to July 2019. The case, entitled *Wendy Cuning vs Skye Bioscience, Inc.*, was filed in U.S. District Court (the "District Court") for the Central District of California (the "Cuning Lawsuit"). On January 18, 2023, a jury rendered a verdict in favor of Ms. Cuning and awarded her \$512,500 in economic damages (e.g., lost earnings, future earnings and interest), \$840,960 in non-economic damages (e.g., emotional distress) and \$3,500,000 in punitive damages. On February 13, 2023, the Company received the final judgment on the special verdict (the "Final Judgment") from the District Court. On August 2, 2023, the District Court ruled on the plaintiff's motion for attorney fees and awarded the plaintiff \$1,200,008. Based on this order, the Company reduced the aggregate estimate for the legal contingency by \$151,842, the difference between the attorney fees awarded by the District Court and the Company's previous estimate. On August 17, 2023, the Company obtained a stay on enforcement of the judgment in the Cuning Lawsuit by posting an appeal bond in the amount of \$9,080,202.

On October 19, 2023, the Company received the final orders from the District Court denying the post-trial motions that the Company filed with the District Court in March 2023 seeking judgment as a matter of law, a new trial, and/or a reduction of the judgment. Additionally, in March of 2023, the Company appealed the judgment in the Cuning Lawsuit to the Ninth District Court of Appeals (the "Ninth Circuit"). Oral argument before the Ninth Circuit is scheduled in the third quarter of 2024.

The Company believes that this case was incorrectly decided as to liability, the amount of compensatory damages, and the appropriateness and amount of punitive damages. While the Company is challenging the verdict in the Ninth Circuit and is pursuing reimbursement under its existing insurance policies, there is no guarantee that the Company will be successful in these efforts. Given the jury verdict, the Company has determined that a loss is probable and accordingly has recorded a legal contingency expense and a current balance sheet liability for the total amount of the jury verdict. The Company has recorded an aggregate estimate for the legal contingency of \$6,053,468 plus accrued interest of \$384,896 at an annual interest rate of 4.9% on the judgment and 5.38% on the legal fees, which is determined by the Superior Court of California. Depending on the outcome of the appeal, it is reasonably possible that the legal contingency booked could materially change after the issuance of these financials.

For the three and six months ended June 30, 2024, the Company recorded interest expense of \$75,189 and \$150,146 respectively, which is included in Legal judgment interest expense in Other (income) expense in the Unaudited Condensed Consolidated Statements of Operations (See Note 5).

Skye Bioscience, Inc. vs Partner Re Ireland Insurance

In February 2023, the Company brought a suit against the Company's D&O insurance carrier, Partner Re Ireland Insurance DAC ("Partner Re"), bringing claims for (a) breach of contract, (2) tortious breach of the implied covenant of good faith and fair dealing and (3) declaratory relief that Partner Re is obligated to reimburse the Company for the defense fees and costs incurred in defense of the Cuning Lawsuit and must indemnify the Company for any settlement or judgment in the Cuning Lawsuit. The Company's allegations arise out of Partner Re's refusal to reimburse the Company for costs incurred by the Company in defending the Cuning Lawsuit. The case, entitled *Skye Bioscience, Inc., v. Partner Re Ireland Insurance DAC*, was filed in the United States District Court for the Central District of California.

On April 17, 2023, Partner Re filed a motion to dismiss the Company's complaint pursuant to Federal Rule of Civil Procedure 12(b)(6). On June 20, 2023, the court issued a ruling in favor of the Company and denied Partner Re's motion to dismiss the Company's lawsuit. In April 2024, the Company filed a motion for judgment on the pleadings. In June of 2024, the court granted in part and denied in part the Company's motion for judgment on the pleadings. The court granted the Company's motion for judgment on the pleadings with respect to Partner Re's affirmative defense related to whether the Cuning Lawsuit constituted a "Securities Claim" as defined in the Partner Re policy, rejecting what had been Partner Re's primary basis for denying coverage.

The Company is pursuing up to \$5,000,000 in coverage less the deductible to cover legal expenses incurred and to be incurred pending the final verdict or settlement of the Cuning Lawsuit.

10. Subsequent Events

2024 Inducement Equity Incentive Plan

On July 2, 2024, the Board of Directors of the Company adopted the Skye Bioscience, Inc. 2024 Inducement Equity Incentive Plan (the "Inducement Plan"). The Inducement Plan was adopted in order to grant share-based awards to newly hired employees as an inducement to join the Company. The terms of the Inducement Plan are substantially similar to the terms of the Company's 2014 Amended and Restated Plan with the exception that awards may only be made to an employee who has not previously been an employee or member of the Board of Directors of the Company if the award is in connection with commencement of employment. The Company has reserved 600,000 shares of the Company's common stock for issuance pursuant to awards granted under the Inducement Plan.

VDL Transaction, Release and Discharge Agreement

On July 17, 2024, the Company reached a transaction, release and discharge agreement with the purchaser of VDL. Under the transaction, release and discharge agreement, the purchase price of VDL was adjusted in exchange for a full release of any future claims. As part of the agreement, the parties agreed to an installment payment schedule for the remaining aggregate balance of the purchase price of \$2,047,080 through December 2027. The note receivable bears interest at 8%. Upon signing the transaction, release and discharge agreement the Company received the first installment payment of \$73,110.

Stock Option Grants

Subsequent to June 30, 2024, the Company granted an aggregate of 153,000 common stock options to consultants, employees and directors under the 2014 Amended and Restated Plan.

Subsequent to June 30, 2024, the Company granted 60,000 common stock options and 15,000 RSUs under Inducement Plan.

Prefunded Warrant Exercise

Subsequent to June 30, 2024, 1,301,573 pre-funded warrants with an intrinsic value of \$10,424,294 were cashless exercise in exchange for 1,301,410 shares of common stock.

Settlement of Convertible Note

On August 8, 2024, the holder of the Convertible Note exercised their conversion option in exchange for 968,973 shares of the Company's common stock. Accrued interest will be paid to the holder in cash through the settlement date.

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, 2024 and 2023, together with the notes thereto 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, 2023. 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.

SPECIAL NOTE REGARDING 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 timing, progress and results of our clinical trial for nimacimab and our estimates regarding the market opportunity for nimacimab if approved;
- the early stage of our product candidates presently under development;
- our ability to obtain and, if obtained, maintain regulatory approval of our current product candidates, and any of our other future product candidates, and any related restrictions, limitations, and/or warnings in the label of any approved product candidate;
- our ability to retain or hire key scientific or management personnel;
- our ability to protect our intellectual property rights that are valuable to our business, including patent and other intellectual property rights;
- our dependence on third party manufacturers, suppliers, research organizations, testing laboratories and other potential collaborators, including global supply chain disruptions;
- 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 current product candidates, and the rate and degree of market acceptance of any of our current product candidates;
- our competitive position and the development of competing therapies that are or may become available;
- regulatory developments in the United States and foreign countries; and
- current pending litigation matters, including the Cunning Lawsuit.

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 current global economic environment, the impacts of the high inflationary environment, and associated business disruptions such as delayed clinical trials, laboratory resources and supply chain limitations, 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.

Unless otherwise provided in this Quarterly Report on Form 10-Q, references to "we," "us," "our" and "Skye" in this discussion and analysis refer to Skye Bioscience, Inc., a Nevada corporation, together with its wholly owned subsidiaries, Nemus, a California corporation, SKYE Bioscience Pty Ltd ("SKYE Bioscience Australia"), an Australian proprietary limited company, Emerald Health Therapeutics, Inc. ("EHT") a corporation governed by the Business Corporations Act (British Columbia), Bird Rock Bio Sub, Inc. ("BRB"), a Delaware corporation, Ruiyi Acquisition Corp, a Delaware corporation and Avalite Sciences, Inc. ("AVI") a corporation governed by the Business Corporations Act (British Columbia).

Overview

We are a clinical-stage biopharmaceutical company focused on unlocking new therapeutic pathways for metabolic health through the development of next-generation molecules that modulate G-protein coupled receptors ("GPCRs"). GPCRs regulate diverse physiological and pathological processes, particularly those that maintain metabolic homeostasis. Therapeutics that target these GPCR-associated pathways may represent novel approaches to address metabolic disorders.

Our product candidate, nimacimab, is a peripherally-restricted negative allosteric modulating antibody specific for the human CB1 receptor (CB1), administered as a subcutaneous injectable initially for the treatment of obesity.

Subsequent to June 30, 2024, we finalized our Phase 2 clinical trial protocol for nimacimab, *CBeyond*TM, updated our Investigational New Drug file with the FDA and completed the site selection process. The *CBeyond*TM clinical trial will include 120 patients, 18 planned clinical trial sites and an exploratory combination arm with a GLP-1 agonist to assess the difference in weight loss, differences in body composition and changes in sleep quality. We expect our clinical trial to begin screening in Q3 2024 and expect to provide interim and topline data in the second and fourth quarters of 2025, respectively. This study's primary endpoint is to evaluate weight loss using nimacimab compared to placebo.

Secondary endpoints include evaluations of safety and tolerability, neuropsychiatric and cognitive evaluation, change in body composition by Dual-Energy X-ray Absorptiometry (DEXA), and changes in key metabolic biomarkers such as triglycerides, insulin and leptin sensitivity.

Given the distinct mechanism and beneficial attributes of nimacimab as a peripheral CB1 inhibitor, within the large and heterogeneous obesity landscape we see significant opportunity for nimacimab to potentially complement GLP-1 agonists and other anti-obesity drug mechanisms of action as well as to have a potential role as a monotherapy.

In June 2024, we completed our Phase 2a double-masked randomized, placebo-controlled trial of SBI-100 Ophthalmic Emulsion ("SBI-100 OE") in 56 patients with elevated intraocular pressure ("IOP") diagnosed with primary open-angle glaucoma or ocular hypertension. The primary endpoint evaluated the change in diurnal IOP in the treated arm vs. placebo over 2 weeks. The study did not achieve a statistically significant improvement in IOP over placebo. As a result, we eliminated our ocular program and strategically redirected our efforts and capital resources to our metabolic program. We have also terminated our license agreement with the University of Mississippi and other vendor contracts related to the manufacture, development, and sublicense of SBI-100.

In January 2024 and March 2024, we completed two private placement equity transactions (the "January and March PIPE Financings") with institutional accredited investors, in which we raised combined net aggregate proceeds of \$83,556,563. The net capital raised from the January and March PIPE Financings along with the reallocation of funds from the elimination of our glaucoma program will allow us to fund our clinical trial for obesity through top-line Phase 2 data and provide us with the ability to expand upon our metabolic program.

On May 10, 2024, we entered into an Equity Distribution Agreement (the “ATM Agreement”) with Piper Sandler & Co, as the sales agent (the “Sales Agent”), under which we may, from time to time, sell up to \$100,000,000 of shares of our common stock through the Sales Agent (the “ATM Offering”). We are not obligated to, and we cannot provide any assurances that we will continue to, make any sales of the shares under the ATM Agreement. We will pay the Sales Agent a commission for their services in acting as agent in the sale of common stock in an amount up to 3% of the gross sales price per share sold. During the three and six months ended June 30, 2024, we did not issue any shares under the ATM Offering.

In April 2024, Skye uplisted to the NASDAQ Global Market® stock exchange from the OTCQB and in August of 2024 the Company's Convertible Note was settled for shares of the Company's common stock.

We were incorporated under the laws of the State of Nevada on March 16, 2011, and our headquarters are based in San Diego, CA. Since our incorporation, we have devoted substantially all of our efforts to building our product portfolio through the acquisition of clinical assets and licensing agreements, carrying out research and development, building infrastructure and raising capital.

Financial Overview

Revenues

To date, we have not generated any revenue. We do not expect to receive any revenue from our drug candidate or any future drug candidates that we develop unless and until we obtain regulatory approval for, and commercialize, our drug candidate or future drug candidates or generate revenue from collaborative agreements with third parties.

Research and Development Expenses

During the three months ended June 30, 2024, we incurred \$4,078,751 in research and development expenses primarily related to residual costs from our legacy Phase 2a SBI-100 OE clinical trial and costs from the preparation of the launch of our Phase 2 clinical trial for obesity. During the three months ended June 30, 2023, we incurred \$1,788,434 in research and development expense primarily related to our efforts in conducting the Phase 1 SBI-100 OE clinical trial.

During the six months ended June 30, 2024, we incurred \$6,025,201 in research and development expenses primarily related to our efforts in conducting the Phase 2a SBI-100 OE clinical trial and costs from the preparation of the launch of our Phase 2 clinical trial for obesity. During the six months ended June 30, 2023, we incurred \$2,973,314 in research and development expense primarily related to our efforts in conducting the Phase 1 SBI-100 OE clinical trial.

We expect that our ongoing research and development expenses will consist of costs incurred for the development of our drug candidate or future drug candidates, including, but not limited to:

- 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, nonclinical, and clinical studies. Preclinical and nonclinical activities include early discovery efforts with novel molecules, laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies to assess safety and efficacy.

The process of conducting the necessary clinical research to obtain regulatory approval is costly and time consuming and the successful development of our drug candidates is highly uncertain. Our future research and development expenses will depend on the clinical success of our current and future drug candidates as well as ongoing assessments of the commercial potential of such drug candidates. In addition, we cannot forecast with any degree of certainty which drug candidates may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements. We expect to incur increased research and development expenses in the future as we continue our efforts towards advancing our lead program for nimacimab.

General and Administrative Expenses

Our general and administrative expenses have fluctuated year-over-year as we have entered into various strategic acquisitions to restructure and reposition our company. Additionally, as a business in the early stages of drug development we are in the process of scaling our operations by hiring additional employees and building the infrastructure necessary to increase efficiencies. These initiatives have resulted in additional costs related to the implementation of certain systems, insurance, legal and accounting costs related to operating as a public company. To incentivize our employees and be competitive to retain strong talent we issued additional equity awards in 2023 and 2024, which have resulted in increased stock-based compensation expense. We expect that our general and administrative expenses will continue to increase in the future in order to support our expected increase in research and development activities, including increased salaries and other related costs, stock-based compensation and consulting fees for executive, finance, accounting and business development functions. We also expect general and administrative expenses to increase as a result of additional costs associated with being a public company and our uplisting to Nasdaq, including expenses related to compliance with the rules and regulations of the SEC and Nasdaq, additional insurance expenses, investor relations activities and other administration and professional services. Other significant costs are expected to include legal fees relating to patent and corporate matters, facility costs and fees for accounting and other consulting services.

Other (Income) Expense

Other (income) expense primarily includes a gain from the sale of the AVI building (see Note 2 to the accompanying Unaudited Condensed Consolidated Financial Statements), interest income and interest expense incurred from our short term convertible debt.

Critical Accounting Estimates

There have been no material changes in our Critical Accounting Estimates from the information provided in the "Critical Accounting Estimates" section of "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023

Recently Issued and Adopted Accounting Pronouncements

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

Results of Operations

For the three months ended June 30, 2024 and 2023

Research and Development Expenses

Below is a summary of our research and development expenses during the three months ended June 30, 2024 and to the same period in 2023:

	Three Months Ended June 30,			
	2024	2023	\$ Change 2024 vs. 2023	% Change 2024 vs. 2023
Research and development expenses	\$ 4,078,751	\$ 1,788,434	\$ 2,290,317	128 %

Research and development expenses for the three months ended June 30, 2024 increased by \$2,290,317 as compared to the same period in 2023. The net increase in research and development expenses was primarily due to an increase of \$421,263 in research and development salaries and equity based compensation, a net increase of \$1,489,843 in contracted clinical costs associated with the completion of our Phase 2a glaucoma clinical trial and the preparation for our Phase 2 clinical trial for obesity. In connection with the discontinuation of our clinical trials for SBI-100 OE, we incurred contract cancellation fees and other general expenses of \$269,189. In addition, there was an increase in consulting fees of \$148,882 related to our clinical trial for obesity, which was offset by a decrease in license fees of \$73,087 from the elimination of the SBI-200 license agreement with the University of Mississippi compared to the prior year.

General and Administrative Expenses

Below is a summary of our general and administrative expenses during the three months ended June 30, 2024 and to the same period in 2023:

	Three Months Ended June 30,			
	2024	2023	\$ Change 2024 vs. 2023	% Change 2024 vs. 2023
General and administrative expenses	\$ 4,326,820	\$ 1,206,405	\$ 3,120,415	259 %

General and administrative expenses for the three months ended June 30, 2024 increased by \$3,120,415 as compared to the same period in 2023. The increase in general and administrative expenses was primarily due to an increase in salaries and benefits of \$1,520,647 from the recognition of stock-based compensation expense. During the three months ended June 30, 2024, professional fees increased by \$945,873 due to services provided under a financial advisory agreement, professional services related to the registration of the resale of shares issued in the January and March 2024 PIPE Financings shares and general corporate legal fees associated with our uplisting to Nasdaq, the filing of our shelf registration statement and the entry into our ATM Agreement. Other increases included insurance and other general business expenses of \$60,755 and \$444,713, respectively. The increases in insurance and general business costs related to increased liability coverage, the initial listing fee paid to Nasdaq and regulatory agency filing fees.

Other (Income) Expense

Below is a summary of our other (income) expense for the three months ended June 30, 2024 and to the same period in 2023:

	Three Months Ended June 30,			
	2024	2023	\$ Change 2024 vs. 2023	% Change 2024 vs. 2023
Interest expense	\$ 450,052	\$ 186,429	\$ 263,623	141 %
Interest income	(961,237)	(8,598)	(952,639)	11080 %
Wind-down costs	—	87,072	(87,072)	(100)%
Other expense	\$ 359	\$ —	359	100 %
Total other (income) expense	\$ (510,826)	\$ 264,903	\$ (775,729)	(293)%

For the three months ended June 30, 2024, we had net other income of \$510,826 related primarily to the increase in interest income of \$952,639 resulting from interest payable on our cash and cash equivalents and restricted cash on deposit with financial institutions, offset by an increase of \$263,623 related party interest expense from the Convertible Note (as defined in Note 5 to the accompanying Unaudited Condensed Consolidated Financial Statements). In addition, during the three months ended June 30, 2023, we recognized wind down costs of \$87,072 from the EHT Acquisition.

For the six months ended June 30, 2024 and 2023

Research and Development Expenses

Below is a summary of our research and development expenses during the six months ended June 30, 2024 and to the same period in 2023:

	Six Months Ended June 30,			
	2024	2023	\$ Change 2024 vs. 2023	% Change 2024 vs. 2023
Research and development expenses	\$ 6,025,201	\$ 2,973,314	\$ 3,051,887	103 %

Research and development expenses for the six months ended June 30, 2024 increased by \$3,051,887 as compared to the same period in 2023. The net increase in research and development expenses was primarily due to an increase of \$800,780 in research and development salaries from increased headcount and equity based compensation, a net increase of \$1,835,309 in contracted clinical costs associated with clinical trial expenses from the completion of our Phase 2a clinical trial for glaucoma and the preparation for our Phase 2 clinical trial for obesity.

In connection with the discontinuation of our clinical trials for SBI-100 OE, we incurred contract cancellation fees and other general expenses of \$270,638. In addition, there was an increase in consulting fees of \$191,095 related to our Phase 2 clinical trial for obesity, which was offset by a decrease in license fees of \$70,248 from the elimination of the SBI-200 license agreement with the University of Mississippi in the prior year.

General and Administrative Expenses

Below is a summary of our general and administrative expenses during the six months ended June 30, 2024 and to the same period in 2023:

	Six Months Ended June 30,			
	2024	2023	\$ Change 2024 vs. 2023	% Change 2024 vs. 2023
General and administrative expenses	\$ 8,532,620	\$ 3,121,683	\$ 5,410,937	173 %

General and administrative expenses for the six months ended June 30, 2024 increased by \$5,410,937 as compared to the same period in 2023. The increase in general and administrative expenses was primarily due to an increase in salaries and benefits of \$3,573,816 from increased headcount and the recognition of stock based compensation expense due to the achievement of certain performance based milestones related to RSUs granted to members of management and members of the board of directors of the Company.

During the six months ended June 30, 2024, professional fees increased by \$974,077 due to services provided under a financial advisory agreement, professional services related to the registration of the resale of shares issued in the January and March PIPE Financings and general corporate legal fees associated with our uplisting to Nasdaq, the filing of our shelf registration statement, regulatory agency filing fees, legal fees related to nimacimab patent prosecution, increased tax fees due to increased complexity and the entry into the ATM Agreement. Other increases included board fees, other general business expenses, consulting, insurance and travel of \$62,473, \$534,914, \$113,637, \$112,505 and \$96,681, respectively.

Other (Income) Expense

Below is a summary of our other (income) expense for the six months ended June 30, 2024 and to the same period in 2023:

	Six Months Ended June 30,			
	2024	2023	\$ Change 2024 vs. 2023	% Change 2024 vs. 2023
Interest expense	\$ 886,988	\$ 204,828	\$ 682,160	333 %
Interest income	(1,388,791)	(33,112)	(1,355,679)	4094 %
(Gain) loss from asset sales	(1,145,141)	307,086	(1,452,227)	(473) %
Debt conversion inducement expense	—	1,383,285	(1,383,285)	(100) %
Wind-down costs	—	470,181	(470,181)	(100) %
Other expense (income)	1,399	(3)	1,402	100 %
Total other (income) expense	\$ (1,645,545)	\$ 2,332,265	\$ (3,977,810)	(171) %

For the six months ended June 30, 2024, we had net other income of \$1,645,545 related primarily to the gain on the sale of the AVI building of \$1,145,141, an increase in interest income of \$1,355,679, offset by an increase of \$682,160 in related party interest expense from the Convertible Note. In addition, during 2023 we incurred a one-time debt conversion inducement expense of \$1,383,285 and recognized wind down costs of \$470,181 from the EHT Acquisition.

Liquidity and Capital Resources

Liquidity

We have incurred operating losses and negative cash flows from operations since our inception, and as of June 30, 2024, we had working capital of \$72,681,890, an accumulated deficit of \$117,304,896, and stockholders' equity of \$72,809,051. We had unrestricted cash and cash equivalents in the amount of \$74,120,854 as of June 30, 2024, as compared to \$1,256,453 as of December 31, 2023. For the six months ended June 30, 2024 and 2023, the Company incurred losses from operations of \$14,557,821 and \$5,943,155, respectively. For the six months ended June 30, 2024 and 2023, the Company incurred net losses of \$12,922,347 and \$8,279,020, respectively.

In January 2024 and March 2024, we completed the January and March PIPE Financings, in which we raised combined net aggregate proceeds of \$83,556,563. We expect the capital from the January and March PIPE Financings to fund our Phase 2 clinical trial for obesity through top line Phase 2 data in late 2025 and the potential expansion of our metabolic program.

In May 2024, we entered into the ATM Agreement under which the Company may, sell up to \$100,000,000 of shares of common stock through the Sales Agent. The Company has not sold any shares under the ATM Agreement as of the date hereof and is not obligated to, and cannot provide any assurances that the Company will continue to, make any sales of the shares under the ATM Agreement.

Subsequent to June 30, 2024, the holder of the Convertible Note exercised their conversion option and converted the principal balance of the Convertible Note into 968,973 shares of our common stock.

The Company's Unaudited Condensed Consolidated Financial Statements have been prepared on the basis of the Company continuing as a going concern for the next 12 months. Based on its current operational requirements, the Company believes that its current cash will be sufficient to fund its projected operations for at least 12 months from the date of the issuance of these consolidated financial statements. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress and expenses in these trials is uncertain.

Our future capital requirements will depend on many factors, including:

- the scope, rate of progress, results and costs of our clinical trials, preclinical studies and other related activities;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;
- the timing of, and the costs involved in, obtaining regulatory approvals for any of our current or future drug candidates;
- the number and characteristics of the drug candidates we seek to develop or commercialize;
- the cost of manufacturing clinical supplies, and establishing commercial supplies, of our drug candidates;
- the cost of commercialization activities if our current or future drug candidates are approved for sale, including marketing, sales and distribution costs;
- the expenses needed to attract and retain skilled personnel;
- the costs associated with being a public company, including of our uplisting to Nasdaq;
- the amount of revenue, if any, received from commercial sales of our drug candidates, should any of our drug candidates receive marketing approval; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing possible patent claims, including litigation costs and the outcome of any such litigation.

Cash Flows

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

	Six Months Ended June 30,	
	2024	2023
Net cash used in operating activities	\$ (11,801,659)	\$ (6,052,759)
Net cash provided by investing activities	1,109,497	5,530,406
Net cash provided by (used in) financing activities	83,556,563	(168,720)

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 clinical product candidates and general and administrative activities. Our cash used in operating activities also reflected changes in our working capital, net of adjustments for non-cash charges, such as stock-based compensation, depreciation and amortization, amortization of debt discount and the (gain) loss from divestiture of assets.

Cash used in operating activities of \$11,801,659 during the six months ended June 30, 2024, reflected a net loss of \$12,922,347, partially offset by aggregate non-cash charges of \$3,963,183 and included a \$2,842,495 net change in our operating assets and liabilities.

Non-cash charges included \$4,306,653 for stock-based compensation expense primarily attributable to the vesting of RSUs related to the achievement of certain market based performance milestones, \$487,527 in non-cash interest expense debt amortization expense, \$1,145,141 gain from the sale of a real estate asset and \$246,000 from the write-off of vendor deposits. The net change in our operating assets and liabilities included a \$2,735,219 cash outflow from changes in our prepaid expenses and other current assets, a \$30,984 net cash outflow from changes in our accrued expenses and other current liabilities and a \$76,292 cash outflow from the repayment of our accounts payable.

Cash used in operating activities of \$6,052,759 during the six months ended June 30, 2023, reflected a net loss of \$8,279,020, partially offset by aggregate non-cash charges of \$1,992,843 and included a \$233,418 net change in our operating assets and liabilities.

Cash Flows from Investing Activities

During the six months ended June 30, 2024, the Company purchased \$35,644 in machinery and office equipment and recognized \$1,145,141 in net proceeds from the sale of the AVI building.

During the six months ended June 30, 2023, the Company purchased \$1,860 in machinery office equipment. During the six months ended June 30, 2023, the Company received \$5,532,266 in proceeds related to the divestiture of VDL.

Cash Flows from Financing Activities

Cash flows from financing activities primarily reflect proceeds from the sale of our securities and loan repayments.

During the six months ended June 30, 2024, cash provided by financing activities included \$83,556,563 in proceeds received in connection with the January and March PIPE Financings, net of issuance costs.

During the six months ended June 30, 2023, cash used in financing activities included a \$168,720 repayment on our insurance premium loan payable.

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, as amended, 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, 2024. 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 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

For a description of material legal proceedings, see Note 9, "General Litigation and Disputes" to the accompanying Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

There have been no material changes in or additions to the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2023 and our quarterly report on Form 10-Q for the three months ended March 31, 2024.

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

In May 2024, we issued 5,000 shares of common stock to a consultant for investor relations services. The issuance of the shares of common stock was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the exemption for transactions by an issuer not involved in any public offering under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder and corresponding state securities laws.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Rule 10b5-1 and Non-Rule 10b5-1 Trading Arrangements

During the three months ended June 30, 2024, neither the Company or any of its officers or directors adopted or terminated trading arrangements for the sale of the Company's common stock.

Item 6. Exhibits.

3.1	Articles of Incorporation of Registrant, as amended (incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-K filed on March 22, 2024)
3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-K filed on March 2, 2021)
10.1*	2024 Inducement Equity Incentive Plan
10.2*	Form of Stock Option Grant Notice and Stock Option Agreement under the 2024 Inducement Equity Incentive Plan
10.3*	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the 2024 Inducement Equity Incentive Plan
10.4	Equity Distribution Agreement, dated as of May 10, 2024, by and between Skye Bioscience, Inc. and Piper Sandler & Co. (incorporated by reference to Exhibit 1.2 to our Registration Statement on Form S-3 filed May 10, 2024)
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, 2024, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Balance Sheets (Unaudited), (ii) Condensed Consolidated Statements of Operations (Unaudited), (iii) Condensed Consolidated Statements of Cash Flows (Unaudited), (iv) Condensed Consolidated Statements of Stockholders' Deficit (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.

+ Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibits or schedules upon request.

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 9, 2024

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

August 9, 2024

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

SKYE BIOSCIENCE, INC.
2024 INDUCEMENT EQUITY INCENTIVE PLAN

ARTICLE I
PURPOSE AND ADOPTION OF THE PLAN

1.01. Purpose. The purpose of the Skye Bioscience, Inc. 2024 Inducement Equity Incentive Plan (as may be amended from time to time, the Plan) is to attract and retain highly competent Eligible Persons for positions of substantial responsibility by providing an inducement material to individuals entering into employment with the Company and its Subsidiaries. Each Award under the Plan is intended to qualify as an employment inducement grant under Nasdaq Stock Market Rule 5635(c)(4) and the official guidance thereunder.

1.02. Adoption and Term. The Plan shall become effective on the day the Board adopts the Plan (the Effective Date) and shall remain in effect until terminated by the Board.

ARTICLE II
DEFINITIONS

For the purpose of this Plan, capitalized terms shall have the following meanings:

2.01. Affiliate means an entity in which, directly or indirectly through one or more intermediaries, the Company has at least a fifty percent (50%) ownership interest or, where permissible under Section 409A of the Code, at least a twenty percent (20%) ownership interest.

2.02. Award means any one or a combination of Non-Qualified Stock Options described in Article VI, Stock Appreciation Rights described in Article VI, Restricted Shares and Restricted Stock Units described in Article VII, Performance Awards described in Article VIII, other stock-based Awards described in Article IX or any other Award made under the terms of the Plan.

2.03. Award Agreement means a written agreement between the Company and a Participant or a written acknowledgment from the Company to a Participant specifically setting forth the terms and conditions of an Award granted under the Plan.

2.04. Award Period means, with respect to an Award, the period of time, if any, set forth in the Award Agreement during which specified target performance goals must be achieved or other conditions set forth in the Award Agreement must be satisfied.

2.05. Beneficiary means an individual, trust or estate who or which, by a written designation of the Participant filed with the Company, or if no such written designation is filed, by operation of law, succeeds to the rights and obligations of the Participant under the Plan and the Award Agreement upon the Participant's death.

2.06. Board means the Board of Directors of the Company.

2.07. Canadian Person means any person subject to tax under the laws of Canada or any province or territory situated therein in respect of an Award.

2.08. Change in Control means, and shall be deemed to have occurred upon the occurrence of, any one of the following events:

(a) The acquisition in one or more transactions, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than the Company, an Affiliate or any employee benefit plan (or related trust) sponsored or maintained by the Company or an Affiliate, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a

number of Company Voting Securities in excess of 50% of the Company Voting Securities unless such acquisition has been approved by the Board;

(b) Any election has occurred of persons to the Board that causes two-thirds of the Board to consist of persons other than (i) persons who were members of the Board on the Effective Date of the Plan and (ii) persons who were nominated for elections as members of the Board at a time when two-thirds of the Board consisted of persons who were members of the Board on the effective date of the Plan, provided, however, that any person nominated for election by a Board at least two-thirds of whom constituted persons described in clauses (i) and/or (ii) or by persons who were themselves nominated by such Board shall, for this purpose, be deemed to have been nominated by a Board composed of persons described in clause (i);

(c) The consummation (i.e. closing) of a reorganization, merger or consolidation involving the Company, unless, following such reorganization, merger or consolidation, all or substantially all of the individuals and entities who were the respective beneficial owners of the Outstanding Common Stock and Company Voting Securities immediately prior to such reorganization, merger or consolidation, following such reorganization, merger or consolidation beneficially own, directly or indirectly, more than 75% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors or trustees, as the case may be, of the entity resulting from such reorganization, merger or consolidation in substantially the same proportion as their ownership of the Outstanding Common Stock and Company Voting Securities immediately prior to such reorganization, merger or consolidation, as the case may be;

(d) The consummation (i.e. closing) of a sale or other disposition of all or substantially all the assets of the Company, unless, following such sale or disposition, all or substantially all of the individuals and entities who were the respective beneficial owners of the Outstanding Common Stock and Company Voting Securities immediately prior to such sale or disposition, following such sale or disposition beneficially own, directly or indirectly, more than 75% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors or trustees, as the case may be, of the entity purchasing such assets in substantially the same proportion as their ownership of the Outstanding Common Stock and Company Voting Securities immediately prior to such sale or disposition, as the case may be; or

(e) a complete liquidation or dissolution of the Company.

2.09. Code means the Internal Revenue Code of 1986, as amended. References to a section of the Code shall include that section and any comparable section or sections of any future legislation that amends, supplements or supersedes said section.

2.10. Committee means the Compensation Committee of the Board comprised of two or more Directors, each of whom is intended to qualify as a Non-Employee Director and an Independent Director.

2.11. Common Stock means the common stock of the Company, par value \$0.001 per share.

2.12. Company or Skye means Skye Bioscience, Inc., a Nevada corporation, and its successors.

2.13. Company Voting Securities means the combined voting power of all outstanding voting securities of the Company entitled to vote generally in the election of directors to the Board.

2.14. Date of Grant means the date designated by the Committee as the date as of which it grants an Award, which shall not be earlier than the date on which the Committee approves the granting of such Award.

2.15. Dividend Equivalent Account means a bookkeeping account in accordance with under Section 10.17 and related to an Award that is credited with the amount of any cash dividends or stock distributions

that would be payable with respect to the shares of Common Stock subject to such Awards had such shares been outstanding shares of Common Stock.

2.16. Eligible Person means any prospective employee of the Company or any its Subsidiaries who has not previously been an employee or director of the Company or a Subsidiary, or who is commencing employment with the Company or a Subsidiary following a bona fide period of non-employment by the Company or a Subsidiary, if he or she is granted an Award in connection with his or her commencement of employment with the Company or a Subsidiary and such grant is an inducement material to his or her entering into employment with the Company or a Subsidiary (within the meaning of Nasdaq Stock Market Rule IM-5636-1 or any successor rule, if the Company's securities are traded on the Nasdaq Stock Market, and/or the applicable requirements of any other established stock exchange on which the Company's securities are traded, as applicable, as such rules and requirements may be amended from time to time). The Committee may in its discretion adopt procedures from time to time to ensure that a prospective employee of the Company or any its Subsidiaries is eligible to participate in the Plan prior to the granting of any Awards to such individual under the Plan (including without limitation a requirement that each such prospective employee certify to the Company prior to the receipt of an Award under the Plan that he or she has not been previously employed by the Company or a Subsidiary, or if previously employed, has had a bona fide period of non-employment, and that the grant of Awards under the Plan is an inducement material to his or her agreement to enter into employment with the Company or a Subsidiary).

2.17. Exchange Act means the Securities Exchange Act of 1934, as amended.

2.18. Exercise Price means, with respect to a Stock Appreciation Right, the amount established by the Committee in the Award Agreement which is to be subtracted from the Fair Market Value on the date of exercise in order to determine the amount of the payment to be made to the Participant, as further described in Section 6.02(b).

2.19. Fair Market Value means, as of any applicable date:

(i) for Canadian persons, if the Common Stock is listed on the Canadian Securities Exchange, the closing sales price of the Common Stock on the exchange on that date, or, if no sale of the Common Stock occurred on that date, on the next preceding date on which there was a reported sale;

(ii) for US persons, if the Common Stock is listed on a national securities exchange or is authorized for quotation on the Nasdaq National Market System ("NMS"), the closing sales price of the Common Stock on the exchange or NMS, as the case may be, on that date, or, if no sale of the Common Stock occurred on that date, on the next preceding date on which there was a reported sale;

(iii) if none of the above apply for the particular person, the closing bid price as reported by the Nasdaq Capital Market on that date, or if no price was reported for that date, on the next preceding date for which a price was reported;

(iv) if none of the above apply for the particular person, the last reported bid price published in the "pink sheets" or displayed on the Financial Industry Regulatory Authority ("FINRA"), Electronic Bulletin Board, or OTC Markets, Inc. as the case may be; or

(v) if none of the above apply, the fair market value of the Common Stock as determined under procedures established by the Committee.

2.20. Independent Director means a director of the Company who is not an employee and who qualifies as "independent" within the meaning of Nasdaq Stock Market Rule 5605(a)(2), or any successor rule, if the Company's securities are traded on the Nasdaq Stock Market, and/or the applicable requirements of any other established stock exchange on which the Company's securities are traded, as applicable, as such rules and requirements may be amended from time to time.

2.21. Non-Employee Director means a "non-employee director" within the meaning of Rule 16b-3.

- 2.22. Merger means any merger, reorganization, consolidation, exchange, transfer of assets or other transaction having similar effect involving the Company.
- 2.23. Non-Qualified Stock Option means a stock option which does not qualify as an “incentive stock option” as defined in Section 422 of the Code.
- 2.24. Options means all Non-Qualified Stock Options granted at any time under the Plan. All Options granted under the Plan shall be Non-Qualified Stock Options.
- 2.25. Outstanding Common Stock means, at any time, the issued and outstanding shares of Common Stock.
- 2.26. Participant means an Eligible Person or a Permitted Assign thereof, who receives an Award under the Plan in accordance with Section 5.01, who enters into an Award Agreement with respect to such Award that is fully executed and delivered by all parties thereto.
- 2.27. Performance Awards means Awards granted in accordance with Article VIII.
- 2.28. Performance Goals means revenues, units sold or growth in units sold, return on stockholders' equity, customer satisfaction or retention, return on investment or working capital, operating income, economic value added (the amount, if any, by which net operating income after tax exceeds a reference cost of capital), EBITDA (as net income (loss) before net interest expense, provision (benefit) for income taxes, and depreciation and amortization), expense targets, net income, earnings per share, share price, reductions in inventory, inventory turns, on-time delivery performance, operating efficiency, productivity ratios, market share or change in market share, any one of which may be measured with respect to the Company or any one or more of its Subsidiaries and divisions and either in absolute terms or as compared to another company or companies, and quantifiable, objective measures of individual performance relevant to the particular individual's job responsibilities.
- 2.29. Permitted Assign means, for a person that is an employee, executive officer, director or consultant of the Company or of a Subsidiary of the Company: (1) a trustee, custodian, or administrator acting on behalf of, or for the benefit of the person; (2) a holding entity of the person; (3) a “registered retirement savings plan”, “registered retirement income fund”, or “tax-free savings account” (all within the meaning of the *Income Tax Act* (Canada)) of the person; (4) a spouse of the person; (5) a trustee, custodian, or administrator acting on behalf of, or for the benefit of the spouse of the person; (6) a holding entity of the spouse of the person; or (7) a “registered retirement savings plan”, “registered retirement income fund”, or “tax-free savings account” (all within the meaning of the *Income Tax Act* (Canada)) of the spouse of the person.
- 2.30. Plan has the meaning given to such term in Section 1.01.
- 2.31. Purchase Price, with respect to Options, shall have the meaning set forth in Section 6.01(b).
- 2.32. Related Person means, for the Company:
- (i) a director or executive officer of the Company or an Affiliate of the Company;
 - (ii) an associate of a director or executive officer of the Company or an Affiliate of the Company; or
 - (iii) a Permitted Assign of a director or executive officer of the Company or an Affiliate of the Company.
- 2.33. Restricted Shares means Common Stock subject to restrictions imposed in connection with Awards granted under Article VII.

2.34. Restricted Stock Unit means a unit representing the right to receive Common Stock or the value thereof in the future subject to restrictions imposed in connection with Awards granted under Article VII.

2.35. Rule 16b-3 means Rule 16b-3 promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, as the same may be amended from time to time, and any successor rule.

2.36. Stock Appreciation Rights means awards granted in accordance with Article VI.

2.37. Subsidiary means any corporation in which the Company owns, directly or indirectly, at least 50% of the total combined voting power of all classes of stock, or any other entity (including partnerships and joint ventures) in which the Company owns, directly or indirectly, at least 50% of the combined equity thereof.

2.38. Termination of Service means the voluntary or involuntary termination of a Participant's service as an employee, director or consultant with the Company or an Affiliate for any reason, including death, disability, retirement or as the result of the divestiture of the Participant's employer or any similar transaction in which the Participant's employer ceases to be the Company or one of its Subsidiaries. Whether entering military or other government service shall constitute Termination of Service, or whether and when a Termination of Service shall occur as a result of disability, shall be determined in each case by the Committee in its sole discretion.

ARTICLE III ADMINISTRATION

3.01. Administrator.

(a) Duties and Authority. The Plan shall be administered by the Committee unless the Board assumes the authority for administration of the Plan, in which case references to the "Committee" shall be deemed to be references to the Board; provided, however, that Awards granted under the Plan must be approved by a majority of the Independent Directors or the Committee. The Committee shall have exclusive and final authority in each determination, interpretation or other action affecting the Plan and its Participants. The Committee shall have the sole discretionary authority to interpret the Plan, to establish and modify administrative rules for the Plan, to impose such conditions and restrictions on Awards as it determines appropriate, and to make all factual determinations with respect to and take such steps in connection with the Plan and Awards granted hereunder as it may deem necessary or advisable.

(b) Indemnification. Each person who is or shall have been a member of the Board or the Committee, or an officer or employee of the Company to whom authority was delegated in accordance with the Plan shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such individual in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf; provided, however, that the foregoing indemnification shall not apply to any loss, cost, liability, or expense that is a result of his or her own willful misconduct. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, conferred in a separate agreement with the Company, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(c) Actions Required Upon Grant of Award. Following the issuance of any Award under the Plan, the Company shall, in accordance with the listing requirements of the applicable securities exchange, (a) promptly issue a press release disclosing the material terms of the grant, including the recipient(s) of the grant and the number of shares involved (and if the disclosure relates to an award to only one person, or to executive officers, or the award was individually negotiated, then the disclosure must include the identity of the recipient), and (b)

notify the applicable securities exchange of such grant no later than the earlier to occur of (i) five calendar days after entering into the agreement to issue the Award or (ii) the date of the public announcement of the Award.

ARTICLE IV SHARES

4.01. General. The total number of shares authorized to be issued under the Plan shall equal 600,000 or a lesser number of shares determined by the Board. In no event, however, shall the number of shares of Common Stock available under the Plan be reduced as a result of the application of this provision. The foregoing share limit shall be subject to adjustment in accordance with Section 10.07. The shares to be offered under the Plan shall be authorized and unissued Common Stock, or issued Common Stock that shall have been reacquired by the Company.

4.02. Limits on Awards. Unless securityholder approval is obtained in accordance with applicable securities laws, the following limitations shall apply to the Plan and all Awards:

(a) the number of securities, calculated on a fully diluted basis, reserved for issuance under the Awards granted to: (1) Related Persons, shall not exceed 10% of the outstanding securities of the Company, or (2) a Related Person, shall not exceed 5% of the outstanding securities of the Company; and

(b) the number of securities, calculated on a fully diluted basis, issued within 12 months, to: (1) Related Persons, shall not exceed 10% of the outstanding securities of the Company, or (2) a Related Person, shall not exceed 5% of the outstanding securities of the Company.

4.03. Shares Subject to Terminated Awards. Common Stock covered by any unexercised portions of terminated or forfeited Options (including canceled Options) granted under Article VI, Restricted Stock or Restricted Stock Units forfeited as provided in Article VII, other stock-based Awards terminated or forfeited as provided under the Plan, and Common Stock subject to any Awards that are otherwise surrendered by the Participant may again be subject to new Awards under the Plan. Shares of Common Stock surrendered to or withheld by the Company in payment or satisfaction of the Purchase Price of an Option or tax withholding obligation with respect to an Award shall be available for the grant of new Awards under the Plan. In the event of the exercise of Stock Appreciation Rights, whether or not granted in tandem with Options, only the number of shares of Common Stock actually issued in payment of such Stock Appreciation Rights shall be charged against the number of shares of Common Stock available for the grant of Awards hereunder.

ARTICLE V PARTICIPATION

5.01. Eligible Participants. Participants in the Plan shall be such Eligible Persons as the Committee, in its sole discretion, may designate from time to time. The Committee's designation of a Participant in any year shall not require the Committee to designate such person to receive Awards or grants in any other year. The designation of a Participant to receive Awards or grants under one portion of the Plan does not require the Committee to include such Participant under other portions of the Plan. The Committee shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Awards.

ARTICLE VI STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

6.01. Option Awards.

(a) Grant of Options. The Committee may grant, to such Participants as the Committee may select, Options entitling the Participant to purchase shares of Common Stock from the Company in such number, at such price, and on such terms and subject to such conditions, not inconsistent with the terms of this Plan, as may be

established by the Committee. The terms of any Option granted under this Plan shall be set forth in an Award Agreement. All Options granted under the Plan shall be Non-Qualified Stock Options

(b) Purchase Price of Options. The Purchase Price of each share of Common Stock which may be purchased upon exercise of any Option granted under the Plan shall be determined by the Committee; provided, however, that in no event shall the Purchase Price be less than the Fair Market Value on the Date of Grant; provided further that, with respect to Canadian persons, in no event shall the Purchase Price be less than the greater of the Fair Market Value on (a) the trading day prior to the Date of Grant and (b) the Date of Grant.

(c) Option Term. The term of each Option shall be fixed by the Committee, but, no Option shall be exercisable more than ten (10) years after the Date of Grant.

(d) Rights as a Stockholder. A Participant or a transferee of an Option pursuant to Section 10.04 shall have no rights as a stockholder with respect to Common Stock covered by an Option until the Participant or transferee shall have become the holder of record of any such shares, and no adjustment shall be made for dividends in cash or other property or distributions or other rights with respect to any such Common Stock for which the record date is prior to the date on which the Participant or a transferee of the Option shall have become the holder of record of any such shares covered by the Option; provided, however, that Participants are entitled to share adjustments to reflect capital changes under Section 10.07.

(e) Exercise Due to Death or Disability. If an optionee's employment with the Company terminates by reason of death or disability, the Option may thereafter be immediately exercised, to the extent then exercisable (or on such accelerated basis as the Committee shall determine at or after the grant), by the legal representative of the optionee, by the legal representative of the estate of the optionee, or by the legatee of the optionee under the will of the optionee, within such period of time as is specified in the Award Agreement from the date of such death or disability.

(f) Period of Exercise After Termination of Employment. Except as otherwise provided in this paragraph or otherwise determined by the Committee, if an optionee's employment with the Company terminates for any reason other than death or disability, the optionee must exercise his or her Options, to the extent then exercisable (or on such accelerated basis as the Committee shall determine at or after grant), within such period of time as is specified in the Award Agreement from the date of such termination. If the optionee does not exercise his or her Options within such specified period, the Options automatically terminate, and such Options become null and void.

(g) Acceleration or Extension of Exercise Time. The Committee, in its sole discretion, shall have the right (but shall not be obligated), exercisable on or at any time after the Date of Grant, to permit the exercise of an Option or Stock Appreciation Right (i) prior to the time such Option or Stock Appreciation Right would become exercisable under the terms of the Award Agreement, (ii) after the termination of the Option or Stock Appreciation Right under the terms of the Award Agreement, or (iii) after the expiration of the Option or Stock Appreciation Right.

6.02. Stock Appreciation Rights.

(a) Stock Appreciation Right Awards. The Committee is authorized to grant to any Participant one or more Stock Appreciation Rights. Such Stock Appreciation Rights may be granted either independent of or in tandem with Options granted to the same Participant. Stock Appreciation Rights granted in tandem with Options may be granted simultaneously with, or, in the case of Non-Qualified Stock Options, subsequent to, the grant to such Participant of the related Option; provided however, that: (i) any Option covering any share of Common Stock shall expire and not be exercisable upon the exercise of any Stock Appreciation Right with respect to the same share, (ii) any Stock Appreciation Right covering any share of Common Stock shall expire and not be exercisable upon the exercise of any related Option with respect to the same share, and (iii) an Option and Stock Appreciation Right covering the same share of Common Stock may not be exercised simultaneously. Upon exercise of a Stock Appreciation Right with respect to a share of Common Stock, the Participant shall be entitled to

receive an amount equal to the excess, if any, of (A) the Fair Market Value of a share of Common Stock on the date of exercise over (B) the Exercise Price of such Stock Appreciation Right established in the Award Agreement, which amount shall be payable as provided in Section 6.02(c).

(b) Exercise Price. The Exercise Price established under any Stock Appreciation Right granted under this Plan shall be determined by the Committee, but in the case of Stock Appreciation Rights granted in tandem with Options shall not be less than the Purchase Price of the related Option; provided, however, that in no event shall the Exercise Price be less than the Fair Market Value on the Date of Grant. Upon exercise of Stock Appreciation Rights granted in tandem with options, the number of shares subject to exercise under any related Option shall automatically be reduced by the number of shares of Common Stock represented by the Option or portion thereof which are surrendered as a result of the exercise of such Stock Appreciation Rights.

(c) Payment of Incremental Value. Any payment which may become due from the Company by reason of a Participant's exercise of a Stock Appreciation Right may be paid to the Participant as determined by the Committee (i) all in cash, (ii) all in Common Stock, or (iii) in any combination of cash and Common Stock. In the event that all or a portion of the payment is made in Common Stock, the number of shares of Common Stock delivered in satisfaction of such payment shall be determined by dividing the amount of such payment or portion thereof by the Fair Market Value on the Exercise Date. No fractional share of Common Stock shall be issued to make any payment in respect of Stock Appreciation Rights; if any fractional share would be issuable, the combination of cash and Common Stock payable to the Participant shall be adjusted as directed by the Committee to avoid the issuance of any fractional share.

6.03. Terms of Stock Options and Stock Appreciation Rights.

(a) Conditions on Exercise. An Award Agreement with respect to Options or Stock Appreciation Rights may contain such waiting periods, exercise dates and restrictions on exercise (including, but not limited to, periodic installments) as may be determined by the Committee at the time of grant. In the event the Committee grants an Option or Stock Appreciation Right that would be subject to Section 409A of the Code, the Committee may include such additional terms, conditions and restrictions on the exercise of such Option or Stock Appreciation Right as the Committee deems necessary or advisable in order to comply with the requirements of Section 409A of the Code.

(b) Duration of Options and Stock Appreciation Rights. Options and Stock Appreciation Rights shall terminate upon the first to occur of the following events:

- (i) Expiration of the Option or Stock Appreciation Right as provided in the Award Agreement; or
- (ii) Termination of the Award in the event of a Participant's disability, retirement, death or other Termination of Service as provided in the Award Agreement; or
- (iii) In the case of an Option, ten years from the Date of Grant; or
- (iv) Solely in the case of a Stock Appreciation Right granted in tandem with an Option, upon the expiration of the related Option.

6.04. Exercise Procedures. Each Option and Stock Appreciation Right granted under the Plan shall be exercised under such procedures and by such methods as the Board may establish or approve from time to time. The Purchase Price of shares purchased upon exercise of an Option granted under the Plan shall be paid in full in cash by the Participant pursuant to the Award Agreement; provided, however, that the Committee may (but shall not be required to) permit payment to be made (a) except in the case of a Participant that is a Canadian Person, by delivery to the Company of shares of Common Stock held by the Participant, (b) by a "net exercise" method under which Options are exchanged for a number of shares of Common Stock equal to the number of shares that would otherwise be issued upon the Options' exercise minus a number of shares having a Fair Market Value equal to the Options'

aggregate Purchase Price (rounded up to the nearest whole number of shares), or (c) such other consideration as the Committee deems appropriate and in compliance with applicable law (including payment under an arrangement constituting a brokerage transaction as permitted under the provisions of Regulation T applicable to cashless exercises promulgated by the Federal Reserve Board, unless prohibited by Section 402 of the Sarbanes-Oxley Act of 2002). In the event that any Common Stock shall be transferred to the Company to satisfy all or any part of the Purchase Price, the part of the Purchase Price deemed to have been satisfied by such transfer of Common Stock shall be equal to the product derived by multiplying the Fair Market Value as of the date of exercise times the number of shares of Common Stock transferred to the Company. The Participant may not transfer to the Company in satisfaction of the Purchase Price any fractional share of Common Stock. Any part of the Purchase Price paid in cash upon the exercise of any Option shall be added to the general funds of the Company and may be used for any proper corporate purpose. Unless the Committee shall otherwise determine, any Common Stock transferred to the Company as payment of all or part of the Purchase Price upon the exercise of any Option shall be held as treasury shares.

6.05. Change in Control. Unless otherwise provided by the Committee, in the event of a Change in Control, no accelerated vesting of any Options or Stock Appreciation Rights outstanding on the date of such Change in Control shall occur.

ARTICLE VII RESTRICTED SHARES AND RESTRICTED STOCK UNITS

7.01. Award of Restricted Stock and Restricted Stock Units. The Committee may grant to any Participant an Award of Restricted Shares consisting of a specified number of shares of Common Stock issued to the Participant subject to such terms, conditions and forfeiture and transfer restrictions, whether based on performance standards, periods of service, retention by the Participant of ownership of specified shares of Common Stock or other criteria, as the Committee shall establish. The Committee may also grant Restricted Stock Units representing the right to receive shares of Common Stock in the future subject to such terms, conditions and restrictions, whether based on performance standards, periods of service, retention by the Participant of ownership of specified shares of Common Stock or other criteria, as the Committee shall establish. The terms of any Restricted Share and Restricted Stock Unit Awards granted under this Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with this Plan.

7.02. Restricted Shares.

(a) Issuance of Restricted Shares. As soon as practicable after the Date of Grant of a Restricted Share Award by the Committee, the Company shall cause to be transferred on the books of the Company, or its agent, Common Stock, registered on behalf of the Participant, evidencing the Restricted Shares covered by the Award, but subject to forfeiture to the Company as of the Date of Grant if an Award Agreement with respect to the Restricted Shares covered by the Award is not duly executed by the Participant and timely returned to the Company. All Common Stock covered by Awards under this Article VII shall be subject to the restrictions, terms and conditions contained in the Plan and the Award Agreement entered into by the Participant. Until the lapse or release of all restrictions applicable to an Award of Restricted Shares, the share certificates representing such Restricted Shares may be held in custody by the Company, its designee, or, if the certificates bear a restrictive legend, by the Participant. Upon the lapse or release of all restrictions with respect to an Award as described in Section 7.02(d), one or more share certificates, registered in the name of the Participant, for an appropriate number of shares as provided in Section 7.02(d), free of any restrictions set forth in the Plan and the Award Agreement shall be delivered to the Participant.

(b) Stockholder Rights. Beginning on the Date of Grant of the Restricted Share Award and subject to execution of the Award Agreement as provided in Section 7.02(a), the Participant shall become a stockholder of the Company with respect to all shares subject to the Award Agreement and shall have all of the rights of a stockholder, including, but not limited to, the right to vote such shares and the right to receive dividends; provided, however, that any Common Stock distributed as a dividend or otherwise with respect to any Restricted Shares as to which the restrictions have not yet lapsed, shall be subject to the same restrictions as such Restricted Shares and held or restricted as provided in Section 7.02(a).

(c) Restriction on Transferability. None of the Restricted Shares may be assigned or transferred (other than by will or the laws of descent and distribution, or to a revocable inter vivos trust with respect to which the Participant is treated as the owner under Sections 671 through 677 of the Code, except to the extent that Section 16 of the Exchange Act limits a Participant's right to make such transfers), pledged or sold prior to lapse of the restrictions applicable thereto.

(d) Delivery of Shares Upon Vesting. Upon expiration or earlier termination of the forfeiture period without a forfeiture and the satisfaction of or release from any other conditions prescribed by the Committee, or at such earlier time as provided under the provisions of Section 7.04, the restrictions applicable to the Restricted Shares shall lapse. As promptly as administratively feasible thereafter, subject to the requirements of Section 10.05, the Company shall deliver to the Participant or, in case of the Participant's death, to the Participant's Beneficiary, one or more share certificates for the appropriate number of shares of Common Stock, free of all such restrictions, except for any restrictions that may be imposed by law.

(e) Forfeiture of Restricted Shares. Subject to Sections 7.02(f) and 7.04, all Restricted Shares shall be forfeited and returned to the Company and all rights of the Participant with respect to such Restricted Shares shall terminate unless the Participant continues in the service of the Company or an Affiliate as an employee until the expiration of the forfeiture period for such Restricted Shares and satisfies any and all other conditions set forth in the Award Agreement. The Committee shall determine the forfeiture period (which may, but need not, lapse in installments) and any other terms and conditions applicable with respect to any Restricted Share Award.

(f) Waiver of Forfeiture Period. Notwithstanding anything contained in this Article VII to the contrary, the Committee may, in its sole discretion, waive the forfeiture period and any other conditions set forth in any Award Agreement under appropriate circumstances (including the death, disability or Retirement of the Participant or a material change in circumstances arising after the date of an Award) and subject to such terms and conditions (including forfeiture of a proportionate number of the Restricted Shares) as the Committee shall deem appropriate.

7.03. Restricted Stock Units.

(a) Settlement of Restricted Stock Units. Payments shall be made to Participants with respect to their Restricted Stock Units as soon as practicable after the Committee has determined that the terms and conditions applicable to such Award have been satisfied or at a later date if distribution has been deferred. Payments to Participants with respect to Restricted Stock Units shall be made in the form of Common Stock, or cash or a combination of both, as the Committee may determine. The amount of any cash to be paid in lieu of Common Stock shall be determined on the basis of the Fair Market Value of the Common Stock on the date any such payment is processed. As to shares of Common Stock which constitute all or any part of such payment, the Committee may impose such restrictions concerning their transferability and/or their forfeiture as may be provided in the applicable Award Agreement or as the Committee may otherwise determine, provided such determination is made on or before the date certificates for such shares are first delivered to the applicable Participant. Notwithstanding any provision herein to the contrary, no payment shall be made to any Participant that is a Canadian Person in respect of a Restricted Stock Unit later than the end of the third year following the year in respect of which such Restricted Stock Unit was issued.

(b) Stockholder Rights. Until the lapse or release of all restrictions applicable to an Award of Restricted Stock Units, no shares of Common Stock shall be issued in respect of such Awards and no Participant shall have any rights as a stockholder of the Company with respect to the shares of Common Stock covered by such Award of Restricted Stock Units.

(c) Waiver of Forfeiture Period. Notwithstanding anything contained in this Section 7.03 to the contrary, the Committee may, in its sole discretion, waive the forfeiture period and any other conditions set forth in any Award Agreement under appropriate circumstances (including the death, disability or retirement of the Participant or a material change in circumstances arising after the date of an Award) and subject to such terms and

conditions (including forfeiture of a proportionate number of shares issuable upon settlement of the Restricted Stock Units constituting an Award) as the Committee shall deem appropriate.

(d) Deferral of Payment. If approved by the Committee and set forth in the applicable Award Agreement, a Participant may elect to defer the amount payable with respect to the Participant's Restricted Stock Units in accordance with such terms as may be established by the Committee, subject to the requirements of Section 409A of the Code.

7.04. Change in Control. Unless otherwise provided by the Committee, no acceleration of the termination of any of the restrictions applicable to Restricted Shares and Restricted Stock Unit Awards shall occur in the event of a Change in Control.

ARTICLE VIII PERFORMANCE AWARDS

8.01. Performance Awards.

(a) Award Periods and Calculations of Potential Incentive Amounts. The Committee may grant Performance Awards to Participants. A Performance Award shall consist of the right to receive a payment (measured by the Fair Market Value of a specified number of shares of Common Stock, increases in such Fair Market Value during the Award Period and/or a fixed cash amount) contingent upon the extent to which certain predetermined performance targets have been met during an Award Period. The Award Period shall be two or more fiscal or calendar years as determined by the Committee. The Committee, in its discretion and under such terms as it deems appropriate, may permit newly eligible Participants, such as those who are promoted or newly hired, to receive Performance Awards after an Award Period has commenced.

(b) Performance Targets. Subject to Section 10.18, the performance targets applicable to a Performance Award may include such goals related to the performance of the Company or, where relevant, any one or more of its Subsidiaries or divisions and/or the performance of a Participant as may be established by the Committee in its discretion. The performance targets established by the Committee may vary for different Award Periods and need not be the same for each Participant receiving a Performance Award in an Award Period.

(c) Earning Performance Awards. The Committee, at or as soon as practicable after the Date of Grant, shall prescribe a formula to determine the percentage of the Performance Award to be earned based upon the degree of attainment of the applicable performance targets.

(d) Payment of Earned Performance Awards. Subject to the requirements of Section 10.05, payments of earned Performance Awards shall be made in cash or Common Stock, or a combination of cash and Common Stock, in the discretion of the Committee. The Committee, in its sole discretion, may define, and set forth in the applicable Award Agreement, such terms and conditions with respect to the payment of earned Performance Awards as it may deem desirable.

8.02. Termination of Service. In the event of a Participant's Termination of Service during an Award Period, the Participant's Performance Awards shall be forfeited except as may otherwise be provided in the applicable Award Agreement.

8.03. Change in Control. Unless otherwise provided by the Committee, in the event of a Change in Control, no accelerated vesting of any Performance Awards outstanding on the date of such Change in Control shall occur.

**ARTICLE IX
OTHER STOCK-BASED AWARDS**

9.01. Grant of Other Stock-Based Awards. Other stock-based awards, consisting of stock purchase rights (with or without loans to Participants by the Company containing such terms as the Committee shall determine), Awards of Common Stock, or Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, may be granted either alone or in addition to or in conjunction with other Awards under the Plan. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the persons to whom and the time or times at which such Awards shall be made, the number of shares of Common Stock to be granted pursuant to such Awards, and all other conditions of the Awards. Any such Award shall be confirmed by an Award Agreement executed by the Committee and the Participant, which Award Agreement shall contain such provisions as the Committee determines to be necessary or appropriate to carry out the intent of this Plan with respect to such Award.

9.02. Terms of Other Stock-Based Awards. In addition to the terms and conditions specified in the Award Agreement, Awards made pursuant to this Article IX shall be subject to the following:

(a) Any Common Stock subject to Awards made under this Article IX may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses; and

(b) If specified by the Committee in the Award Agreement, the recipient of an Award under this Article IX shall be entitled to receive, currently or on a deferred basis, interest or dividends or dividend equivalents with respect to the Common Stock or other securities covered by the Award; and

(c) The Award Agreement with respect to any Award shall contain provisions dealing with the disposition of such Award in the event of a Termination of Service prior to the exercise, payment or other settlement of such Award, whether such termination occurs because of Retirement, disability, death or other reason, with such provisions to take account of the specific nature and purpose of the Award.

**ARTICLE X
TERMS APPLICABLE GENERALLY TO AWARDS
GRANTED UNDER THE PLAN**

10.01. Plan Provisions Control Award Terms. Except as provided in Section 10.16, the terms of the Plan shall govern all Awards granted under the Plan, and in no event shall the Committee have the power to grant any Award under the Plan which is contrary to any of the provisions of the Plan. In the event any provision of any Award granted under the Plan shall conflict with any term in the Plan as constituted on the Date of Grant of such Award, the term in the Plan as constituted on the Date of Grant of such Award shall control. Except as provided in Section 10.03 and Section 10.07, the terms of any Award granted under the Plan may not be changed after the Date of Grant of such Award so as to materially decrease the value of the Award without the express written approval of the holder.

10.02. Award Agreement. No person shall have any rights under any Award granted under the Plan unless and until the Company and the Participant to whom such Award shall have been granted shall have executed and delivered an Award Agreement or received any other Award acknowledgment authorized by the Committee expressly granting the Award to such person and containing provisions setting forth the terms of the Award.

10.03. Modification of Award After Grant. No Award granted under the Plan to a Participant may be modified (unless such modification does not materially decrease the value of the Award) after the Date of Grant except by express written agreement between the Company and the Participant, provided that any such change (a) shall not be inconsistent with the terms of the Plan, and (b) shall be approved by the Committee.

10.04. Limitation on Transfer. Except as provided in Section 7.02(c) in the case of Restricted Shares, a Participant's rights and interest under the Plan may not be assigned or transferred other than by will or the laws of descent and distribution, and during the lifetime of a Participant, only the Participant personally (or the Participant's personal representative) may exercise rights under the Plan. The Participant's Beneficiary may exercise the Participant's rights to the extent they are exercisable under the Plan following the death of the Participant.

10.05. Taxes. The Company shall be entitled, if the Committee deems it necessary or desirable, to withhold (or secure payment from the Participant in lieu of withholding) the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any amount payable and/or shares issuable under such Participant's Award, and the Company may defer payment or issuance of the cash or shares upon exercise or vesting of an Award unless indemnified to its satisfaction against any liability for any such tax. The amount of such withholding or tax payment shall be determined by the Committee and shall be payable by the Participant at such time as the Committee determines in accordance with the following rules:

(a) The Participant shall, provided that he or she is not a Canadian Person, have the right to elect to meet his or her withholding requirement (i) if approved in advance by the Committee, by having withheld from such Award at the appropriate time that number of shares of Common Stock, rounded down to the nearest whole share, whose Fair Market Value is equal to the minimum statutory withholding with respect to the Award or such greater amount that is permitted by applicable law and by the Committee, provided such greater amount does not exceed the maximum statutory rates in the applicable jurisdictions or cause adverse accounting consequences for the Company, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to such Award, (iii) by withholding from the wages or other cash compensation paid to the Participant, (iv) by such other method that is approved by the Committee or (v) by a combination of the foregoing methods. Participants that are Canadian Persons shall be required to meet their withholding requirements in the manner described in paragraph 10.05(a)(ii).

(b) In the case of Participants who are subject to Section 16 of the Exchange Act, the Committee may impose such limitations and restrictions as it deems necessary or appropriate with respect to the sale, delivery or withholding of shares of Common Stock to meet tax withholding obligations.

10.06. Surrender of Awards; Authorization of Repricing. Any Award granted under the Plan may be surrendered to the Company for cancellation on such terms as the Committee and the holder approve. Without requiring stockholder approval, the Committee may substitute a new Award under this Plan in connection with the surrender by the Participant of an equity compensation award previously granted under this Plan or any other plan sponsored by the Company, including the substitution or grant of (i) an Option or Stock Appreciation Right with a lower exercise price than the Option or Stock Appreciation Right being surrendered, (ii) a different type of Award upon the surrender or cancellation of an Option or Stock Appreciation Right with an exercise price above the Fair Market Value of the underlying Common Stock on the date of such substitution or grant, or (iii) any other Award constituting a repricing of an Option or Stock Appreciation Right.

10.07. Adjustments to Reflect Capital Changes.

(a) Recapitalization. In the event of any corporate event or transaction (including, but not limited to, a change in the Common Stock or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, partial or complete liquidation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, a combination or exchange of Common Stock, dividend in kind, or other like change in capital structure, number of outstanding shares of Common Stock, distribution (other than normal cash dividends) to stockholders of the Company, or any similar corporate event or transaction, the Committee, in order to prevent dilution or enlargement of Participants' rights under this Plan, shall make equitable and appropriate adjustments and substitutions, as applicable, to or of the number and kind of shares subject to outstanding Awards, the Purchase Price or Exercise Price for such shares, the number and kind of shares available for future issuance under the Plan, and other determinations applicable to outstanding Awards. The Committee shall have the power and sole discretion to determine the amount of the adjustment to be made in each case.

(b) Merger. In the event that the Company is a party to a Merger, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the continuation of outstanding Awards by the Company (if the Company is a surviving corporation), for their assumption by the surviving corporation or its parent or subsidiary, for the substitution by the surviving corporation or its parent or subsidiary of its own awards for such Awards, for accelerated vesting, and except in the case of Options issued to a Participant that is a Canadian Person, accelerated expiration, settlement in cash or settlement in cash equivalents.=

(c) Options to Purchase Shares or Stock of Acquired Companies. After any Merger in which the Company or an Affiliate shall be a surviving corporation, the Committee may grant substituted options under the provisions of the Plan, pursuant to and in compliance with the requirements of Section 424 of the Code or (in the case of Options issued to Canadian Persons) subsection 7(1.4) of the *Income Tax Act* (Canada), replacing old options granted under a plan of another party to the Merger whose shares or stock subject to the old options may no longer be issued following the Merger. The foregoing adjustments and manner of application of the foregoing provisions shall be determined by the Committee in its sole discretion. Any such adjustments may provide for the elimination of any fractional shares which might otherwise become subject to any Options.

10.08. No Right to Continued Service. No person shall have any claim of right to be granted an Award under this Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the service of the Company or any of its Subsidiaries.

10.09. Awards Not Includable for Benefit Purposes. Payments received by a Participant pursuant to the provisions of the Plan shall not be included in the determination of benefits under any pension, group insurance or other benefit plan applicable to the Participant which is maintained by the Company or any of its Subsidiaries, except as may be provided under the terms of such plans or determined by the Board.

10.10. Governing Law. All determinations made and actions taken pursuant to the Plan shall be governed by the laws of Nevada and construed in accordance therewith.

10.11. No Strict Construction. No rule of strict construction shall be implied against the Company, the Committee, or any other person in the interpretation of any of the terms of the Plan, any Award granted under the Plan or any rule or procedure established by the Committee.

10.12. Compliance with Rule 16b-3. It is intended that, unless the Committee determines otherwise, Awards under the Plan be eligible for exemption under Rule 16b-3. The Board is authorized to amend the Plan and to make any such modifications to Award Agreements to comply with Rule 16b-3, as it may be amended from time to time, and to make any other such amendments or modifications as it deems necessary or appropriate to better accomplish the purposes of the Plan in light of any amendments made to Rule 16b-3.

10.13. Captions. The captions (i.e., all Section headings) used in the Plan are for convenience only, do not constitute a part of the Plan, and shall not be deemed to limit, characterize or affect in any way any provisions of the Plan, and all provisions of the Plan shall be construed as if no captions have been used in the Plan.

10.14. Severability. Whenever possible, each provision in the Plan and every Award at any time granted under the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan or any Award at any time granted under the Plan shall be held to be prohibited by or invalid under applicable law, then (a) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law and (b) all other provisions of the Plan and every other Award at any time granted under the Plan shall remain in full force and effect.

10.15. Amendment and Termination.

(a) Amendment. The Board shall have complete power and authority to amend the Plan at any time; provided, however, that the Board shall not, without the requisite affirmative approval of stockholders of

the Company, make any amendment which requires stockholder approval under the Code or under any other applicable law or rule of any stock exchange which lists Common Stock or Company Voting Securities. No termination or amendment of the Plan may, without the consent of the Participant to whom any Award shall theretofore have been granted under the Plan, adversely affect the right of such individual under such Award.

(b) Termination. The Board shall have the right and the power to terminate the Plan at any time. No Award shall be granted under the Plan after the termination of the Plan, but the termination of the Plan shall not have any other effect and any Award outstanding at the time of the termination of the Plan may be exercised after termination of the Plan at any time prior to the expiration date of such Award to the same extent such Award would have been exercisable had the Plan not terminated.

10.16. Foreign Qualified Awards. Awards under the Plan may be granted to such employees of the Company and its Subsidiaries who are residing in foreign jurisdictions as the Committee in its sole discretion may determine from time to time. The Committee may adopt such supplements to the Plan as may be necessary or appropriate to comply with the applicable laws of such foreign jurisdictions and to afford Participants favorable treatment under such laws; provided, however, that no Award shall be granted under any such supplement with terms or conditions inconsistent with the provision set forth in the Plan.

10.17. Dividend Equivalents. For any Award granted under the Plan, the Committee shall have the discretion, upon the Date of Grant or thereafter, to establish a Dividend Equivalent Account with respect to the Award, and the applicable Award Agreement or an amendment thereto shall confirm such establishment. If a Dividend Equivalent Account is established, the following terms shall apply:

(a) Terms and Conditions. Dividend Equivalent Accounts shall be subject to such terms and conditions as the Committee shall determine and as shall be set forth in the applicable Award Agreement. Such terms and conditions may include, without limitation, for the Participant's Account to be credited as of the record date of each cash dividend on the Common Stock with an amount equal to the cash dividends which would be paid with respect to the number of shares of Common Stock then covered by the related Award if such shares of Common Stock had been owned of record by the Participant on such record date.

(b) Unfunded Obligation. Dividend Equivalent Accounts shall be established and maintained only on the books and records of the Company and no assets or funds of the Company shall be set aside, placed in trust, removed from the claims of the Company's general creditors, or otherwise made available until such amounts are actually payable as provided hereunder.

10.18. Adjustment of Performance Goals and Targets. Notwithstanding any provision of the Plan to the contrary, the Committee shall have the authority to adjust any Performance Goal, performance target or other performance-based criteria established with respect to any Award under the Plan if circumstances occur (including, but not limited to, unusual or nonrecurring events, changes in tax laws or accounting principles or practices or changed business or economic conditions) that cause any such Performance Goal, performance target or performance-based criteria to be inappropriate in the judgment of the Committee.

10.19. Legality of Issuance. Notwithstanding any provision of this Plan or any applicable Award Agreement to the contrary, the Committee shall have the sole discretion to impose such conditions, restrictions and limitations (including suspending exercises of Options or Stock Appreciation Rights and the tolling of any applicable exercise period during such suspension) on the issuance of Common Stock with respect to any Award unless and until the Committee determines that such issuance complies with (i) any applicable registration requirements under the Securities Act of 1933, as amended, or the Committee has determined that an exemption therefrom is available, (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed, (iii) any applicable Company policy or administrative rules, and (iv) any other applicable provision of state, federal or foreign law, including foreign securities laws where applicable.

10.20. Restrictions on Transfer. Regardless of whether the offering and sale of Common Stock under the Plan have been registered under the Securities Act of 1933, as amended, or have been registered or qualified under

the securities laws of any state, the Company may impose restrictions upon the sale, pledge, or other transfer of such Common Stock (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable to achieve compliance with the provisions of the Securities Act of 1933, as amended, the securities laws of any state, the United States or any other applicable foreign law.

10.21. Further Assurances. As a condition to receipt of any Award under the Plan, a Participant shall agree, upon demand of the Company, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company, to implement the provisions and purposes of the Plan.

10.22. Financial Statements. To the extent required by Section 260.140.46 of Title 10 of the California Code of Regulations, the Company shall deliver financial statements to all persons to whom an Award is granted pursuant to the Plan or to all persons who otherwise hold an outstanding Option or other Award under the Plan at least annually. This Section 10.22 shall not apply to key persons whose duties in connection with the Company and its Affiliates assure them access to equivalent information.

10.23. Stockholder Approval Not Required. It is expressly intended that approval of the Company's stockholders shall not be required as a condition of the effectiveness of the Plan, and the Plan's provisions shall be interpreted in a manner consistent with such intent for all purposes. Specifically, Nasdaq Stock Market Rule 5635(c) generally requires stockholder approval for stock option plans or other equity compensation arrangements adopted by companies whose securities are listed on the Nasdaq Stock Market pursuant to which stock awards or stock may be acquired by officers, directors, employees or consultants of such companies. Nasdaq Stock Market Rule 5635(c)(4) provides an exemption in certain circumstances for "employment inducement" awards (within the meaning of Nasdaq Stock Market Rule 5635(c)(4)). Notwithstanding anything to the contrary herein, if the Company's securities are traded on the Nasdaq Stock Market, then Awards under the Plan may only be made to employees of the Company or any its Subsidiaries who have not previously been an employee or director of the Company or a Subsidiary, or following a bona fide period of non-employment by the Company or a Subsidiary, in each case as an inducement material to the employee's entering into employment with the Company or a Subsidiary. Awards under the Plan will be approved by (a) the Company's Compensation Committee comprised entirely of Independent Directors or (b) a majority of the Company's Independent Directors. Accordingly, pursuant to Nasdaq Stock Market Rule 5635(c)(4), the issuance of Awards and the shares of Stock issuable upon exercise or vesting of such Awards pursuant to the Plan are not subject to the approval of the Company's stockholders.

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

SKYE BIOSCIENCE, INC.
2024 INDUCEMENT EQUITY INCENTIVE PLAN

FOR GOOD AND VALUABLE CONSIDERATION, Skye Bioscience, Inc. (the "Company") hereby grants, pursuant to the provisions of the Company's 2024 Inducement Equity 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: [Field]

Date of Grant: [Field]	Type of Option: Non-Qualified Stock Option
Exercise Price per Share: [Field]	Expiration Date: [Field]
Total Number of Shares Granted: [Field]	Vesting Start Date: [Field]
Vesting Schedule: [Field]	
<p>Exercise After Termination of Service:</p> <p>Termination of Service for any reason: any non-vested portion of the Option expires immediately;</p> <p>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;</p> <p>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.</p> <p>Termination of Service for cause as defined by applicable law: the Option (whether vested or unvested) expires immediately.</p> <p>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).</p> <p>In no event may this Option be exercised after the Expiration Date as provided above.¹</p>	

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: [Field]

Skye Bioscience, Inc.

By: _____

Date: [Field]

Title: _____
Date: [Field]

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: [Field]

Date: [Field]

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 Option is a Non-Qualified Stock Option. The Option is intended to constitute an "employment inducement" award under Nasdaq Stock Market ("Nasdaq") Rule 5635(c)(4), and consequently is intended to be exempt from the Nasdaq rules regarding shareholder approval of stock option plans or other equity compensation arrangements. This Agreement and the terms and conditions of the Option shall be interpreted in accordance with and consistent with such exception.

The Board of Directors of the Company has authorized and approved the Company's 2024 Inducement Equity 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.

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 determined by the Committee, 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 10.05 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,² (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.

**Skye Bioscience, Inc.
2024 Inducement Equity Incentive Plan
Restricted Stock Unit Agreement**

Skye Bioscience, Inc., a Nevada corporation, (the “**Company**”), hereby grants Restricted Stock Units to the individual named below as the Participant, subject to the vesting requirements and other terms and conditions set forth in this Restricted Stock Unit Agreement, including the attached Terms and Conditions and any appendix attached hereto (together, the “**Agreement**”). This grant is subject to the terms and conditions set forth in this Agreement and the Skye Bioscience, Inc. 2024 Inducement Equity Incentive Plan, as amended (the “**Plan**”). The Restricted Stock Units are intended to constitute an “employment inducement” award under Nasdaq Stock Market (“**Nasdaq**”) Rule 5635(c)(4), and consequently are intended to be exempt from the Nasdaq rules regarding shareholder approval of equity compensation arrangements. This Agreement shall be interpreted in accordance with and consistent with such exception. Capitalized terms not defined in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.

Grant Date: _____ (“**Grant Date**”)

Participant: _____

Number of Restricted Stock Units: _____

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

Vesting Date	% of Restricted Stock Units Vesting

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

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

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

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

SKYE BIOSCIENCE, INC.:

By
Name:
Title:
Date

Participant:

By
Name:
Title:
Date:

Skye Bioscience, Inc.
2024 Inducement Equity Incentive Plan
Restricted Stock Unit Agreement
Terms and Conditions

Transfer Restriction

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

Vesting

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

Settlement of Vested Restricted Stock Units

Upon vesting of the Restricted Stock Units, the Shares underlying such Restricted Stock Units will be delivered to you as soon as practicable and no later than 30 days following the applicable Vesting Date.

Upon issuance of such Shares, the Company shall record the share issuance on the records of the Company or its transfer agents or registrars. The Company may deliver such Shares on your behalf electronically to the Company’s designated stock plan administrator or such other broker-dealer as the Company may choose at its sole discretion, or may retain such Shares in uncertificated book-entry form.

Tax Withholding

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

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

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

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

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

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

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

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

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

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

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

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

Nature of Grant

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

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;
- (b) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;
- (c) all decisions with respect to future Restricted Stock Unit grants, if any, will be at the sole discretion of the Company;
- (d) your participation in the Plan is voluntary;
- (e) the Restricted Stock Units and the Shares underlying the Restricted Stock Units, and the income from and value of such Restricted Stock Units, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits or similar payments;
- (f) the Restricted Stock Unit grant and your participation in the Plan will not be interpreted to form or amend a service contract or relationship with the Company or any Affiliate;
- (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty;
- (h) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from your Termination of Service (for any reason whatsoever and whether or not in breach of contract or local employment laws in the country where you reside, even if otherwise applicable to your employment benefits from the Employer, and/or later found to be invalid), and in consideration of the grant of the Restricted Stock Units, you irrevocably agree never to institute any claim against the Company, the Employer or any Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer and any Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by accepting this award of Restricted Stock Units, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims;

- (i) in the event of a Termination of Service (whether or not in breach of contract or local employment laws in the country where you reside, even if otherwise applicable to your employment benefits from the Employer, and/or later found to be invalid), your right to vest in the Restricted Stock Units under the Plan, if any, will terminate effective as of the date that you are no longer actively providing services to the Company or any Affiliate as a service provider and will not be extended by any notice period mandated under local law (e.g., active service as a service provider would not include a period of “garden leave” or similar period); the Board shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of your Restricted Stock Units grant;
- (j) the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement, not otherwise specifically provided for in the Plan or by the Company in its discretion, to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Common Stock (including a Change in Control);
- (k) The Restricted Stock Units and the Shares underlying the Restricted Stock Units, and the income from and value of such Restricted Stock Units, are not part of normal or expected compensation or salary for any purpose and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Affiliate; and
- (l) You acknowledge and agree that neither the Company, the Employer nor any Affiliate shall be liable for any foreign exchange rate fluctuation between the Employer’s local currency and the U.S. dollar that may affect the value of any proceeds from the sale of Shares acquired under the Plan.

Data Privacy

You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and its Affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan. You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address, email address and telephone number, date of birth, social security or social insurance number, passport number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data"). You understand that Data will be transferred to such stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration, and management of the Plan. You understand that the recipients of the Data may be located in countries having different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the Company and any possible recipients which may assist the Company (presently or in the future) with implementing, administering, and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering, and managing your participation in the Plan. You understand that Data will be held only as long as necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative or the Company's stock administration department. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later revoke your consent, your employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing your consent is that the Company would not be able to grant Restricted Stock Units or other equity awards to you or administer or maintain such awards.

Data Privacy (continued) Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan.

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

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

No Advice Regarding Grant

The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the Stock underlying your Restricted Stock Units. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

Applicable Laws and Venue

The Restricted Stock Units and the provisions of this Agreement are governed by, and subject to, the laws of the State of California, without regard to the conflict of law provisions. All claims, disputes and other matters in question arising out of, or relating to, this Agreement or the performance hereof, shall be submitted to, and determined by, arbitration if good faith negotiations among the parties hereto, if any, do not resolve such claim, dispute or other matter. Such arbitration shall proceed in accordance with the then-current rules for arbitration established by Judicial Arbitration Mediation Services, Inc./ENDISPUTE ("JAMS"), unless the parties hereto mutually agree otherwise, and pursuant to the following procedures: (a) the Company on the one hand and you on the other hand shall appoint an arbitrator from the JAMS panel of retired judges, and those party-appointed arbitrators shall appoint a third arbitrator from the JAMS panel of retired judges within ten (10) days; if the party-appointed arbitrators fail to appoint a third arbitrator within the ten (10) days, such third arbitrator shall be appointed by JAMS in accordance with its rules; (b) reasonable discovery shall be allowed in arbitration; (c) all proceedings before the arbitrators shall be held in Orange County, California; (d) the award rendered by the arbitrators shall be final and binding, and judgment may be entered in accordance with applicable law and in any court having jurisdiction thereof; (e) the award rendered by the arbitrators shall include (i) a provision that the prevailing party in such arbitration recover its costs relating to the arbitration and reasonable attorneys' fees from the other party, (ii) the amount of such costs and fees, and (iii) an order that the losing party pay the fees and expenses of the arbitrators. The arbitrator shall by the agreement of the parties expressly be prohibited from awarding punitive damages in connection with any claim being resolved by arbitration hereunder.

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means or request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company, the Company's designated broker, the Company's designated stock plan administrator, or their respective third parties. If you fail to submit a written rejection of this award to the Company's Stock Administration Department prior to the date on which this award initially vests, this award shall be deemed accepted by you and the terms of this award and the Plan shall apply to the same extent as if you had accepted your award electronically via the website of the Company's selected broker or stock plan administrator.

Electronic Delivery and Acceptance

This Agreement, together with the Plan, sets forth the entire agreement and understanding of the parties relating to the subject matter herein and supersedes all prior discussions, agreements, commitments, or negotiations between the parties.

**Entire Agreement
Severability**

The provisions of this Agreement are severable, and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

Waiver

You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach of this Agreement.

Imposition of Other Requirements

The Company reserves the right to impose other requirements on your participation in the Plan, on the award, on the Restricted Stock Units, and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

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

**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, 2024;
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 9, 2024

**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, 2024;
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 9, 2024

**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, 2024, 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 9, 2024

**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, 2024, 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 9, 2024